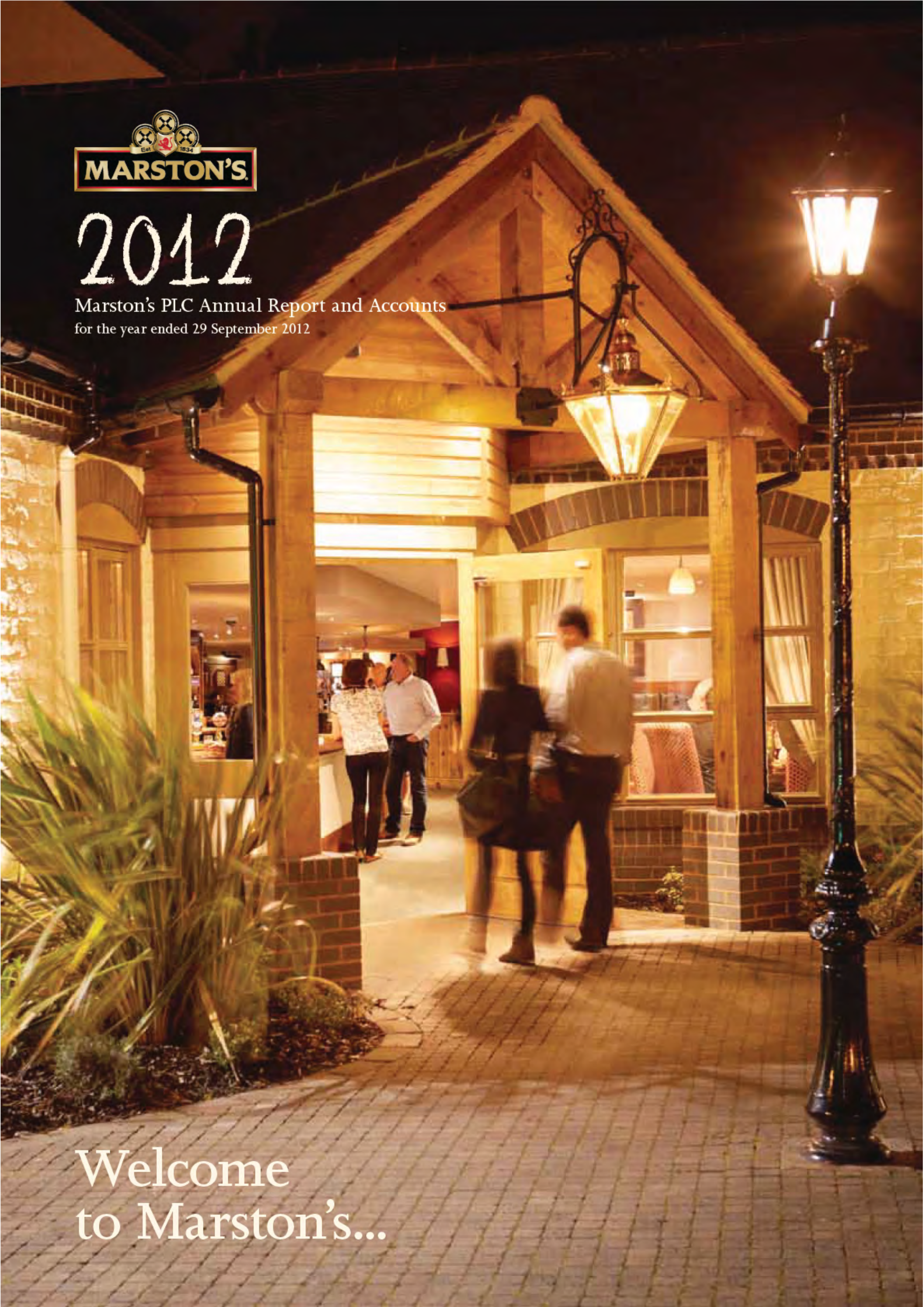


MARSTON'S

2012

Marston's PLC Annual Report and Accounts
for the year ended 29 September 2012

Welcome to Marston's...


...the best place
around here.

Financial Highlights

Revenue

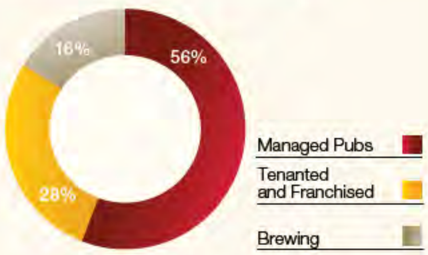
£719.7m

up 5.5%

(2011: £682.2m)

2012	£719.7m
2011	£682.2m
2010	£650.7m
2009	£645.1m
2008	£666.1m

Group Revenue Share %



Underlying* operating profit

£157.9m

up 2.3%

(2011: £154.3m)

2012	£157.9m
2011	£154.3m
2010	£148.7m
2009	£147.4m
2008	£161.6m

Underlying* profit before tax

£87.8m

up 9.2%

(2011: £80.4m)

2012	£87.8m
2011	£80.4m
2010	£73.5m
2009	£70.3m
2008	£85.1m

Underlying* earnings per share

12.3p

up 9.8%

(2011: 11.2p)

2012	12.3p
2011	11.2p
2010	10.0p
2009	13.4p
2008	18.3p

Dividend per share

6.1p

up 5.1%

(2011: 5.8p)

2012	6.1p
2011	5.8p
2010	5.8p
2009	7.1p
2008	9.5p

* 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.

Earnings and dividends per share have been restated to reflect the impact of the issue of new shares under a rights issue in July 2009.

Contents

Chairman's Letter

Dear Shareholder,

Marston's strategy is producing decent returns. We are building new pubs in areas where consumer demand is growing, contributing to sales growth of 5.5% to £719.7 million. The success of higher return new-build pubs, steady development of the tenanted and franchised estate, and growth in ale sales lifted underlying profit before tax by 9.2% to £87.8 million.

The quinquennial valuation of our pubs confirmed that our estate value remains at £2 billion and demonstrates the importance of investment to keep up with changes in pub-goers taste and the anticipation of demographic change. It also confirms that building new pubs creates solid additional value, with our new pubs valued at 56% in excess of build-cost. In total, new-build pubs and the high quality of our existing managed pubs lifted values by £163 million. However, as a consequence of the grim effects of legislation and taxation on smaller pubs our tenanted estate fell in value by £186 million.

Turning to the dividend, three factors influence us: the reinforcement of our balance sheet values; achieving sustainable profit growth; and confirmation of the effectiveness of our strategy of organic development. We are pleased therefore to recommend a final dividend of 3.9 pence per share for the year, an increase of 5%, with cover of 2 times. This return to growth in dividend is a key milestone.

However, it is not helpful that we fly in the face of the implacable headwinds created by the Government. Last year your Company paid in excess of £300 million in taxation to the Exchequer: in contrast, dividends paid to shareholders were £33.5 million – it is abundantly clear that the Government is taking too much from our customers' pockets.

Neither this Government nor the last two, malign though their influence might be on your Company in particular and pub-goers in general, can dampen our enthusiasm for developing your business. In this report we record the solid progress in improving trading performance, in updating our pub estate, and in developing the appeal of our local beer brands. Investment in new pubs is central to this strategy: in 2012 we spent £60 million on new-builds, with 1,000 new jobs created and plans to create a further 1,000 jobs in 2013.

Development of all the colleagues who work in Marston's is a pre-occupation of the Board. Last year we created 400 new apprenticeships, and sponsored 38 colleagues in further education. Obvious benefits include the in-built experience and knowledge within the Company, and also the development of your management.

Refreshment of the Board and succession planning therein is also key. Thus we welcome Peter Dalzell to the Board who, having joined us in 1995 has been responsible for all parts of our pub estate: managed, tenanted and franchised. We also welcome Nick Backhouse, Non-executive Director, who joined in February 2012. Nick has extensive experience in our industry and in the development of media and consumer communications. During the year we reported the departures of Alistair Darby, Chief Operating Officer, and Miles Emley, Non-executive Director: I thank them for their contributions.

At the same point, having joined Marston's, then The Wolverhampton & Dudley Breweries, PLC, in 1977 it is time for me to pass on the Chairmanship and to retire from the Group. Thus a committee under the chairmanship of Robin Hodgson will lead the selection process for my successor. I started at a time when both beer volumes and beer prices were rising fast; that was followed by the de-industrialisation of the 1980s; and the ensuing consolidation of the brewing and pubs sector polished off most of our competitors. Now we are trading in a period of intransigent Government opposition to the enjoyment of our pub going customers. Notwithstanding the not inconsiderable storm-cloud, if brewers cannot enjoy themselves it is a poor do: I have had 35 hugely enjoyable years working with dedicated and entertaining colleagues.

These results are the fruit of the hard work of all colleagues at Marston's. I thank them. Looking to the future, we have a clear and proven strategy. The prospects for the Group are good.

David Thompson
Chairman
29 November 2012

We offer something for everyone; a welcoming environment, great food, beer and real value-for-money.

We operate around 2,150 pubs situated nationally, comprising tenanted, franchised and managed pubs, all at the heart of thriving local communities.

We operate five breweries each producing distinctive local ales of genuine provenance.

Market Overview

We operate in the UK eating-out and drinking-out markets through our pubs; sell our products to the UK on-trade and off-trade; and export to 53 countries worldwide. We research carefully the markets in which we operate so that we can assess and understand them, thus improving our standards, service and range to gain market share.

The UK pub market

There are approximately 51,000 pubs in the UK.[1]

Managed pubs are operated by a pub company or brewer which employs a salaried manager and pub staff and determines the service style and product range. We estimate there to be approximately 8,000 managed pubs in the UK. Marston's has around 500 of these and our variety of operating formats allow us maximum flexibility to best meet our consumers' needs.

Approximately 25,000 pubs in the UK are tenanted pubs owned by a pub company or brewer but leased to and operated by a third party tenant or lessee, who pays rent. The tenant or lessee is responsible for the management of the pub and generally contracts to purchase some or all of their drinks products from the pub company or brewer which owns the pub. This part of the agreement is called the 'tie'. We have around 1,000 tenanted and leased pubs. The relationship between pub owners and tenants and lessees has been the subject of government scrutiny in recent years. Marston's has long argued that fair, sustainable rents and a partnership approach are vital for the success of tenanted and leased pubs, and our agreements comply with the Pub Industry Framework Code of Practice.

In 2009 we introduced franchise agreements into our tenanted estate which enable us to take greater control over the retail offer and standards whilst the pub is operated by a franchisee. These are described in the Business Review on page 11. We have approximately 500 franchised pubs.

The UK pub market also comprises free houses and pubs which are independently owned and operated by private individuals, partnerships or companies. We supply around 3,800 customers through our independent free trade channel.

1 British Beer & Pub Association

Eating out

Approximately £50 billion was spent on eatingout in 2012, and this is projected to continue growing. Whilst the pub-restaurant share is still small, its growth is outperforming other categories of the eating-out market.[2] On average, consumers are going out on around 20 separate occasions for food and drink per month, with food-led business growing faster than wet-led business – the food-led sector has seen a 12% rise in consumers visiting a pub for a meal.[3]

However, economic pressures continue to affect the UK consumer, driving down real household disposable income. Consumer confidence remains low but spend on 'everyday treats' and 'low ticket items' has been resilient, and this includes value-for-money meals in pub-restaurants.

Our new-build strategy and focus on value-for-money dining represents a significant growth opportunity against this backdrop. There is an opportunity to gain market share by providing consumers with conveniently located pub-restaurants offering good value and quality service in attractive surroundings. Our focus on the new-build strategy and our implementation of the 'F-Plan' has resulted in significant growth in food sales, which now comprise 44% of sales in our managed pubs.

	2005	2012
Food Sales Mix	28%	44%
Meals served	14 million	28 million
Spend per head on food	£5.70	£6.17

2 Numis
3 Deloitte

Beer

UK alcohol consumption is in decline overall, with alcohol sales in pubs falling but growth in alcohol consumed 'in the home'. The reasons include the harmful impact of legislation and taxation on pubs; competition for disposable income and leisure time; lifestyle changes including increased health awareness; the economy; and the adaptation of pubs to exploit growth in casual dining.

The market is heavily regulated, with the beer duty escalator presenting relentless taxation increases. Politically, the UK Government's Alcohol Strategy describes a number of commitments including the introduction of a minimum unit price for alcohol and a consultation on a ban on the sale of multi-buy alcohol discounting. Early indicators from Scotland, where such a ban has already been implemented, are that it has had a significant impact, with a decrease in volume since October 2011 in the Scottish off-trade.[4]

Marston's strategy is focused on the growth areas of the market and we have established ourselves as category leaders in premium cask and bottled ale. We continue to outperform a declining beer market through our focus on cask and bottled beers, flavour, craft and regional provenance. In the last year we have increased our category share in premium cask ale by 1.4% to 18% and in bottled ale by 2.4% to 22%.[5] We aim to continue to leverage value from 'localness' and produce high quality premium cask and bottled ales through brewing.

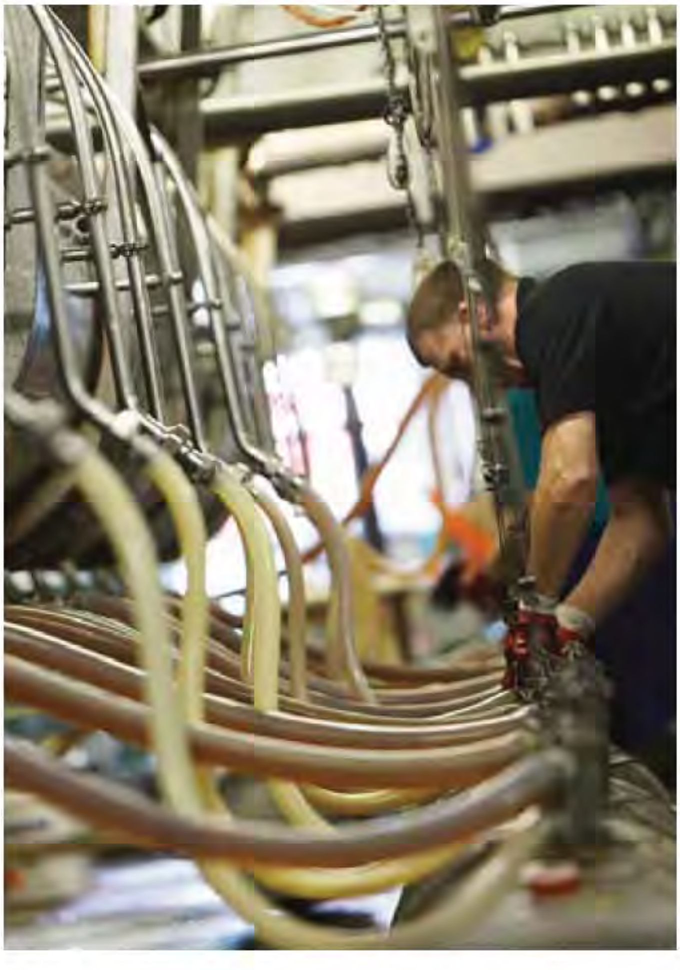
4 Symphony IRI
5 British Beer & Pub Association

Business Review

On the following pages our Business Review will set out our clear and focused strategy; give details on how our strategy works; explain how our Business Model supports the delivery of our strategy; and review our performance and finances.

Our strategy

Our strategy is to exploit and develop our competitive advantage in pubs and brewing sectors.



Managed Pubs

* Estate development
  - High quality estate, directly operated by Marston's
  - Broad range of trading formats
* Consumer focus
  - Value for money; great service
  - 'F-Plan' – food, families, females, forty/fifty somethings

Tenanted and Franchised

* Stable traditional estate
  - Long-term partnership
  - Flexible agreements attractive to entrepreneurs
  - Promotional support; access to Marston's buying power
* Evolution of franchise agreements
  - Low barriers to entry
  - Simple model
  - Efficient operation

Brewing

* Sales
  - Independent Free Trade
  - National On-Trade including our own pub estate
  - Take Home including supermarkets
  - Export
* Brewing
  - Our brands include Pedigree, Banks's Bitter, Cumberland Ale, Hobgoblin and Brakspear produced at our breweries in Burton upon Trent, Wolverhampton, Cockermouth, Ringwood and Witney

Objectives	Progress	Future Plans
* Increase estate to around 600 sites within five years * Flexibility in range of trading formats * Continued development of the 'F-Plan'	* Completion of 60 new-build pub-restaurants in last three years * Food sales mix increased to 44% of sales, from 28% in 2005 * LFL sales and margin growth in each of the last three years	* Target of 20-25 nationwide new-build sites in 2013 * Maintain value offer * Expansion of premium pubs offer
* Develop traditional tenanted model * Moderate growth through stable relationship	* Offer tenants and lessees flexibility on rents and beer pricing delivering profits in 3% growth * Over 90% retention rate * Stable profits	* Increase capex to £5m per annum to drive growth
* Continued growth through franchise agreements	* Retail Agreement in around 500 sites * Double digit profit growth	* Extend to at least 600 sites
* Focus on long-term growth in premium cask and bottled ales * Localness – leverage value from local breweries	* Expansion of Independent Free Trade operation around local breweries driving 3% increase in customers * Segment market leader in premium cask and bottled ales	* Expand Independent Free Trade customer base * Maintain segment market leader status and grow share

Business Review continued

STRATEGY AND IMPLEMENTATION

Our strategy has been developed over time to be effective for the current economic climate and focuses on the organic development of the business. In implementing our strategy, a key change this year is that all pubs – managed, tenanted and franchised – are now operated by Marston's Inns and Taverns under the leadership of Peter Dalzell. There are five key components to our plans:

Expansion of the managed estate through building new pub-restaurants

Investment in new-build pub-restaurants has been the primary growth driver in our business. Over the past six years we have built over 80 pubs across England and Wales including 25 in 2012. From an investment perspective, the new-build programme has generated a consistently high return on capital, achieved through the careful selection of sites and a strong consumer offer.

This good performance is demonstrated by the fact that the average annual return on capital of our new-build programme since 2009 has been around 18%, representing an investment multiple of less than 6x EBITDA. This high return on capital has generated significant equity value, contributing to a 56% valuation uplift for new-build pub-restaurants.

Our site selection criteria include high traffic flow and proximity to residential areas, with locations being principally on retail and leisure parks and on main arterial routes to local population centres. Our experienced acquisitions team have established good relationships with site developers, helping to maintain a 'preferred partner' status in many areas and a strong site pipeline for the foreseeable future. We intend to build between 20 and 25 sites in 2013, including our first sites in Scotland. We expect to continue investment at a similar level over the next few years.

Development of a range of pub formats appropriate to local markets

Our range of pub formats is one of the strengths of our business model, enabling us to meet different customer expectations when visiting pubs: in each format, our objective is to be 'the best place around here' – for celebrating, socialising and convenience. Our formats fall into three principal groups, each of which achieved like-for-like sales growth in 2012.

Destination food pubs: our pubs in this category are principally in two formats – "Two for One" and "Milestone". Both formats offer excellent value-for-money to customers, with a focus on high quality food and drink in a relaxing pub environment at affordable prices. Service standards are high, including full table service in most sites. Our focus on service and pub ambience, together with interesting and varied menus, supports a high food sales mix of around 55%. Our new-build pub-restaurants are operated in these two formats.

Taverns: our community pubs are also principally in two formats – "Village" and "Homestead", the latter being suburban community pubs. Our primary objective is to offer traditional pub entertainment and everyday value food and drink in a traditional 'community local' pub environment. Typically, these are 'wet-led' pubs, although food sales are increasing and now represent 28% of sales mix. We expect food sales mix to continue to increase as a consequence of greater focus: we were the 2012 winner of the Neighbourhood Pub category of the Menu Innovation & Development Awards (Midas). Future investment in these pubs will be focused on maintenance capital and improving standards in existing sites.

Premium pubs and bars: this category comprises mainly Pitcher & Piano, but will in future include a small number of pubs which have been identified as suiting a more independent style in terms of pub design, food and drink, and service. The first three pubs are currently being converted, with up to 12 more identified if the project is successful. Pitcher & Piano has performed well in 2012, with good growth in like-for-like sales and profit; food sales mix of around 20% has increased through the introduction of new menus and a commitment to freshly prepared meals.

Operating within these formats Marston's Inns offers high quality pub accommodation in 50 pubs, and in 2013 we will build two lodges to be operated by Marston's Inns.

Business Review continued

STRATEGY AND IMPLEMENTATION

The 'F-Plan', value and service

Over the last seven years our organic development has been underpinned by the 'F-Plan': a focus on **F**ood, **F**amilies, **F**emales and **F**orty/**F**ifty somethings. The plan was introduced in anticipation of consumer trends including the development of the UK eating-out market; social and demographic changes such as higher female employment and a maturing UK population; and the potential for pubs to offer a better experience to families after the introduction of the smoking ban in 2007.

The impact of the plan on Marston's managed pubs has been transformational. Food sales have increased from around 28% of sales in 2005 to 44% in 2012, with 28 million meals served in the period and food-led occasions accounting for 75% of customer visits. The success of our 'family friendly' approach is evident in the three-fold increase in children's meals sold over seven years, and our commitment is visible in the development of designated family areas within our new-builds and Midas award-winning children's menus.

We anticipate that Marston's will continue to increase market share within the casual dining sector as we invest in new sites, offering good value and high service standards – both key priorities for customers. The introduction of full table service within our destination food pubs is referred to on page 9. New developments include the introduction of a new customer feedback system – called the 'SMILE' report – and hand-held tills which, together with a new kitchen management system, are being rolled out to speed up order taking, service and billing.

The development of the 'F-Plan' is supported by comprehensive recruitment and training programmes designed to ensure that we recruit the best staff available in a highly skilled area, with clear development, training and career paths for all of our pub staff.

Innovation and flexibility in the tenanted and franchised estate

The success of our innovative approach to managing our tenanted estate, which has included franchises since 2009, is demonstrated by the increase in operating profit growth achieved in 2011 and the 3.2% increase in operating profit in 2012. This performance is ahead of peers in the tenanted and leased sector as a whole, which has generally seen profits decline sharply for several years.

In determining our own response to pressures on tenanted and leased pubs we have focused on three principal groups of pubs: traditional agreements, franchise agreements, and pubs identified for disposal.

Traditional agreements: this group comprises around 1,000 pubs which continue to attract the best operators. Our approach is focused on four areas:

- **Pub standards:** in 2012 we invested around £7 million in maintenance capital, and expect this to remain broadly similar in 2013.
- **Agreement flexibility:** in order to attract the highest quality operators we have significant flexibility, including 'free-of-tie' agreements, to ensure we place the right licensee in each pub. Our agreements are subject to a legally binding Code of Practice which complies with the Industry Framework Code.
- **Sales and business support:** we offer direct promotional support and a wide range of goods and services which enable licensees to benefit from Marston's scale and buying power. Examples include food, waste management, cleaning materials and pub equipment.
- **Licensee quality:** recruitment across all of our pubs – managed, tenanted and franchised – is handled by one team. This unique structure provides wider opportunities for licensees, and has resulted in greater consistency and rigour in our recruitment processes. Licensee stability remains at over 90% maintaining the high level achieved in 2011.

Overall, this group of pubs achieved rental growth and profit stability in 2012.

Franchise agreements: we now have around 500 pubs operating under the Retail Agreement, up from 337 in 2011. The Retail Agreement was first introduced by Marston's in 2009 with the principal objectives of improving the offer to consumers and generating higher profits for Marston's and licensees. This type of agreement, with variations and modifications, has since become an established operating model in the tenanted and leased sector. There are three principal benefits to licensees:

- **Simplicity:** licensees retain around 20% of turnover with no payments for rent. Marston's bears all the running costs allowing licensees to focus on revenue maximisation.
- **Reduced funding:** licensees are required to place a refundable deposit, typically £5,000, but do not have to buy fixtures and fittings.
- **Reduced licensee risk:** other than for payroll costs, Marston's has responsibility for running expenses and stock. We ensure that these costs are managed effectively through using our established retail systems and our Group purchasing power.

An important feature of the Retail Agreement is that there is an enhanced customer proposition. We undertake moderate investment – typically £50,000 per pub – to improve the pub's appeal and provide amenities such as music, games and Sky Sports where appropriate. The overall retail offer, including menus and drinks range, is determined centrally by our Managed Pubs team: we are therefore able to ensure value, quality and consistency in the offer.

The benefits to Marston's are clear: the post-conversion profitability of the franchised estate is strong with 13% volume growth and 23% profit growth achieved in 2012. Licensee stability is high, at over 90%, and we receive more applicants for Retail Agreement pubs than for those operating under traditional agreements indicating prospective licensees clearly value the benefits described above. Around 30% of applications are from people new to the pub sector.

The Retail Agreement has so far been introduced into smaller pubs with a sustainable future which were formerly tenanted. We are now in the process of introducing a new version, "The Pub Franchise", which we believe is appropriate for pubs with a greater turnover opportunity. This is suitable for operations within our Taverns formats, "Village" and "Homestead". We have trialled four sites in the year and all are achieving positive results. As a result we expect to extend this further into the estate in 2013.

In summary, we anticipate that the franchised estate will comprise around 600 pubs by the end of the next financial year. The eventual population of the franchised estate will be determined by periodic review of the managed and tenanted estates to ensure that each pub is operated under the most appropriate format.

Disposals: we regularly review the traditional estate and the franchised estate to ensure that pubs which do not have a sustainable future are sold. The majority of these are likely to be sold for alternative use. We anticipate that disposal proceeds will be around £30-40 million per year for the next few years and will be a mixture of traditional and franchised pubs.

Business Review continued

STRATEGY AND IMPLEMENTATION

Differentiation in the beer market through a 'localness' and premium ale strategy

We increased beer volumes by 2% in 2012, building on the volume growth and market share gains achieved in recent years. Our strategy for continued market share gains has two principal elements: a brand range comprising genuinely local ales in the on-trade, and a focus on premium bottled ales in the off-trade. This strategy has enabled us to benefit from increasing consumer demand for regional beers, particularly cask ales, in pubs; and for high quality premium brands in the off-trade.

Our brand portfolio is supported by high standards of service to our customers in the independent free trade and pub sector generally, and through category knowledge and leadership including ownership of publications such as The Cask Ale Report and The Premium Bottled Ale Report. Our market leadership has been further demonstrated by the continued success of our innovative fast**cask**™ system. This has enabled us to expand the market for cask ale into venues which historically would not easily have stocked cask ale including cricket venues, holiday parks and music festivals. Fast**cask**™ now accounts for 30% of our cask ale sales, up from 20% in 2011.

Our marketing activity reflects the national and regional mix of our brands: 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'. Regionally, we support local brands through sponsorship of events including the New Forest Show, the Henley Regatta and the Keswick Jazz Festival.

Our Business Model

We operate in an increasingly dynamic sector. Pubs are evolving and improving, with fresh ideas coming from all parts of the market – independent operators, tenants and lessees, franchisees, and managers.

The beer market too is vibrant, particularly in the area of cask and premium beers, with craft, natural ingredients, and localness all of increasing interest to consumers. In this market, consumer knowledge, awareness of market trends, and operating flexibility are all necessities. The business model needs to incorporate each of these requirements.

Ours is a simple business model: a substantially freehold pub estate, well located and well run, supported by a highly cash generative brewing business and underpinned by robust financing. Our model is designed to ensure that we derive maximum benefit from our experiences in all parts of the market.

We have a wide range of operating structures to provide optimal flexibility: through our franchise agreements; traditional agreements; and managed pub formats. By managing all of our pubs in one division, Marston's Inns and Taverns, we have increased the spread of best practice in our pubs and reduced our costs of operation. Not only does this increase the spread of new ideas, our people benefit from increased awareness of what is happening in the market as a whole.

There is a close and long-established relationship between our brewing and pub businesses: the role of 'the brewery' is intrinsic to maintaining beer quality, and an important differentiator compared to many of our competitors. Marston's Beer Company is also able to use insights from our pub businesses in building successful trading relationships in the wider sector.

Well located, well run, substantially freehold pub estate

Supported by a highly cash generative brewing business

Business Review continued

GROUP OVERVIEW

Ralph Findlay
Chief Executive Officer

"These results demonstrate resilience despite the weak economy and very poor weather during the summer. All areas of the business achieved increased revenue and profit in the year, demonstrating the continuing appeal of good pubs and beers.

We have a clear, proven strategy which is appropriate for current market conditions, and which is achieving growth."

Andrew Andrea
Chief Financial Officer

"Our performance clearly demonstrates progress against our key financial objectives. The increase in dividend is consistent with our stated policy to achieve dividend cover of around 2 times earnings in the medium term."

2012 summary

Our results demonstrate good progress in implementing our strategy, despite the challenging consumer environment and exceptionally wet weather over the summer months. As a result, we are able to announce growth in earnings and dividends.

Revenue increased by 5.5% to £719.7 million, with growth achieved in each of our trading segments: Managed Pubs; Tenanted and Franchised; and Brewing. Operating profit increased but, as anticipated, operating margin was 0.7% below last year principally reflecting more pubs operating under our innovative Retail Agreement (around 500 at the year end, compared to 337 last year) and a higher off-trade sales mix in Brewing. Margins improved in Managed Pubs as a consequence of good cost management and modest price increases.

Underlying operating profit increased by 2.3% to £157.9 million, with underlying profit before tax of £87.8 million, up 9.2% (2011: £80.4 million). Underlying earnings per share increased by 9.8% to 12.3 pence per share (2011: 11.2 pence per share). Net debt at the year end was £1,121 million (2011: £1,101 million), including the benefit of a £20 million sale and leaseback transaction completed in the second half year at an attractive cost of finance.

During the year the pub estate was valued independently, the last valuation having been undertaken in 2007. The overall value of the estate is broadly in line with the existing book value, including a significant increase in the value of our managed estate offset by a reduction in the carrying value of our tenanted and franchised estate. Within the overall uplift in the managed estate, the average increase in value of new-build pub-restaurants was at a 56% premium to the build-cost. As stated in our year-end trading update, for accounting purposes revaluation surpluses are required to be recognised in the revaluation reserve whilst a pre-tax exceptional charge of £215 million has been taken through the income statement.

The proposed final dividend of 3.9 pence per share represents a 5% increase compared to 2011, providing a total dividend for the year of 6.1 pence per share, which is also up 5% (2011: 5.8 pence). Dividend cover increased to 2.0 times (2011: 1.9 times). The increase in dividend is consistent with our stated policy to achieve dividend cover of around 2 times earnings in the medium term.

Our key financial objectives remain: sustainable growth, increasing return on capital, and reducing leverage. Our performance clearly demonstrates progress against these objectives. Cash return on capital employed has increased to 10.7%, reflecting the continued disciplined allocation of capital within the business. We have acquired a number of sites during the year to secure development in 2013 and 2014 which has meant that at the year end the ratio of net debt to EBITDA is unchanged at 5.6 times. On a pro-forma basis, incorporating the impact of the 2012 new-build programme, debt to EBITDA is 5.4 times.

David Thompson, Chairman, has indicated his intention to retire after 35 years' service. David's contribution to the Company and the industry has been immense, and his intellect and capacity for hard work have been invaluable. During David's tenure, as Managing Director from 1986 to 2001, and as Chairman since 2001, the Company has expanded from its regional origins to become a national pub operator and brewer.

David will continue to demonstrate the passion and enthusiasm for the industry, and for which he is renowned, through his other business interests. He will remain as Chairman until his successor is appointed; Robin Hodgson will lead the selection process.

Marston's Pub Career Path

The Marston's Inns and Taverns career path supports and encourages over 11,000 employees working within our pubs to gain the skills required to do their job, but more importantly provides a visible path through which they can develop their career.

Caroline Weatherston

The Deputy Manager Programme gives Deputy Managers the opportunity to develop within Marston's as a future Licensed Retail Manager. The programme offers training and allows the Deputy Manager to complete relief management and gain experience within different formats.

Caroline joined Marston's in May 2009 and worked two nights a week as a member of staff. Six months later she had progressed to Keyholder Assistant Manager level. Caroline began the Deputy Manager Programme in 2011, opening up opportunities to work in two new-build pub-restaurants; in total she spent two months supporting the new-builds. The adventure continued with a move to the Newton Grange in Durham.

"Being on the programme gives you all the support you need. We are driven to succeed, as the people you come into contact with share different experiences and provide help and support when necessary. The programme is based on strong networks and support from the trainers and head office staff."

In Caroline's final week of the Deputy Manager Programme, she started the ball rolling in applying for pubs and was successful in being appointed to The Priory Inn in Hull. She has put her own stamp on the pub and is beginning to grow the business in the local community. She has already won an award from her Regional Operations Managers for the customer service in her pub.

Kyle Gunn

Kyle joined Marston's as bar staff whilst studying at university and having seen the career opportunities and the development route available has worked his way up from being a member of the front of house team, through three levels of Keyholder training to Assistant Manager over a nine month period and then onto the Deputy Manager Programme. He was later appointed as a Licensed Retail Manager at the King's Highway in Derby, putting into practice everything he had learnt.

But Kyle's development hasn't stopped there – when he saw an advert for the Trainee Area Operations Manager Programme he applied and was successful. In July 2012 he took on his first area of pubs and uses everything he has learnt to support his Licensed Retail Managers and their teams in running great pubs.

"Working for Marston's is proving to be a fantastic career choice. Not only have I established a clear career path, but I have also been supplied with all of the tools, training and support that I need to get to where I want to be. It is highly inspiring to work for a company that is so actively and dynamically encouraging people development."

"Our career path ensures clear routes to career progression are visible to all and open to everyone. The emphasis we place on giving our people the skills and confidence we need in our business is reflected in the fact that we also have an experienced training team in place."

Cheryl Evans, Human Resources Director for Marston's Inns and Taverns

Business Review continued

PERFORMANCE AND FINANCIAL REVIEW

Current trading and outlook
We have seen an encouraging start to the new financial year. In Managed Pubs, like-for-like sales in the eight weeks to 24 November 2012 increased by 2.0%, with food sales growth of 3.4%, and wet sales improving by 0.9%. In our Tenanted and Franchised pubs, profit trends continue to improve steadily and are estimated to be up around 3%. Our beer brands are performing in line with our expectations.

We expect market conditions to remain challenging for the foreseeable future, with consumer confidence continuing to be subdued by weak economic conditions. Nevertheless, we are confident that our strategy is appropriate and that our focus on value, service and quality will continue to be attractive to our customers.

High quality pub estate
During this financial year our pub estate has been externally revalued in accordance with the Group's accounting policy. The key results of the revaluation are as follows:
- The overall estate value of £2 billion is broadly in line with the carrying value reported in the 2011 accounts.
- The new-build sites that have been built since 2009 have been valued at over 50% above their build cost.
- Excluding new-builds, the managed pub estate has increased in value reflecting its improved quality.
- The reduction in value of the tenanted and franchised estate reflects the current value of tenanted and franchised pubs in the market place.
- Our financing strategy assumes a certain level of disposal activity each year. The revaluation of the tenanted and franchised estate provides a pipeline of assets that can fulfil this disposal objective without any impact on Group profits.
- For accounting purposes, revaluation surpluses are recognised in the revaluation reserve whilst some deficits are required to be recognised in the income statement. Accordingly a pre-tax exceptional charge of £215 million has been taken through the income statement.

The estate valuation has no impact on underlying trading performance or on the Group's cashflow.

Performance and financial review

	Revenue		Underlying operating profit		Margin	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 %**	2011 %
Managed Pubs	**405.5**	391.8	**74.2**	71.0	**18.3**	18.1
Tenanted and Franchised	**200.5**	183.9	**81.8**	79.3	**40.8**	43.1
Brewing	**113.7**	106.5	**16.4**	16.3	**14.4**	15.3
Group Services	**–**	–	**(14.5)**	(12.3)	**(2.0)**	(1.8)
Group	**719.7**	682.2	**157.9**	154.3	**21.9**	22.6

Managed Pubs
Total revenue increased by 3.5% to £405.5 million reflecting the continued strong performance of our new-build pub-restaurants and growth in like-for-like sales, offset by the impact of the disposal of 20 pubs over the last two years. Excluding disposals, revenue within the retained estate has increased by 7%. Underlying operating profit of £74.2 million was up 4.5% (2011: £71.0 million). Average profit per pub has grown to £151k, an increase of 4.1%.

Total like-for-like sales were 2.2% above last year, with growth in all three segments of the estate: destination food pubs, taverns and premium pubs and bars. Like-for-like food sales were up by 2.4% achieved principally through volume growth, reflecting our continued focus on offering value-for-money and evolving the 'F-Plan'. Food now accounts for 44% of total sales (2011: 42%).

Like-for-like wet sales increased by 2.2%, outperforming a declining UK on-trade drinks market. Sales of premium brands performed well complementing the growth of food sales within the estate. Premium cask ale sales increased for the fourth year in succession, with growth in premium lager sales. Wine is an increasingly important category and now accounts for around 20% of our drinks volumes.

We achieved a 0.2% improvement in operating margin through flexibility in menu management, a continued focus on cost management and modest price increases during the year. We have achieved a combination of both sales and margin growth in each of the last three years despite the challenging economic backdrop, a competitive environment and a period of continuous cost inflation.

Capital investment included around £60 million in new-build pub-restaurants, and £22 million in the existing estate including the refurbishment of 30 pubs and 14 garden investments.

Tenanted and Franchised
Total revenue increased by 9.0% to £200.5 million reflecting the increased contribution from Retail Agreements. Underlying operating profit was £81.8 million, an increase of 3.2%. Average profit per pub increased by 4.1% to £50k.

In the traditional estate performance was stable with operating profit in line with last year. Rent increased by 2% and operating margins in these pubs were similar to last year.

In the remaining 600 pubs the conversion of pubs to Retail Agreement has contributed to a significant improvement in performance. Profit from this group of pubs increased by 23% with significant improvement in the converted pubs, offset by a decline in those pubs yet to be converted. Retail Agreements operated in around 500 pubs at the year end.

Operating margin was 2.3% below last year at 40.8%, primarily due to franchise agreements. These agreements generate increased profit but the operating margin percentage is reduced as a consequence of accounting for sales at full retail value.

Capital investment in the period was £32 million including around £12 million in Retail Agreement pubs.

Brewing

Total revenue increased by 6.8% to £113.7 million. Underlying operating profit increased by 0.6% to £16.4 million.

Overall ale volumes were up 2% compared to last year, with premium cask ale volumes up 3% and bottled ale volumes up 18%. We have maintained our market-leading position, increasing our market share in each of these categories by over 1%.

In the independent free trade our account base increased by 3% to more than 3,800 customers, and premium ale sales to this sector increased by 3%. In the take home market we continue to perform very strongly with volumes up 14%.

Operating margin was down versus last year at 14.4%, reflecting the higher proportion of volume through the off-trade, which commands a lower margin.

The Evolution of Franchise

The last year has seen exciting development in our franchise agreements. The innovative Retail Agreement, a type of franchise agreement, was first introduced in 2009. Providing an enhanced consumer proposition, with around £50,000 typically spent by Marston's to improve the pub's appeal and amenities, the Retail Agreements also offer licensees low entry costs, reduced risk and the ability to retain 20% of the turnover of the pub. The Retail Agreement suits smaller pubs with a sustainable future which were formerly tenanted; this model is now evolving to add The Pub Franchise, for larger pubs with a greater turnover opportunity.

The Pub Franchise is competitively placed in the franchise market, appealing to a wider range of entrepreneurs and is based on the franchisee retaining a 20% share of turnover and 20% profit share in return for a 1.5% annual fee and upfront payment, including working capital, of £25,000.

A dedicated Franchise Operation Team has been set up to support franchisees and their consumer offer, and to promote the proposition to experienced and new entrepreneurs. Nicola and Lee, the franchisees at The Wiggington in Tamworth, have found The Pub Franchise to be a rewarding enterprise. "We have a background in the pub trade, but the combination of being fully supported by Marston's in The Pub Franchise whilst still feeling like we are running our own business, suits us down to the ground. We feel proud to operate this pub under the Marston's franchise umbrella."

Business Review continued

PERFORMANCE AND FINANCIAL REVIEW

Group Services
As reported in our Interim Results, central costs at the half year were higher due to insurance costs and one-off advisory fees. Costs in the second half year have been broadly in line with last year.

Capital expenditure and disposals
Capital expenditure was £129.8 million in 2012 (2011: £111.5 million), including the construction of 25 new-build sites and the development of a further 150 Retail Agreements. We expect capital expenditure to be between £115 million and £125 million in 2013.

During the year we generated £48 million of cash including £20 million from a sale and leaseback transaction, and £28 million from the sale of pubs from both the managed and tenanted estate.

Financing
The Group has a £257.5 million bank facility to May 2016, and the amount drawn down at 29 September 2012 was £175 million. This facility, together with a long term securitisation of approximately £1 billion, provides us with an appropriate level of financing headroom for the medium term, with a structure that continues to provide operational flexibility. 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.

During the year the Group entered into a new swap arrangement to 2020, which effectively replaces the £140 million swap arrangement that was due to expire in October 2014. This new arrangement fixes interest on £120 million until 2020. The reduced interest costs resulting from the new arrangement will mitigate the impact of the increase in securitisation interest for the financial years 2013 and 2014.

Subject to market conditions, it is our intention to diversify our sources of financing over the medium and long term.

Net debt of £1,121 million at 29 September 2012 is an increase of £20 million compared to £1,101 million at 1 October 2011. The modest increase in net debt is a consequence of the previously highlighted increase in capital expenditure. Operating cashflow of £168 million remains resilient.

For the period ended 29 September 2012 the ratio of net debt to EBITDA before exceptional items remained stable at 5.6 times (2011: 5.6 times). It remains our intention to reduce this ratio to around 5.0 times, principally through EBITDA growth generated from our new-build investment programme.

Interest cover of 2.3 times has improved versus last year (2011: 2.1 times).

Pensions
Our final salary pension scheme at the year end showed a deficit of £24.5 million before tax (2011: £7.1 million surplus), principally due to a lower discount rate.

During the year we concluded the triennial valuation to 30 September 2011. The review concluded that the cash deficit position has improved by around £30 million to £75 million. As a consequence of the review we have agreed to maintain the existing top-up contribution plan. Contributions to the scheme were broadly similar to last year with a top-up contribution of around £11 million. The top-up contribution increases at 5.75% annually.

Taxation
The underlying rate of taxation (before exceptional items) of 20.4% in 2012 is below the standard rate of corporation tax of 25% primarily due to a deferred tax credit on the increase in the tax base cost of properties, and a corporation tax credit on the recognition of a benefit relating to prior year tax issues.

The underlying tax rate has decreased by 0.5% from 20.9% in 2011.

Exceptional items
There are net exceptional charges of £180.2 million after tax. This reflects the impairment of freehold and leasehold properties of £215.1 million, together with a £2.8 million write-off of unamortised finance costs relating to the Group's previous bank facility, a net £4.6 million charge relating to the Group's new swap arrangements and a £3.7 million charge which recognises interest charges arising from outstanding tax liabilities relating to unresolved tax issues. This has been offset by a £2.9 million net gain in respect of the mark-to-market movement in the fair value of certain interest rate swaps. There is an exceptional tax credit of £43.1 million of which £41.0 million relates to the items described above and £2.1 million relates to deferred tax in respect of the change in the rate of corporation tax.

Food Development

Celebrating our heritage has been at the forefront of our food development this year and "Britishness", with a focus on British regional dishes, was woven into our product development briefs at all levels.

- The food development journey starts with suppliers being invited to present their ideas to the team in our purpose built training kitchen. Once the parameters of a dish have been decided – suitability for customer, season, quality, format and cost – the dishes start to form the basis of the year's menus.
- Menu trialling is becoming an integral part of food development at Marston's and it is another example of how we demonstrate our commitment to understanding our consumer better and putting their feedback into action.
- Before a menu launch, our staff are trained at a special "cook-off" session, providing staff with an opportunity to taste new dishes and to demonstrate their new menu knowledge to their customers.
- With main menu launches, encouraging customers to try new tastes can be challenging – the top ten bestselling dishes have not changed for over ten years! Using our digital customer database, we now offer menu preview evenings, across the majority of our pub restaurant formats, to encourage customers to try the newly developed dishes.
- A range of traditional regional dishes were developed for pubs to offer on their specials boards during British Food Fortnight. We also ran a social media competition to find Britain's favourite regional dish, with Lancashire hotpot winning first place and now being incorporated onto our menus.

Business Review continued

PRINCIPAL RISKS AND UNCERTAINTIES

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

ECONOMIC

Factor

Continued economic uncertainty. Marston's business relies upon the spending capacity of its customers. Basic cost of living could increase in comparison with discretionary spend.

Impact

* Customers spend less on our products and eating out.
* Forecasting and investment returns become more uncertain.

Risk

Economic growth remains very low and a fall in consumer confidence impacts upon the sales within our pubs and of our products and services.

Associated Objective

* Maximising the return on investment.

Mitigation

* Maintaining value for money consumer proposition.
* Customer choice – flexible pricing options.
* Competitive offering.
* High standards of service and quality.
* Consumer trends analysis supports the view that eating out remains resilient despite difficult economic conditions.

FINANCIAL COVENANTS

Factor

Lenders to the business expect that Marston's 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 amongst investors.

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 Group.

Mitigation

* Sophisticated accounting systems.
* Constant monitoring of financial ratios.
* Group strategy, business plans, acquisitions and project development built upon the preservation of corporate financial covenants.
* Annual audit by Marston's external auditors of the compliance to the covenants.

ACCOUNTING CONTROLS

Factor

The financial systems of the Group have to handle large numbers of transactions securely and ensure that transactions are properly recorded.

Impact

* Loss of investor confidence.
* Reputational damage.

Risk

Breakdown of internal accounting controls leading to material financial misstatement or failure to meet financial targets.

Associated Objective

* Safeguard the assets of the business.
* Secure investor confidence.

Mitigation

* Sophisticated accounting systems and controls.
* Credible financial targets.
* Regular management accounts by operating area.
* Clarity of reporting to explain any divergence from targets.
* Segregation of duties.
* Restriction of access controls over financial information and transaction processing.
* Levels of authority over the approval process for transactions.
* Banking controls over the approval of payments.
* Thorough annual audit.

INVESTMENT PLANS

Factor

Increased competition for development sites for building new pub-restaurants.

Impact

* The programme of building new pub-restaurant development is slowed.
* Corporate growth targets are not met.

Risk

Investment plans do not meet targets. Risk of a reduction in the availability of quality sites for investment. Competition from other operators for development 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.
* Maintain pipeline of new sites for future years.

INFORMATION TECHNOLOGY

Factor
Marston's is heavily reliant upon its IT network to process transactions, conduct operations on a ground level and report on results.

Risk
IT risks:
(1) external interference in the computer system;
(2) compliance with the Digital Economy Act 2010 and security of data;
(3) disaster recovery of backed up data taking longer than four hours.

Impact
* Significant disruption would be caused to the daily trading operations of the Group.

Associated Objective
* A stable IT environment that allows the Group to conduct its operations with a high degree of efficiency and speed without disruption.
* Protect sensitive data, particularly that which is commercially damaging if openly available.

Mitigation
* Anti-virus and firewall protection.
* Constant vigilance and monitoring threats posed by hacking, breach of access controls and viruses.
* Physical protection of servers and networks.
* Back up procedures and continual monitoring regarding the integrity of data integrity and rehearsal of recovery procedures.
* Business continuity plans.
* Option to switch to alternative back up servers replicating the live servers, with no significant period of downtime.
* Access controls / passwords.
* User profiles segregating access to sensitive data and functions.

PEOPLE

Factor
Increased demand for high calibre people, particularly in the recruitment of licensees.

Risk
Failure to attract and retain the best people.

Impact
* Marston's may not meet its financial targets.

Associated Objective
* A stable and skilled employee base will allow the Group to deliver its strategic priorities.

Mitigation
* Comprehensive induction and training programmes.
* Regular capability reviews and individual development plans.
* Clear career path for pub team members.
* An on-going programme of engagement with employees through regular surveys, feedback sessions and action workshops.
* Regular attitude surveys with our tenanted and franchise operators.
* Range of flexible agreements with our tenants and franchisees.

REGULATORY

Factor
The Group is subject to many different areas of regulation and increasing public focus on the effects of alcohol and obesity.

Risk
Greater Government intervention may significantly affect our business operations.

Impact
* Increased taxation could reduce revenue and increase costs across the Group.
* Further regulation could restrict the ability of our licensees to operate their pubs in a sustainable manner.

Associated Objective
* Operating a sustainable and profitable business model.

Mitigation
* Thorough training and monitoring programmes for all our pub operators and operational support teams.
* Comprehensive procedures in place to ensure compliance with current legislation including health and safety, food safety and fire safety.
* Active participation in consulting with the Government and other trade bodies through the BBPA.
* Code of Practice provides transparency and strengthens our relationship with the tenant.
* Health and Safety manager provides regular reports to the Board.
* Annual risk assessments of key areas.

Corporate Social Responsibility

For us, Corporate Social Responsibility (CSR) is about more than just focusing on the environment; it is about the development of our employees and how we relate to our customers, suppliers and the local communities that we serve.

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 Company. The Committee has day-to-day responsibility for the implementation of CSR policies within the Group and reports to the Board. A separate and more detailed Corporate Responsibility Report is available at www.marstons.co.uk/responsibility.

Our values

The underlying values that guide delivery of our business are that we should always aim to be "**FIT**". "**FIT**" summarises three fundamental behaviours that are now well embedded throughout the business:

- **F**airness – 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.
- **I**ntegrity – 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.
- **T**ransparency – 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.

Our people

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

- Circa 52% of our workforce is female (51% in 2011).
- More than half of our workforce work flexible hours, many of whom do so to fit work around other commitments. A quarter of the workforce typically works less than 16 hours per week.
- Half of our workforce is under the age of 25 and every year we provide thousands of young people with their first employment experience, preparing them for the world of work, whatever their ultimate career aspirations may be.
- Our youngest employee is 16 and our oldest employee is 86.
- 40% of our Licensed Retail Managers are female.

Training and development

Encouraging all of our employees to take advantage of our training and development opportunities is a fundamental part of our strategy for success. We first achieved the Investor in People award in 1995 and have been continuously accredited since that date.

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 18 types of further and higher education. We offer graduate training scheme opportunities and are particularly proud of our industry leading apprenticeship programmes designed to attract both applicants who wish to undertake professional training without incurring the student debt burden associated with full time higher education and those who want to gain a nationally recognised qualification as part of their management career.

- This year, our retail staff and Licensed Retail Managers have undertaken over 24,000 online induction, customer service and responsible retailing training courses plus a further 2,400 classroom based courses, together with the rollout of our SMILE customer service offer. This equates to an investment of circa 62,500 hours of paid training for our retail team.
- This year over 2,000 Keyholder and kitchen training programmes have been completed and since 2009, 39 people who started on our Deputy Manager Programme have been promoted to either run their own pub or take roles at our Head Office.
- Over the last three years 118 individual CMI and BII qualifications have been achieved by Marston's Head Office employees.
- We are accredited to run the BII's new Multi-Site Retailer Programme via our own internal People Development team.
- We received 128 applications per position for our last Graduate Training scheme entry, 75% higher than the national average for the year (Source: Association of Graduate Recruiters).

INVESTORS IN PEOPLE

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 a "Whistleblowing" policy, both of which can be seen on the Investors section of our website.

Community commitment

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

- 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 £14,500 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 over £11,000 to help support charitable activity run in our MIT pubs.
- Marston's made a direct donation of £10,244 to the Responsible Gambling Trust.

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 and policy is available on our website.

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.

Our Supply Chain Health and Safety Manager manages the operation of our health and safety systems and compliance to job safety instructions for our Production and Distribution teams. The Company uses an incident recording and investigation application giving management greater oversight of the emerging trends, allowing better tracking of audit scores for our breweries and depots and assessment of corrective actions taken.

The Group Health and Safety Manager oversees the operation of controls within managed pubs and monitors compliance across the Group. The results of those audits directly impact upon the evaluation of Licensed Retail 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.

Our tenants, lessees and franchise and Retail Agreement operators, are primarily responsible themselves for the health and safety of their employees and customers. Our tenants and lessees are, however, provided with documentation on creating a health and safety policy and on risk assessing 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.

Responsible retailing

Responsible drinking

The Group is a long-standing member of the British Beer and Pub Association (BBPA), and the Company continues to be a signatory to the Portman Group Code which promotes responsible attitudes towards drinking alcohol and the Drinkaware Trust.

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. The Company also runs similar training to ensure tenants, lessees and franchise and Retail Agreement operators are aware of their responsibilities in this area.

Marston's actively supports the Challenge 21 initiative and maintains close links with licensing and other enforcement bodies to help ensure that our pubs operate in a responsible and considerate manner. We also operate our own "test purchase" programme to further reinforce the compliance message.

Challenge 21

- This year over a quarter of a million productive challenges were recorded, with a further 125,000 challenges resulting in acceptable proof of age being provided prior to service.

Where Pubwatch and Best Bar None initiatives are in place we expect our Licensed Retail 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.

Corporate Social Responsibility continued

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

Responsibility Deal Core Commitments

1. Recognition of our role in improving people's health;
2. Enabling people to make healthy choices;
3. Fostering a culture of responsible drinking;
4. Encouraging people to become more physically active; and
5. Actively supporting our workforce to lead healthier lifestyles.

Healthy eating

A continuing part of our strategy is to offer healthier and more sustainable food choices without compromising quality or value for the customer.

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

- Over 300,000 of our calorie counted dishes with less than 500 calories per meal were served this year.
- As part of the Core Commitments of the Responsibility Deal:
  - None of our meals contain artificial trans fats or hydrogenated fats and oils; and
  - All new products we launch have to achieve 2012 salt targets.

In Managed Pubs, where vegetables are an accompaniment to a main meal they provide two portions of an adult's "5 a day" requirement, we do not add salt to chips, we grill rather than fry our sausages and all meals are free from genetically modified ingredients and monosodium glutamate.

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

- In 2011/12 we sold 474 tonnes of fish secured from sustainable and ethical sources to assist in allowing 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 4,600 tonnes of chips from a responsible supplier who uses the potato remnants for animal feed, fertiliser and renewable energy.

Food safety and supply

In 2012 we spent £54 million on purchasing food (2011: £53 million), sourcing over 900 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 managed pubs.

Having five regional breweries within the Group 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) Code of Ethics and the European Eco Management and Audit Scheme.

Award Winning Food

Providing healthy food does not mean compromising quality and this has been recognised in 2012:

- At the 2012 Menu Innovation & Development Awards, MIT secured the award for Best Neighbourhood menu.
- At the National Fish & Chips Awards 2012, MIT was a finalist in the category for Best Foodservice Outlet serving Fish & Chips.

Environment

We are committed to reducing the environmental impact of our activities by reducing the use of raw materials wherever possible, reducing energy consumption and emissions and through the responsible disposal of waste. Detailed information is provided in our annual Corporate Responsibility Report.

In 2012, we continued with the installation of equipment into our managed pubs to reduce the energy consumed by lighting, refrigeration and heating including LED lighting to front of house areas, free air cellar cooling and responsive heating controls.

In 2013, we will focus on further installations of LED lighting in pubs and free air cellar cooling, increasing employee awareness and involvement with our "Take Control" campaign and developing heat recovery systems.

Key environmental data

	Unit	2012	2011
Gas	GWH	**202.9**	187.7
Electricity	GWH	**124.4**	124.1
Water (breweries)	'000 m^3	**753.9**	704.8
Fossil fuel (diesel)*	'000 gallons	**583.0**	579.3
Emissions (CO_2)*	'000 tonnes	**102.1**	98.9
Total waste	'000 tonnes	**47.7**	42.0
Waste recycled	%	**73.1**	75.7

* 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.

Case Study

Efficiency improvements in new-build pub-restaurants

The following are now included within our standard design:

- LED lighting is installed instead of traditional incandescent lighting. LED lighting consumes approximately 80% less energy, demonstrating a return on investment of 48%.
- New developments in technology allow us to better manage water use in the toilets. Urinal management systems control the amount of flushes depending on customer usage. Toilet cistern devices reduce the amount of water usage per flush by between 10% and 30%.
- Voltage Optimisation reduces incoming voltage to the pub reducing energy consumption and improving the running efficiency of electrical equipment. The average energy savings across retro fitted sites are calculated at 9%.

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Directors

David Thompson
Chairman

Ralph Findlay
Chief Executive Officer

Andrew Andrea
Chief Financial Officer

Robin Hodgson
The Lord Hodgson of Astley Abbots CBE
Non-executive Director

Rosalind Cuschieri
Non-executive Director

Robin Rowland
Non-executive Director

Name	Position	Length of service on Board (as at 29/09/2012)	Independent	Public company experience	Operational experience
David Thompson	Chairman	32 years	–	✓	✓
Ralph Findlay	Chief Executive Officer	16 years	–	–	✓
Andrew Andrea	Chief Financial Officer	3 years and 6 months	–	–	✓
Peter Dalzell	Managing Director of MIT	n/a	–	–	✓
Neil Goulden	Non-executive Director	4 years and 6 months	✓	✓	✓
Robin Hodgson	Non-executive Director	10 years	✓	–	–
Rosalind Cuschieri	Non-executive Director	6 years	✓	✓	✓
Robin Rowland	Non-executive Director	2 years and 1 month	✓	–	✓
Nick Backhouse	Non-executive Director	8 months	✓	✓	✓
Anne-Marie Brennan	Company Secretary				

Peter Dalzell
Managing Director
Marston's Inns and Taverns

Neil Goulden
Non-executive Director

Nick Backhouse
Non-executive Director

Anne-Marie Brennan
Company Secretary

Retail experience	Finance experience	Government/ regulatory experience	Curriculum Vitae
✓	✓	✓	• Appointed to the Board in 1980, Managing Director in 1986 • Appointed as Chairman in 2001 and Non-executive Chairman in 2002 • Chief Executive of Anglia Maltings (Holdings) Limited
✓	✓	✓	• Appointed to the Board as Finance Director in 1996 becoming CEO in 2001 • Qualified Chartered Accountant and Treasurer • Previous roles held at Geest Plc and Bass Plc
✓	✓	–	• Joined the Company in 2002 • Qualified Chartered Accountant • Previous roles held at Guinness Brewing Worldwide and Bass Brewers Limited
✓	–	–	• Joined the Company in 1995 following roles as a licensee and pub company operator • Previously Operations Director for Marston's Inns and Taverns • Chairman of MIT Charitable Fund
✓	✓	✓	• Chairman Emeritus of Gala Coral Group Limited • Chairman of Affinity Sutton Group and The Responsible Gambling Trust • Previous roles at Compass Group Plc and Chef & Brewer
–	✓	✓	• Senior independent Non-executive Director • Chairman of Nova Capital Limited and RFIB Group Limited • Director of Johnson Brothers & Co Limited
✓	–	–	• Chief Executive of Genius Foods Limited • Former Commercial Director of Warburtons Limited • Previously responsible for off-trade marketing at Scottish & Newcastle Plc
✓	–	–	• Chief Executive of YO! Sushi Limited • Supervisory Board non-executive director at Caffe Nero Group Limited • Previous roles held at City Centre Restaurants Plc and Scottish & Newcastle Plc
–	✓	✓	• Senior Independent Director of Guardian Media Group plc • Non-executive director of All3Media • Previous senior financial positions in the pub, leisure and financial sectors
			• Appointed Company Secretary in 2004

Directors' Report for Marston's PLC

(Company Registration Number 31461)

The Directors present their report and audited financial statements of the Group for the 52 week period ended 29 September 2012.

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

Business Review
The Chairman's Letter on page 2 and the Business Review on pages 6 to 25 provide detailed information relating to the Group, its business model and strategy, the operation of the business, future developments and the results and financial position for the period ended 29 September 2012. Details of the principal risks and uncertainties facing the Group are set out on pages 20 to 21. The above information is incorporated by reference into (and shall be deemed to form part of) this report.

Corporate governance statement
The corporate governance statement as required by the Disclosure and Transparency Rules 7.2.1 is set out on pages 31 to 38 and is incorporated by reference into this report.

Environmental and social matters
The Company considers that it has essential relationships with:

Our people
We depend on our employees and aim to establish a diverse and inclusive culture based on clear communication, training and development, employee benefits and a commitment to health and safety in the workplace. We have strong working relationships with trade unions.

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 conduct extensive consumer research to monitor our performance and to understand their needs and preferences.

Local communities
Breweries and pubs often have historic importance in and are intrinsically connected with their local communities. We recognise the importance of fostering and sustaining these strong relationships. 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. We are an active member of several industry bodies and full details can be found in the Corporate and Social Responsibility Report on pages 22 to 25.

Suppliers
We carefully manage our dependence upon suppliers and also their dependence upon us. 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.

Environmental policy
Environmental policy is determined by the Board and further details can be found in the Corporate and Social Responsibility Report on page 25 and in the separate Corporate Responsibility Report at www.marstons.co.uk/responsibility.

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

Capital structure
Details of the Company's issued share capital and of the movements during the period are shown in note 27 to the financial statements on page 83. 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. The issued nominal value of the ordinary shares and preference shares is 100% of the total issued nominal value of all share capital.

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

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

Details of employee share schemes are set out in note 26 to the financial statements on pages 81 to 82. Where shares are held on behalf of the Company's share schemes, the trustees have waived their right to vote and to dividends.

Under the Articles of Association, the Directors have authority to allot ordinary shares subject to the aggregate set at the 2012 Annual General Meeting (AGM). The Company was also given authority at its 2012 AGM to make market purchases of ordinary shares up to a maximum number of 57,069,549 shares. Similar authority will again be sought from shareholders at the 2013 AGM.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and related legislation. The Articles may be amended by special resolution of the shareholders. The powers of the Directors are further described in the Corporate Governance Report on page 32.

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.

Major interests in Company's shares

Notifications of the following voting interests in the Company's ordinary share capital had been received by the Company (in accordance with Chapter 5 of the FSA's Disclosure and Transparency Rules and section 793 Companies Act 2006) as at 29 September 2012 and 28 November 2012:

Ordinary shares of 7.375p each

Shareholder	As at 29 September 2012	% of voting rights	As at 28 November 2012	% of voting rights
Artemis Investment Management	30,334,316	5.32%	29,980,356	5.25%
Dimensional Fund Advisers	23,108,521	4.04%	23,075,324	4.04%
Rathbone Investment Management	21,225,448	3.72%	22,400,464	3.92%
Lindsell Train Ltd	20,791,580	3.64%	20,617,861	3.61%
Henderson Global Investors Ltd	20,631,224	3.61%	20,716,775	3.63%
Legal & General Investment Management Ltd	18,897,772	3.31%	n/a	below 3%

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

Preference shares of £1.00 each

Shareholder	Number	Percentage of voting rights
Fiske Nominees Ltd	34,048	45.39%
Mr AWR and Mrs HM Medlock	10,407	13.87%
George Mary Allison Ltd	5,500	7.33%
Mr PF and Dr K Knowles	4,356	5.80%
Mr GAL Southall and Mr Neil Aston	2,855	3.80%
Mrs Helen Michels	2,750	3.66%
Mr Richard Somerville	2,750	3.66%

Dividends on ordinary shares

An interim dividend of 2.2p per ordinary share was paid on 2 July 2012. The Directors recommend a final dividend of 3.9p per ordinary share to be paid on 28 January 2013 to shareholders on the register on 14 December 2012. This would bring the total dividend for 2011/12 to 6.1p per ordinary share (2011: 5.8p). The payment of the final dividend is subject to shareholder approval at the AGM.

Dividends on 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 (£5,250 per annum). Further details are given in note 17 on page 73.

Directors

Biographies of the Directors currently serving on the Board are set out on pages 26 and 27.

Changes to the Board during the period and subsequent to the period end are set out in the Corporate Governance Report on page 33.

In accordance with the requirements of the UK Corporate Governance Code, all Directors will offer themselves for election or re-election at the AGM on 22 January 2013.

Details of Directors' service contracts are set out in the Directors' Remuneration Report on page 41.

Directors' and Persons Discharging Managerial Responsibility's (PDMRs) interests in shares

The beneficial interests of the Directors and PDMRs and their immediate families in the ordinary share capital of the Company at 29 September 2012 were:

	Ordinary shares of 7.375p	
	29 September 2012	1 October 2011
Executive Directors		
Andrew Andrea	**92,959**	77,959
Alistair Darby[1]	**196,384**	196,384
Ralph Findlay	**859,463**	758,646
Non-executive Directors		
Nick Backhouse[2]	**–**	–
Rosalind Cuschieri	**88,126**	88,126
Miles Emley[3]	**74,020**	74,020
Neil Goulden	**268,000**	168,000
Lord Hodgson	**87,417**	77,112
Robin Rowland	**52,083**	52,083
David Thompson	**1,665,679**	1,665,679
Persons Discharging Managerial Responsibility		
Peter Dalzell	**51,220**	n/a
Stephen Oliver	**229,417**	229,417

1 Shares held at date of resignation on 10 September 2012
2 Appointed on 1 February 2012
3 Shares held at date of retirement on 27 January 2012

Insurance and indemnities

The Company maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against its Directors and officers. In accordance with the Company's Articles of Association and to the extent permitted by law, the Company has indemnified each of its Directors and other officers of the Group against certain liabilities that may be incurred as a result of their position with the Group. There are no indemnities in place for the benefit of the auditors.

Directors' Report for Marston's PLC continued

(Company Registration Number 31461)

Employee information
The average number of employees within the Group is shown in note 5 to the financial statements on page 65.

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

Full details of arrangements relating to employees are described in the Corporate and Social Responsibility Report on pages 22 to 23.

Creditor payment policy
Individual operating companies within the Group are responsible for following payment policies which are based on the BIS Better Payment Practice Code for all suppliers. Copies of this Code can be obtained from the Company's registered office. Trade payables for the Group at the financial period end are estimated as representing 47 days' purchases (2011: 49 days' purchases) and for the Company were nil (2011: nil).

Political and charitable donations
Full details of our charitable contributions can be found in the Corporate and Social Responsibility Report on page 23. Our policy is not to make any donations for political purposes in the UK or to donate to EU political parties or incur EU political expenditure.

Financial Instruments
The disclosures required in relation to the use of financial instruments by the Group are set out in note 20 to the financial statements on pages 74 to 77 and further details on our treasury policy and management are set out in the financial statements on pages 75 to 77.

Auditors
PricewaterhouseCoopers LLP has indicated its willingness to continue as auditors and their re-appointment has been approved by the Audit Committee. Resolutions to re-appoint them and to authorise the Directors to determine their remuneration will be proposed at the 2013 AGM.

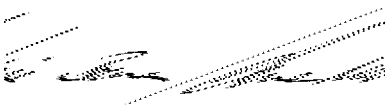
Going concern
The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review. The financial position of the Group is described on pages 16 to 18. In addition, note 20 to the financial statements on pages 74 to 77 includes the Group's objectives, policies and processes for managing its exposure 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 49 to 86 and 88 to 94 have been prepared on the going concern basis.

Events after the balance sheet date
There have been no significant events since the balance sheet date which would have a material effect on the financial statements.

Annual General Meeting
The AGM of the Company will be held at Wolverhampton Racecourse, Holiday Inn Garden Court, Dunstall Park, Wolverhampton, WV6 0PE at 12 noon on 22 January 2013. 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
29 November 2012

Corporate Governance Report

CHAIRMAN'S MESSAGE ON CORPORATE GOVERNANCE

Dear Shareholder
We consider that good conduct is the basis of good performance. The Board sets the tone for the rest of the Company: dignified frugality is our way of doing business; developing the skills of colleagues and providing opportunities for career advancement is central to our management style.

Thus, the Board strives to improve its performance. I lead an annual appraisal and review of the Board and its committees; this involves conversations with each individual Director and a discussion with recommendations and conclusions at the Board. This year's review is described below.

Last year, we identified the need for a further financially qualified Non-executive Director following Miles Emley's retirement. I am delighted to welcome Nick Backhouse to the Board, senior independent director at Guardian Media Group plc and non-executive director at All3Media Limited, who adds great financial experience. We also welcome the appointment of Peter Dalzell to the Board, having worked at the Company since 1995. Further details on the Board's composition are given at on page 33. During 2013 we will continue refreshment of the Board, including the appointment of my successor as Chairman.

In this report we provide an overview of our corporate governance practices, describing how the main principles of the UK Corporate Governance Code are applied throughout the year. Information about the Board, its members and committees, and an overview of the Company's internal controls are all explained.

David Thompson
Chairman
29 November 2012

Corporate Governance Report continued

Corporate Governance Statement

The Board considers it has complied fully with the main principles of the UK Corporate Governance Code (the "Code") and its application is described here.

A. Leadership

Role of the Board

The Board is collectively responsible to shareholders for the long-term success of the Company. The Board has met ten times this period, allowing it to effectively monitor the Company's progress against its strategic aims and within the risk management framework. A schedule of matters specifically reserved for the Board's decision is in place and can be summarised as follows:

- 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.

Roles and responsibilities

There is a clear division of responsibility between the roles of the Chairman and the Chief Executive Officer (CEO) which are set out in writing and agreed by the Board. The table below details the individual roles and responsibilities, and also highlights the specific duties of our Senior Independent Director and Company Secretary:

Role of the Chairman	Role of the Chief Executive Officer
David Thompson is responsible for: • Ensuring each Non-executive Director makes an effective contribution to the Board through debate and discussion with the Executive Directors; • The effective operation, leadership and governance of the Board; • Ensuring effectiveness of the Board; • Setting the agenda, style and tone of Board discussions, with a particular focus on strategic matters; and • Ensuring the Directors receive accurate, timely and clear information.	Ralph Findlay is responsible for: • The performance of the Company in line with the strategies and objectives established by the Board and under powers delegated by the Board; • Ensuring the Board is supplied with information relevant to its strategic role; • Leading the Executive Directors and senior management in dealing with the operational requirements of the business; and • Providing clear and visible leadership in business conduct.
Role of the Senior Independent Director	**Role of the Company Secretary**
Lord Hodgson is responsible for: • Being available to shareholders if they have concerns which contact through the normal channels of Chairman, CEO or other Executive Directors has failed to resolve or for which such contact is inappropriate; • Acting as a 'sounding board' for the Chairman and as an intermediary for the other Directors; • Leading the Non-executive Directors in their annual assessment of the Chairman's performance; and • If necessary, leading discussions on the appointment of a new chairman.	Anne-Marie Brennan is responsible for: • Under the direction of the Chairman, ensuring effective information channels within the Board and its committees, and between senior management and Non-executive Directors, as well as facilitating induction activities for Directors and assisting with their development as required; • Advising the Board, through the Chairman, on all governance matters; and • Administering the procedure under which Directors can, where appropriate, obtain independent professional advice at the Company's expense.

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 Executive Directors being present.

The Non-executive Directors are encouraged to constructively challenge proposals on strategy, contributing to the development of the strategy in the long-term. The Chairman is responsible for setting the correct environment and atmosphere to allow this to take place, particularly through his experienced chairmanship of meetings and control of agendas.

Board and committee meeting attendance

We have established committees of the Board to deal with specific issues under the Code, each with its own Terms of Reference which are regularly reviewed and updated. The following table shows each Director's attendance throughout the year:

Name	Board	Nomination	Audit	Remuneration
Andrew Andrea	10/10	–	–	–
Nick Backhouse[1]	6/6	1/1	2/2	–
Rosalind Cuschieri	9/10	3/3	2/3	2/2
Alistair Darby[2]	9/9	–	–	–
Miles Emley[3]	4/4	1/1	1/1	1/1
Ralph Findlay	10/10	3/3	–	–
Neil Goulden	10/10	3/3	3/3	2/2
Robin Hodgson	9/10	3/3	2/3	2/2
Robin Rowland	10/10	1/1	–	2/2
David Thompson	10/10	3/3	–	–

1 Nick Backhouse was appointed to the Board on 1 February 2012.
2 Alistair Darby resigned from the Board on 10 September 2012.
3 Miles Emley retired from the Board on 27 January 2012.

B. Effectiveness

Board composition

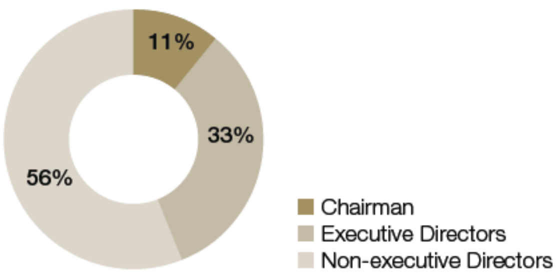
As at the date of this report, our Board consists of nine Directors. In addition to the Chairman, David Thompson, there are five Non-executive Directors and three Executive Directors. Last year, we identified the need for a further financially qualified Non-executive Director following Miles Emley's proposed retirement. We appointed the external agency Blackwood Group who in turn identified a suitable shortlist of candidates for the Nomination Committee's consideration. Miles Emley was a member of the Board until his retirement at the Annual General Meeting (AGM) on 27 January 2012 and Nick Backhouse was appointed to the Board on 1 February 2012. Nick's strong financial and managerial background further contributes to the balance of skills, experience, independence and knowledge of the Board.

Alistair Darby resigned from the Board on 10 September 2012 to take up the role of Chief Executive at Mitchells & Butlers plc.

Peter Dalzell was appointed to the Board on 3 October 2012 as an Executive Director.

We consider all of our Non-executive Directors to be independent. Notwithstanding Lord Hodgson's tenure on the Board, the Board has satisfied itself that Lord Hodgson continues to be independent in his character and judgement. The following chart portrays the balance of the Board as at the date of this report:

Balance of Executive and Non-executive Directors



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 the Board represents the best interests of shareholders.

Commitment

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

The Chairman is a director of Ragleth Limited, the controlling shareholder of Anglia Maltings (Holdings) Limited 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 Limited and consequently the transactions between the Company and Ragleth Limited are not Related Party Transactions as defined by International Financial Reporting Standards.

Training and development

The Chairman takes on the responsibility for ensuring that Directors continually update their skills, knowledge and familiarity with the Company. This is specifically considered in the annual evaluation process. Where necessary, the Company provides resources to meet development requirements for individual Directors.

All Directors receive a tailored induction programme on joining the Board.

During the period, the Board held meetings at sites other than at Head Office in Wolverhampton, 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. There are regular opportunities for the Directors to meet with senior management in the pubs and breweries to maintain and deepen their understanding of the business.

Information and support

The Chairman agrees the agenda for each meeting in conjunction with the CEO and Company Secretary. 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 period. Board papers are circulated at least seven days prior to each Board or committee meeting to ensure that Directors have sufficient time to review them before the meeting. Regular reports cover the Company's financial position, risk management and regulatory compliance. Updates on activities across each operating division and performance against targets are reported to the Board through the senior managers 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. If necessary, Directors may seek independent professional advice at the Company's expense in the performance of their duties.

Corporate Governance Report continued

Evaluation

The Code recommends that an evaluation of the effectiveness of the Board and its committees is conducted annually and that this process is externally facilitated at least every third year. The evaluation process shall be externally facilitated next year, having last been carried out this way in 2010/11.

This year, the Chairman led an evaluation of the Board's performance, its committees and individual Directors. The evaluation process involved written submissions to, and face-to-face meetings with, the Chairman. The evaluation focused on the performance of the Board throughout the past year, including the following areas: the composition of the Board and its succession plans; the content, style of information provided to and conduct of Board meetings; and the composition and effectiveness of the Audit, Nomination and Remuneration Committees. The findings were reported to, and reviewed by, the Board and, where required, issues were acted upon in order to further enhance the effectiveness of the Board's procedures and working practices. In addition, each Director considered their own effectiveness and any training requirements in conjunction with the Chairman. The Board is of the opinion, and the Chairman has confirmed, that following formal performance evaluations, each Director continues to make an effective and valuable contribution and demonstrates commitment to his or her role.

The Non-executive Directors, led by the Senior Independent Director, met without the Chairman to appraise his performance.

Election and re-election

Shareholders will consider the election of Nick Backhouse and Peter Dalzell at the AGM and they will be subject to annual re-election thereafter. All other 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 and shall be detailed in the notes accompanying the Notice of Meeting for the AGM.

Nomination Committee

MESSAGE FROM THE CHAIRMAN OF THE NOMINATION COMMITTEE

Dear Shareholder
The Nomination Committee continues to review, as a priority, the long-term succession plans for Non-executive Directors and the ongoing structure, size and composition of the Board and its committees. This is highlighted with the appointment of Nick Backhouse following Miles Emley's retirement from the Board.

David Thompson
Chairman of the Nomination Committee

Membership	Responsibilities
David Thompson (Chairman) Nick Backhouse (from 1 September 2012) Rosalind Cuschieri Miles Emley (until 27 January 2012) Ralph Findlay Neil Goulden Lord Hodgson Robin Rowland (from 1 September 2012)	• Ensure the Board and its committees have the right balance of skills, knowledge and experience. • To plan for the orderly succession of Directors to the Board and other senior managers. • To identify and nominate suitable candidates for Executive and Non-executive Director vacancies having regard to, amongst other factors, the benefits of diversity, including gender diversity.
Attendees: Other Executive Directors, senior management and external advisers may be invited to attend meetings.	*Terms of Reference:* Full Terms of Reference of the committee can be found in the Investors section of the Company's website.

Activities
The Nomination Committee met three times during the period. Matters considered by the Committee included Board succession planning and the effectiveness of the Committee, which was reviewed as part of the wider Board evaluation process. The Committee is satisfied that it continues to perform its duties in accordance with its Terms of Reference.

The Committee also considered the membership of the Board and each of its committees, subsequently leading to the appointment of Nick Backhouse to the Audit Committee, Nick Backhouse and Robin Rowland to the Nomination Committee and Peter Dalzell to the Board of Directors.

The Committee actively continues the long-term succession planning process for Non-executive Directors to ensure the structure, size and composition of the Board and its committees continues to be effective, thus ensuring appropriate levels of corporate governance and best practice.

Corporate Governance Report continued

C. Accountability

Internal controls

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

Control environment

The key features of the internal control system are:

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

Audit Committee

MESSAGE FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

Dear Shareholder
My own recent and relevant financial experience as Executive Chairman and Chief Executive of Gala Coral Group enables me to lead the Committee in its task of fulfilling its responsibilities. Each member of the Committee, all Non-executive Directors, contributes their own financial experience to effectively assess the external and internal audits of the Company and the internal control and risk management systems.

In assessing the work of the external Auditors, the Committee is satisfied with the scope of their work, their effectiveness and fee proposal and recommends their re-appointment.

In line with best practice, it is our intention to run a formal, competitive tender process for our external audit in the next financial period. This will enable the Committee to compare the quality and effectiveness of the services provided by the incumbent Auditors with those of other audit firms.

Neil Goulden
Chairman of the Audit Committee

Membership	Responsibilities
Neil Goulden (Chairman) Nick Backhouse (from 1 May 2012) Rosalind Cuschieri Miles Emley (until 27 January 2012) Lord Hodgson	• Reviewing the integrity of the Group's financial statements including the annual and interim reports. • Reviewing the effectiveness of the internal controls and risk management system. • Reviewing the Group's systems for detecting fraud, preventing bribery and allowing employees to raise concerns in a safe and confidential manner. • Reviewing the effectiveness of the Internal Audit function. • Overseeing the relationship with the external Auditors, specifically reviewing and approving their fees, the terms of engagement and their objectivity and independence on an annual basis.
Attendees: 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 Directors or Marston's employees being present.	*Terms of Reference:* Full Terms of Reference of the committee can be found in the Investors section of the Company's website.

Corporate Governance Report continued

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. The audit partner is changed at least once every five years and the current partner has been in the role for three 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 with the safeguards 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 Chief Financial Officer (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 period 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 Group's financial reports, the external Auditors attended each meeting at which they presented 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.

Nick Backhouse was appointed to the Committee during the year further strengthening its recent and relevant financial experience.

D. Remuneration

Information on the Remuneration Committee, its membership and activities is given in the Directors' Remuneration Report on pages 39 to 45. A resolution to approve the Remuneration Report will be proposed at the AGM.

E. Shareholder Relations

Engagement with our shareholders is essential to ensure a greater understanding of and confidence in the medium and longer term strategy of the Company and in the Board's ability to oversee its implementation.

An investor relations programme is in place between the Executive Directors and institutional shareholders, fund managers and analysts. 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 period 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. On 29 March 2012 the Executive Directors and senior management team hosted an analyst visit to a selection of managed pubs in the Stafford area, setting out the format approach across the managed pub estate.

The Company Secretary oversees communication with private individual 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 of 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. All of our Directors attend and have dialogue with our shareholders at our AGM. 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

MESSAGE FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholder
This report sets out the remuneration policy for the Directors of Marston's PLC and discloses the amounts earned in respect of the 52 week period ended 29 September 2012.

The report is subject to an advisory shareholder vote and a resolution to approve the Directors' Remuneration Report will be proposed at the Annual General Meeting (AGM). The report has been prepared in accordance with the requirements of the Companies Act 2006, the principles of the UK Corporate Governance Code (the "Code") and best practice guidelines.

The policy of the Remuneration Committee has been designed to help drive business performance through effective remuneration and the provision of appropriate incentive to the Executive Directors and the senior management team. Levels of remuneration should be sufficient to attract, retain and motivate Directors, linking rewards to both corporate and individual performance.

The Remuneration Committee has continued to monitor the policy to take account of evolving market practice whilst also seeking to ensure that a stable framework is maintained and avoiding making unnecessary and frequent changes to the structure of pay. Accordingly, there have been limited changes during the period. The Remuneration Committee:

- approved an amendment to the bonus scheme for the period such that bonuses would be earned on a linear basis provided that reported profit is above profit before tax (excluding exceptional items) for the prior period, but without increasing the overall bonus opportunity; and
- clarified the basis on which the shareholding requirement for the Long Term Incentive Plan (LTIP) will be measured by using the historic cost of investment of a participant's shareholding and including shares subject to an LTIP vesting in the year.

In addition, during the period, the Company set up an internal Governance Committee to provide oversight of the operation of the Group Personal Pension Plan.

We will continue to respond to legislative and market developments, in alignment with the Company's stated strategy, to ensure the continued effectiveness of our remuneration policy.

Lord Hodgson
Chairman of the Remuneration Committee

Directors' Remuneration Report continued

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 the Executive Directors and the Chairman;
- Monitoring the level and structure of remuneration for senior management and approving bonus payments; and
- 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

The members of the Remuneration Committee during the period were Lord Hodgson (Chairman), Rosalind Cuschieri, Neil Goulden, Robin Rowland and Miles Emley (until his retirement on 27 January 2012) all of whom are regarded by the Company as independent Non-executive Directors; the composition of the Committee is therefore in accordance with the Code. During the period, the Committee met twice and all members were in attendance.

Advisers

Deloitte LLP is retained to provide independent advice to the Committee as required. During the period, they provided general advice on the structure of remuneration, remuneration benchmarking information and advice in relation to the shareholding requirement for LTIP participants. Deloitte LLP has also provided advice on various tax issues and advice on internal audit to the Corporate Risk Manager during the period. The Chief Executive Officer, Ralph Findlay, also attends Committee meetings to provide advice and respond to specific questions, but is not in attendance when his own remuneration is discussed. The Company Secretary, Anne-Marie Brennan, acts as secretary to the Committee.

Remuneration policy

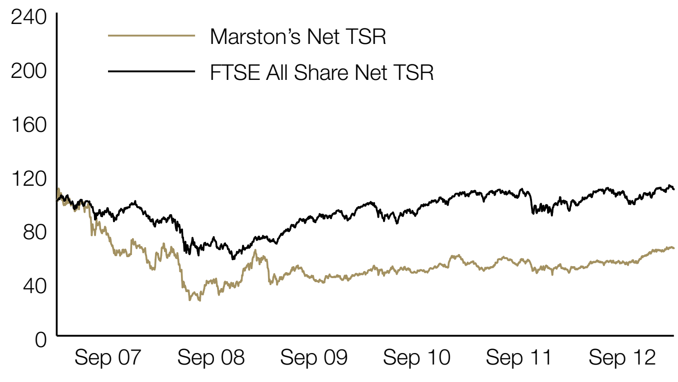
To align the remuneration of Executive Directors with the Group's strategic objectives and the interests of shareholders, our strategic priorities are reflected in our remuneration policy:

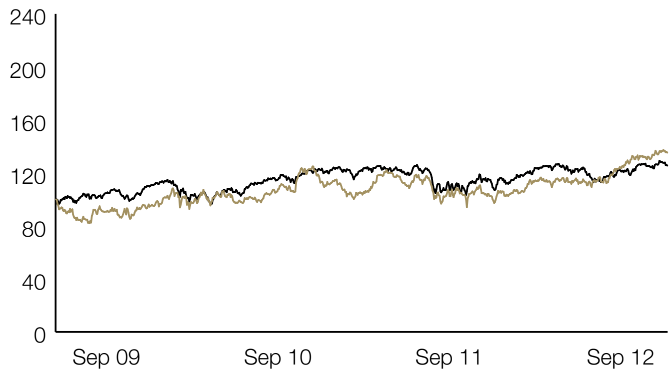
Key Focus	Remuneration policy
Sustainable growth	• Two-thirds of the bonus scheme is linked to achievement of Group profit targets • One-third of the maximum entitlement under the bonus scheme is linked to Group Return on Capital
Shareholder interests	• LTIP performance conditions are based on the Group's growth in Earnings per Share (EPS) exceeding the growth in RPI over a period of three years • Minimum shareholding requirements ensure Executive Directors interests are aligned with shareholders • For 2012/13, bonuses earned in excess of 40% of the maximum opportunity will be payable in shares in the Company, which will be deferred for a period of three years
Employee engagement	• Ensure Director and senior management salaries are aligned with the rest of the workforce • Offer an HMRC approved SAYE scheme to all eligible employees

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.

Performance graph

This graph shows the value, at 29 September 2012, of £100 invested in the Company on 28 September 2007 and 28 September 2009 compared with the value of £100 invested in the FTSE All Share Index. The FTSE All Share Index has been selected as a comparator because the Company is a member of that index.





Total shareholder return

Non-executive Director fees and benefits

The remuneration policy for Non-executive Directors, other than the Chairman, is determined by the Board and is reviewed every two years. Fees were reviewed in 2012 and reflect the responsibilities and duties placed upon Non-executive Directors whilst also having regard to market practice. 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 the Chairman.

Non-executive Director fees	2011/12	2012/13
Basic fee	£43,000	£44,500
Additional fee for		
– Chairmanship of the Remuneration Committee	£5,000	£5,000
– Chairmanship of the Audit Committee	£6,000	£6,000
– Senior Independent Non-executive Director	£5,000	£5,000

The Chairman received a fee of £145,000 in 2011/12. This was reviewed in 2012 and a 3.4% fee increase to £150,000 per annum was awarded for 2012/13. He does not receive any additional fees for Committee memberships. David Thompson does receive pension benefits, details of which are set out on page 45.

Service contracts

Executive Directors

Executive Directors' contracts are on a rolling 12 month basis and are subject to 12 months' notice when terminated by the Company and 6 months' notice when terminated by the Director.

	Contract date	Notice period	
		Company	Director
Andrew Andrea	31 March 2009	12 months	6 months
Alistair Darby	16 May 2003	12 months	6 months
Ralph Findlay	15 August 2001	12 months	6 months

Payments to Executive Directors upon termination of their contracts will be equal to base salary for the duration of the notice period. Ralph Findlay's service contract is formed under a model which was approved by the Committee in 2001 and there is no reduction in payments for mitigation or for early payment as the Remuneration Committee has taken the view that as a long-standing employee of the Group, full compensation would be merited in the event of unilateral termination of his employment by the Group; this also applied to Alistair Darby's service contract prior to his resignation. Andrew Andrea's service contract was formed under a new model approved in 2009 and provides that any payment during the notice period will be reduced by any amount earned in that period from alternative employment. This reflects best practice and would be the format for any future Executive Director service contracts.

Chairman

The Chairman has a six month rolling contract, entered into on 24 January 2002, which is subject to six months' notice when terminated by either the Chairman or the Company. Upon termination of the Chairman's service contract, payment will be equal to the Chairman's fee for the duration of the notice period and there will be no reduction for mitigation or for early payment.

Non-executive Directors

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 Code.

External appointments of Executive Directors

None of the Executive Directors currently serve as paid directors of any company outside the Group.

Summary of remuneration arrangements for Executive Directors

Component	Ralph Findlay	Andrew Andrea	Alistair Darby
Base salary 2011/12	£480,000	£300,000	£300,000
Base salary 2012/13	£495,000 (3% increase)	£309,000 (3% increase)	n/a
Maximum bonus (% of salary)	100%	100%	100%
LTIP award (% of salary)	100%	100%	100%
Pension arrangement	Defined benefit scheme to 05.04.12 and 25% salary supplement thereafter	15% of base salary in return for the Director making a personal contribution of 7.5%	Defined benefit scheme to 31.01.12 and 25% salary supplement thereafter up to date of resignation
Benefits	A car allowance, private medical insurance and life assurance		

Salaries

Base salaries for individual Directors are reviewed annually by the Remuneration Committee and are set with reference to individual performance, experience and responsibilities within the Group as well as with reference to similar roles in comparable companies.

Directors' Remuneration Report continued

Bonuses
With the exception of our field-based sales teams, all bonus arrangements within the Group have the same structure and pay-out mechanism. One-third of the maximum entitlement for employees (including Executive 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. During the period, the Remuneration Committee approved an amendment to the bonus scheme for the current period such that bonuses are earned on a linear basis between 0% and 40% of the maximum for performance above that of the previous financial period up to the current target. This amendment:

- maintains the requirement that bonus will only be earned under the Group profit element if there is profit growth year on year; and
- avoids the previous "cliff edge" situation whereby no bonus would be earned for performance just below target, but a 40% bonus would be earned at target.

For 2011/12, 40% of the maximum pay-out for each Executive Director was awarded following a review of the Group's profit and ROC performance by the Remuneration Committee.

For 2012/13, the Remuneration Committee has introduced the following changes which incorporate compulsory deferral and 'claw back' provisions to the bonus arrangements for the Executive Directors:

- 50% of the maximum opportunity will be payable for delivery of a stretching profit growth and ROC target. Any bonus earned in excess of 40% of the maximum opportunity will be payable in shares in the Company, which will be deferred for a period of three years; and
- A 'claw back' arrangement will be introduced which will give the Remuneration Committee the discretion to apply claw back/ forfeiture to unvested deferred shares if an act or omission of the participant contributes to a material misstatement of the Group's financial statements or results in material loss or reputational damage for the Company.

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

Long Term Incentive Plan
Following shareholder approval in 2004 the Company introduced an LTIP for Executive Directors and the senior management team. Under the LTIP, annual conditional awards of nil cost options may be made up to an equivalent of 100% of salary for Executive Directors and the Managing Directors of the operating divisions and 35% for the senior management team. The options 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 up to the tenth anniversary of the date of grant provided they remain an employee of the Group.

The Remuneration Committee has confirmed that the Executive Directors and Managing Directors of the operating divisions must hold shares in the Company with a cost of acquisition equal to at least one times salary at the date of grant. The holding requirement is scaled down to 35% of salary for other participants. Spouse holdings are taken into account in determining whether this requirement is satisfied. Shares subject to an LTIP vesting in the year also count towards the shareholding requirement provided that the participant commits to retain the shares at vesting. Following the introduction of the bonus deferral arrangements, deferred shares will also count towards the shareholding requirement.

The performance conditions are based on the extent to which the Group's growth in Earnings per Share (EPS) exceeds the growth in Retail Prices Index (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.

Year of Grant	• Participant granted a conditional award of nil cost options over shares to a value equal to 100% or 35% of base salary
▼ Performance conditions over 3 year period	• If performance conditions are not met, the options lapse and the participant does not receive any shares • If performance conditions are met, participant will receive shares to the extent determined by the Remuneration Committee
▼ Year of Vesting	• Participant must satisfy the minimum shareholding requirement • Participant receives shares and must pay income tax and national insurance on the market value of the shares received

During the period the Committee reviewed the performance metrics and vesting ranges for the 2012 grant to ensure that they remain appropriately stretching for the three year period and they concluded that they were appropriate. No LTIP awards were granted in 2009 so none were therefore due to vest in 2011/12.

The table of LTIP awards made is set out on page 44.

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 across all savings schemes. 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.

Following shareholder approval at the AGM in 2012, the SAYE rules, updated to reflect current best practice, received HMRC approval for a further 10 years.

Executive share options
The Company has an ESOP which was approved by shareholders at the AGM in 2004. The ESOP allows options to be granted at the prevailing market value on the date of grant which are normally exercisable between three and ten years after grant and upon achievement of stated performance criteria. No options under the ESOP 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.

Pensions
Defined Benefit Scheme
The defined benefit scheme (the Marston's Scheme) was closed to new entrants from 29 September 1997. From 1 May 2010, Executive Directors were provided with the option of a 25% salary supplement as an alternative to continued membership of the Marston's Scheme. Alistair Darby left the Marston's Scheme on 31 January 2012. Ralph Findlay left the Marston's Scheme on 5 April 2012 and takes a salary supplement of 25% of base salary in lieu of future pension provision.

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 2011. This resulted in a long-term Group contribution rate from 1 October 2012 of 22.3% of members' pensionable earnings for members who opted for the salary sacrifice and 22.3% of members' pensionable earnings minus members' contributions for other members plus a monthly contribution of £986,000, increasing by 5.75% each October.

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 2011 funding valuation for the Marston's Scheme assumed that: the long-term investment return before retirement would exceed salary increases by 1.5% per annum and RPI price inflation by 2.0% per annum; and the long-term investment return after retirement would exceed post 6 April 1997 and pre 6 April 2006 pension increases by 0.9% per annum and price inflation by 0.9% per annum.

The market value of the Marston's Scheme assets was £367.4 million, which was sufficient to cover 83% of members' accrued benefits at 30 September 2011, 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.

The text and tables that follow comprise the auditable part of the Directors' Remuneration Report, being the information required by the UKLA Listing Rules 9.8.6 and 9.8.8.

Directors' emoluments

	Base salary/fee (£)	Bonus (£)	Non-cash benefits[5] (£)	Other cash benefits[6] (£)	**2012 Total (£)**	2011 Total (£)
Executive Directors						
Andrew Andrea	300,000	120,000	957	27,000	**447,957**	443,329
Alistair Darby[1]	300,000	–	957	63,500	**364,457**	415,904
Ralph Findlay	480,000	192,000	957	74,533	**747,490**	696,004
	1,080,000	312,000	2,871	165,033	**1,559,904**	1,555,237
Non-executive Directors						
Nick Backhouse[2]	28,666	–	–	–	**28,666**	–
Rosalind Cuschieri	43,000	–	–	–	**43,000**	43,000
Miles Emley[3]	14,333	–	–	–	**14,333**	44,043
Neil Goulden	49,000	–	–	–	**49,000**	47,956
Lord Hodgson[4]	53,000	–	–	–	**53,000**	53,000
Robin Rowland	43,000	–	–	–	**43,000**	43,000
David Thompson	145,000	–	957	16,200	**162,157**	161,846
	1,455,999	312,000	3,828	181,233	**1,953,060**	1,948,082

(1) Alistair Darby resigned from the Board on 10 September 2012.
(2) Nick Backhouse was appointed to the Company on 1 February 2012.
(3) Miles Emley retired on 27 January 2012.
(4) The fees relating to the services of Lord Hodgson were paid to Johnson Brothers & Co Limited.
(5) Non-cash benefits principally comprise private health cover.
(6) Other cash benefits represent cash allowances paid in lieu of a company car and salary supplements in lieu of pension.

Directors' Remuneration Report continued

Executive Directors' interests in the LTIP

The individual interests for the Executive Directors which represent the maximum aggregate number of shares to which each individual could become entitled are as follows:

	Date of grant(1)	At 01.10.11	Granted	Vested	Lapsed	**At 29.09.12(2)**	Exercise period from(3)
Andrew Andrea	01.07.10	253,699	–	–	–	**253,699**	01.07.13
	24.06.11	292,307	–	–	–	**292,307**	24.06.14
	15.06.12	–	314,960	–	–	**314,960**	15.06.15
Alistair Darby	01.07.10	275,000	–	–	275,000	**0**	n/a
	24.06.11	282,051	–	–	282,051	**0**	n/a
	15.06.12	–	314,960	–	314,960	**0**	n/a
Ralph Findlay	01.07.10	459,534	–	–	–	**459,534**	01.07.13
	24.06.11	476,923	–	–	–	**476,923**	24.06.14
	15.06.12	–	503,937	–	–	**503,937**	15.06.15

(1) The LTIP awards made in 2010 and 2011 were granted as Approved Performance Share Plan awards (over 31,712 shares in the case of each 2010 grant and 30,769 shares in the case of each 2011 grant) allowing participants to receive an HMRC approved option for the first £30,000 of the total entitlement and an unapproved award for the balance. A corresponding linked award was also made to enable the participant to fund the exercise of the approved option. Each 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.

Each participant's 2010 approved option and 2011 approved option have been granted 'in parallel' so that only one of the approved options can be exercised. Therefore:

- if the approved option granted on 1 July 2010 is exercised, the approved option granted on 21 June 2011 will lapse and the 2011 linked award will be exercisable in full, subject to the satisfaction of the performance condition, with no reduction to ensure that it is only exercisable to fund the exercise price of the approved option; and
- if the 2010 approved option is released, the 2010 linked award will be capable of exercise in full, subject to the satisfaction of the performance condition, with no reduction to ensure that it is only exercisable to fund the exercise price of the approved option and the 2011 approved option will be exercisable, subject to the satisfaction of the performance condition.

The Executive Directors' LTIP awards in 2010 and 2011 utilised in full the HMRC approved option limit and, consequently, the 2012 LTIP grants were ordinary unapproved LTIP awards only.

(2) The mid-market ordinary share price on 28 September 2012 (29 September being a Saturday) was 114.20p and the daily mid-market share price range during the period was 84.60p to 115.90p.

(3) Provided that 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 42.

Executive Directors' interests in the SAYE

The individual interests of the Executive Directors under the SAYE scheme are as follows:

	Date of Grant	At 01.10.11	Granted	Exercised	Cancelled	**At 29.09.12**	Option price (p)	Exercisable from
Andrew Andrea	25.06.10	11,826	–	–	–	**11,826**	76.10	01.09.13
Ralph Findlay	25.06.10	20,302	–	–	–	**20,302**	76.10	01.09.15

Directors' pensions

Defined contribution scheme

The Group makes contributions into the GPPP on behalf of Andrew Andrea. A rate of 15% of base salary is payable in return for a personal contribution of 7.5%. For the period ended 29 September 2012, the Group contribution for Andrew Andrea was £45,000, being £31,500 pension contribution and a salary supplement of £13,500.

Defined benefit scheme

The following Directors accrued benefits under the Marston's Scheme:

	Accrued pension at 29.09.12 (£)	Change in accrued pension over 2011/12 excluding increase for inflation (£)	Transfer Value at 29.09.12 (£)	Transfer Value at 01.10.11 (£)	Change in Transfer Value over 2011/12 net of members' contributions (£)	Transfer Value of the increase in the accrued pension (£)
Alistair Darby	**77,897**	184	1,143,281	986,851	156,430	29,740
Ralph Findlay	**103,510**	5,884	1,772,263	1,435,961	336,302	142,983
David Thompson	**174,020**	5,870	3,304,427	2,761,737	542,690	195,518

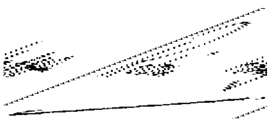
Notes to the table:

1. The accrued pension is the amount that the Director would receive annually on retirement based on service to the end of the period.
2. The change in accrued pension during the period reflects that inflation over the period has been 2.6%, being the measure of RPI to September 2012.
3. The Transfer Values at 29 September 2012 are calculated in accordance with the cash equivalent transfer value basis adopted by the Trustee on 5 September 2012 after taking advice from the Scheme Actuary.
4. Alistair Darby and Ralph Findlay ceased to contribute to the Marston's Scheme during 2012. Further details can be found on page 43.

Additional information regarding the Marston's Scheme:

1. 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.
2. On death before retirement, a spouse's pension is payable equal to one-third of the members' pension for Alistair Darby and 50% for Ralph Findlay, plus a lump sum is payable equal to the Director's contributions (including those made via salary sacrifice). On death after retirement the spouse's pension payable is two-thirds of the member's pre-commutation pension for David Thompson and 60% for Alistair Darby and Ralph Findlay.
3. The normal contribution rate for David Thompson is 13.5%, paid by way of salary sacrifice.
4. 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
29 November 2012

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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the 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:

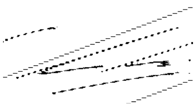
- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Business Review on pages 6 to 25 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Disclosure of information to Auditors

Each of the Directors of the Company at the date that this report was approved confirm:

- There is no relevant audit information of which the Company's auditors are unaware; and
- That each Director has taken all the steps that he/she ought to have taken as Director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.



Ralph Findlay
Chief Executive Officer
29 November 2012

Andrew Andrea
Chief Financial Officer

Five Year Record

	2008 (53 weeks) £m	2009 (52 weeks) £m	2010 (52 weeks) £m	2011 (52 weeks) £m	**2012 (52 weeks) £m**
Revenue	666.1	645.1	650.7	682.2	**719.7**
Profit before exceptional items	85.1	70.3	73.5	80.4	**87.8**
Exceptional items	(8.9)	(48.9)	(21.0)	0.4	**(223.3)**
Profit/(loss) before taxation	76.2	21.4	52.5	80.8	**(135.5)**
Taxation*	(14.4)	(5.0)	(5.0)	(12.0)	**25.2**
Profit/(loss) after taxation	61.8	16.4	47.5	68.8	**(110.3)**
Net assets	706.9	783.2	780.5	817.6	**762.0**
Earnings/(loss) per ordinary share†	16.3p	3.9p	8.3p	12.1p	**(19.4)p**
Exceptional items†	2.0p	9.5p	1.7p	(0.9)p	**31.7p**
Earnings per ordinary share before exceptional items†	18.3p	13.4p	10.0p	11.2p	**12.3p**
Dividend per ordinary share†	9.5p	7.1p	5.8p	5.8p	**6.1p**
Retail Price Index	100.0	98.6	103.2	108.9	**111.8**
Earnings/(loss) per share performance	100.0	23.9	50.9	74.2	**(119.0)**
Earnings per share performance before exceptional items	100.0	73.2	54.6	61.2	**67.2**
Dividend performance	100.0	74.7	61.1	61.1	**64.2**

* Taxation includes the tax impact on exceptional operating items together with exceptional credits of £2.1 million in 2012, £5.0 million in 2011 and £2.1 million in 2010 in respect of the change in corporation tax rate and an exceptional charge of £1.4 million in 2008 relating to the phasing out of industrial buildings allowances.

† 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.

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

We have audited the Group financial statements of Marston's PLC for the period ended 29 September 2012 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 46, 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 29 September 2012 and of its loss 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 31 to 38 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:

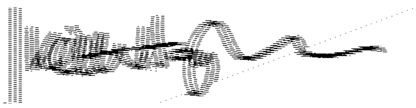
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the parent Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 30, 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 29 September 2012 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
29 November 2012

Group Income Statement

For the 52 weeks ended 29 September 2012

	Note	2012 Before exceptional items £m	2012 Exceptional items £m	2012 Total £m	2011 Before exceptional items £m	2011 Exceptional items £m	2011 Total £m
Revenue	2, 3	**719.7**	**–**	**719.7**	682.2	–	682.2
Operating expenses*	3, 4	**(561.8)**	**(215.1)**	**(776.9)**	(527.9)	(2.7)	(530.6)
Operating profit/(loss)	2	**157.9**	**(215.1)**	**(57.2)**	154.3	(2.7)	151.6
Finance costs	6	**(70.8)**	**(26.2)**	**(97.0)**	(76.1)	–	(76.1)
Finance income	6	**0.7**	**15.1**	**15.8**	2.2	–	2.2
Movement in fair value of interest rate swaps	6	**–**	**2.9**	**2.9**	–	3.1	3.1
Net finance costs	4, 6	**(70.1)**	**(8.2)**	**(78.3)**	(73.9)	3.1	(70.8)
Profit/(loss) before taxation		**87.8**	**(223.3)**	**(135.5)**	80.4	0.4	80.8
Taxation	4, 7	**(17.9)**	**43.1**	**25.2**	(16.8)	4.8	(12.0)
Profit/(loss) for the period attributable to equity shareholders		**69.9**	**(180.2)**	**(110.3)**	63.6	5.2	68.8
(Loss)/earnings per share:							
Basic (loss)/earnings per share	9			**(19.4)p**			12.1p
Basic earnings per share before exceptional items	9			**12.3p**			11.2p
Diluted (loss)/earnings per share	9			**(19.4)p**			12.0p
Diluted earnings per share before exceptional items	9			**12.2p**			11.1p

Group Statement of Comprehensive Income

For the 52 weeks ended 29 September 2012

	Note	2012 £m	2011 £m
(Loss)/profit for the period		**(110.3)**	68.8
Losses arising on cash flow hedges		**(54.7)**	(47.4)
Transfers to the income statement on cash flow hedges		**21.5**	21.1
Actuarial (losses)/gains on retirement benefits		**(45.2)**	17.0
Unrealised surplus on revaluation of properties*		**329.9**	–
Reversal of past revaluation surplus*		**(136.9)**	(0.2)
Tax (expense)/income relating to components of other comprehensive income	7	**(26.9)**	10.4
Other comprehensive income for the period		**87.7**	0.9
Total comprehensive (expense)/income for the period		**(22.6)**	69.7

* During the current period a revaluation of the Group's freehold and leasehold properties was undertaken, resulting in a net decrease in property values of £21.6 million. An unrealised surplus on revaluation of £329.9 million, and a reversal of past revaluation surplus of £136.9 million, have been recognised in the revaluation reserve, and a net charge of £214.6 million has been recognised in the income statement. Further detail is provided in notes 4, 11, 12 and 15 to the financial statements.

Group Cash Flow Statement

For the 52 weeks ended 29 September 2012

	Note	2012 £m	2011 £m
Operating activities			
Operating profit before exceptional items		**157.9**	154.3
Depreciation and amortisation		**40.7**	41.5
EBITDA before exceptional items		**198.6**	195.8
Exceptional operating items	4	**(215.1)**	(2.7)
EBITDA after exceptional items		**(16.5)**	193.1
Working capital and non-cash movements	29	**210.1**	12.9
Difference between defined benefit pension contributions paid and amounts charged		**(12.9)**	(13.0)
Income tax paid		**(12.3)**	(10.6)
Net cash inflow from operating activities		**168.4**	182.4
Investing activities			
Interest received		**0.6**	0.4
Sale of property, plant and equipment and assets held for sale		**48.3**	13.3
Purchase of property, plant and equipment and intangible assets		**(129.8)**	(111.5)
Sale of subsidiary and associated business		**–**	1.9
Movement in other non-current assets		**2.8**	2.1
Net cash outflow from investing activities		**(78.1)**	(93.8)
Financing activities			
Equity dividends paid	8	**(33.5)**	(33.0)
Interest paid		**(73.3)**	(70.3)
Arrangement costs of new bank facilities		**(3.5)**	–
Proceeds of ordinary share capital issued		**0.2**	0.1
Repayment of securitised debt		**(21.4)**	(20.3)
Repayment of bank loans		**(126.0)**	–
Advance of bank loans		**175.0**	29.0
Repayment of loan notes		**–**	(0.6)
Net cash outflow from financing activities		**(82.5)**	(95.1)
Net increase/(decrease) in cash and cash equivalents	30	**7.8**	(6.5)

Group Balance Sheet

As at 29 September 2012

	Note	29 September 2012 £m	1 October 2011 £m
ASSETS			
Non-current assets			
Goodwill	10	**224.2**	224.2
Other intangible assets	11	**23.5**	24.6
Property, plant and equipment	12	**1,995.6**	1,989.4
Deferred tax assets	22	**71.4**	63.3
Retirement benefit surplus	25	**–**	7.1
Other non-current assets	13	**14.3**	17.1
		2,329.0	2,325.7
Current assets			
Inventories	14	**22.2**	18.8
Trade and other receivables	16	**62.5**	74.5
Derivative financial instruments	18	**13.7**	–
Cash and cash equivalents	30	**60.8**	76.6
		159.2	169.9
Assets held for sale	15	**39.2**	6.5
LIABILITIES			
Current liabilities			
Borrowings	17	**(21.3)**	(41.1)
Derivative financial instruments	18	**(14.1)**	(17.6)
Trade and other payables	21	**(156.9)**	(143.9)
Current tax liabilities		**(23.4)**	(25.8)
		(215.7)	(228.4)
Non-current liabilities			
Borrowings	17	**(1,160.6)**	(1,136.3)
Derivative financial instruments	18	**(187.3)**	(135.2)
Retirement benefit obligations	25	**(24.5)**	–
Deferred tax liabilities	22	**(159.0)**	(159.3)
Other non-current liabilities	23	**(0.6)**	(0.4)
Provisions for other liabilities and charges	24	**(17.7)**	(24.9)
		(1,549.7)	(1,456.1)
Net assets		**762.0**	817.6
Shareholders' equity			
Equity share capital	27	**44.3**	44.3
Share premium account		**332.8**	332.6
Merger reserve	28	**–**	41.5
Revaluation reserve		**560.4**	411.4
Capital redemption reserve	28	**6.8**	6.8
Hedging reserve		**(129.6)**	(101.4)
Own shares	28	**(130.9)**	(130.9)
Retained earnings		**78.2**	213.3
Total equity		**762.0**	817.6

The financial statements on pages 49 to 86 were approved by the Board on 29 November 2012 and signed on its behalf by:

Ralph Findlay
Chief Executive Officer
29 November 2012

Group Statement of Changes in Equity

For the 52 weeks ended 29 September 2012

	Equity share capital £m	Share premium account £m	Merger reserve £m	Revaluation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Own shares £m	Retained earnings £m	Total equity £m
At 2 October 2011	44.3	332.6	41.5	411.4	6.8	(101.4)	(130.9)	213.3	817.6
Loss for the period	–	–	–	–	–	–	–	(110.3)	(110.3)
Actuarial losses	–	–	–	–	–	–	–	(45.0)	(45.0)
Tax on actuarial losses	–	–	–	–	–	–	–	10.7	10.7
Post-retirement medical benefits	–	–	–	–	–	–	–	(0.2)	(0.2)
Losses on cash flow hedges	–	–	–	–	–	(54.7)	–	–	(54.7)
Transfers to the income statement on cash flow hedges	–	–	–	–	–	21.5	–	–	21.5
Tax on hedging reserve movements	–	–	–	–	–	5.0	–	–	5.0
Property revaluation	–	–	–	329.9	–	–	–	–	329.9
Property impairment	–	–	–	(136.9)	–	–	–	–	(136.9)
Deferred tax on properties	–	–	–	(42.6)	–	–	–	–	(42.6)
Total comprehensive income/(expense)	–	–	–	150.4	–	(28.2)	–	(144.8)	(22.6)
Share-based payments	–	–	–	–	–	–	–	0.2	0.2
Tax on share-based payments	–	–	–	–	–	–	–	0.1	0.1
Issue of shares	–	0.2	–	–	–	–	–	–	0.2
Disposal of properties	–	–	–	(1.1)	–	–	–	1.1	–
Transfer to retained earnings	–	–	(41.5)	(0.3)	–	–	–	41.8	–
Dividends paid	–	–	–	–	–	–	–	(33.5)	(33.5)
Total transactions with owners	–	0.2	(41.5)	(1.4)	–	–	–	9.7	(33.0)
At 29 September 2012	**44.3**	**332.8**	**–**	**560.4**	**6.8**	**(129.6)**	**(130.9)**	**78.2**	**762.0**

	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 equity £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**

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 29 September 2012

1. ACCOUNTING POLICIES

Basis of preparation
These consolidated financial statements for the 52 weeks ended 29 September 2012 (2011: 52 weeks ended 1 October 2011) 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 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 Amendments for government loan with a below-market rate of interest when transitioning to IFRS	1 January 2013
IFRS 7	Financial Instruments: Disclosures Amendments relating to the offsetting of assets and liabilities	1 January 2013
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 27	Consolidated and Separate Financial Statements Reissued as IAS 27 Separate Financial Statements (as amended in 2011)	1 January 2013
IAS 28	Investments in Associates Reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)	1 January 2013
IAS 32	Financial Instruments: Presentation Amendments relating to the offsetting of assets and liabilities	1 January 2014
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

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.

Notes continued

For the 52 weeks ended 29 September 2012

1. ACCOUNTING POLICIES CONTINUED

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

The consolidated financial statements 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, gaming machines and third party brewing and packaging) supplied to customers, and rents receivable from licensed properties. Revenue from drink, food, accommodation, brewing and packaging 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 Managed Pubs, Tenanted and Franchised, Brewing and 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 Group Services' costs is allocated to each of the trading segments.

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

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

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.

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.

1. ACCOUNTING POLICIES CONTINUED

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 instead is reviewed for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Any impairment is recognised immediately in the income statement.

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

Property, plant and equipment
- Freehold and leasehold properties are initially stated at cost and subsequently at valuation. Plant and machinery and fixtures, fittings, tools and equipment are stated at cost.
- Depreciation is charged to the income statement on a straight-line basis to provide for the cost of the assets less 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.

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.

Notes continued

For the 52 weeks ended 29 September 2012

1. ACCOUNTING POLICIES CONTINUED

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.

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.

1. ACCOUNTING POLICIES CONTINUED

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

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

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

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

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

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

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

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

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

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

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

Amounts that have been recognised in other comprehensive income in respect of cash flow hedges are reclassified from equity to profit 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 the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within other net operating charges. When a trade or other receivable is uncollectable, it is written off against the allowance account for trade or other receivables. Subsequent recoveries of amounts previously written off are credited against other net operating charges in the income statement.

Notes continued

For the 52 weeks ended 29 September 2012

1. ACCOUNTING POLICIES CONTINUED

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

Employee benefits
Pension costs for the Group's defined benefit pension 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 costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Pension costs for the Group's defined contribution pension 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.

1. ACCOUNTING POLICIES CONTINUED

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.

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.

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.

Notes continued

For the 52 weeks ended 29 September 2012

1. ACCOUNTING POLICIES CONTINUED

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	Revenue
Managed Pubs	Food and drink sales, accommodation and gaming machine income
Tenanted and Franchised	Food and drink sales, rent from licensed properties and gaming machine income
Brewing	Drink sales and third party brewing and packaging
Group Services	N/A

In the 2011 financial statements, Managed Pubs was referred to as Marston's Inns and Taverns, Tenanted and Franchised was referred to as Marston's Pub Company, Brewing was referred to as Marston's Beer Company and Group Services was referred to as Marston's Group Services. There has been no change in the activities of each segment since the prior period; it is solely their names which have changed.

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

2. SEGMENT REPORTING CONTINUED

52 weeks ended 29 September 2012	Managed Pubs £m	Tenanted and Franchised £m	Brewing £m	Group Services £m	Group £m
Income statement					
Revenue	405.5	200.5	142.8	–	748.8
Less: sales to other segments	–	–	(29.1)	–	(29.1)
	405.5	200.5	113.7	–	719.7
Operating expenses before exceptional items	(331.3)	(118.7)	(97.3)	(14.5)	(561.8)
Operating profit/(loss) before exceptional items	74.2	81.8	16.4	(14.5)	157.9
Exceptional items	(54.7)	(155.7)	(3.7)	(1.0)	(215.1)
Operating profit/(loss)	19.5	(73.9)	12.7	(15.5)	(57.2)
Finance costs					(97.0)
Finance income					15.8
Movement in fair value of interest rate swaps					2.9
Loss before taxation					(135.5)
Taxation					25.2
Loss for the period attributable to equity shareholders					**(110.3)**
Balance sheet					
Segment assets	1,209.3	957.2	176.9	38.1	2,381.5
Unallocated assets					
Deferred tax assets					71.4
Derivative financial instruments					13.7
Group cash and cash equivalents					60.8
Total assets					**2,527.4**
Segment liabilities	(96.3)	(24.4)	(32.5)	(22.0)	(175.2)
Unallocated liabilities					
Group borrowings					(1,181.9)
Current tax liabilities					(23.4)
Retirement benefit obligations					(24.5)
Deferred tax liabilities					(159.0)
Derivative financial instruments					(201.4)
Total liabilities					**(1,765.4)**
Other segment information					
Capital expenditure					
Intangible assets	0.3	0.4	0.1	–	0.8
Property, plant and equipment	87.4	32.1	8.0	4.0	131.5
Amortisation of intangible assets	0.4	0.2	–	0.4	1.0
Depreciation of property, plant and equipment	19.0	10.6	8.1	2.0	39.7
Revaluation/impairment of properties					
Income statement	(54.7)	(155.7)	(3.7)	(0.5)	(214.6)
Revaluation reserve	217.4	(29.9)	1.3	4.2	193.0

Notes continued

For the 52 weeks ended 29 September 2012

2. SEGMENT REPORTING CONTINUED

52 weeks ended 1 October 2011	Managed Pubs £m	Tenanted and Franchised £m	Brewing £m	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/(loss) 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/(loss)	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

Geographical areas

Revenue generated outside the United Kingdom during the period was £3.3 million (2011: £2.7 million).

3. REVENUE AND OPERATING EXPENSES

Revenue	2012 £m	2011 £m
Goods	**657.9**	618.0
Services	**61.8**	64.2
	719.7	682.2

Revenue from services includes rents receivable from licensed properties of £28.2 million (2011: £31.4 million).

Operating expenses	2012 £m	2011 £m
Change in stocks of finished goods and work in progress	**(2.4)**	(0.7)
Own work capitalised	**(2.7)**	(2.0)
Other operating income	**(7.2)**	(7.2)
Raw materials, consumables and excise duties	**239.4**	228.3
Depreciation of property, plant and equipment	**39.7**	40.7
Amortisation of intangible assets	**1.0**	0.8
Employee costs	**154.1**	152.3
Hire of plant and machinery	**0.8**	0.9
Other operating lease rentals	**10.5**	10.5
Income from other non-current assets	**(0.4)**	(0.3)
Impairment of freehold and leasehold properties	**215.1**	0.5
Other net operating charges	**129.0**	106.8
	776.9	530.6

An exceptional charge of £nil (2011: £0.4 million) is included in other net operating charges and an exceptional charge of £nil (2011: £2.3 million) is included in employee costs.

Impairment of freehold and leasehold properties of £215.1 million (2011: £nil) has been recognised as an exceptional item.

PricewaterhouseCoopers LLP fees:	2012 £m	2011 £m
Fees payable to the Company's Auditors for the audit of the Company's annual accounts	**0.2**	0.2
Fees payable to the Company's Auditors for other services to the Group:		
The audit of the Company's subsidiaries	**0.1**	0.1
Audit related assurance services	**0.1**	0.1
Taxation advisory services	**–**	0.3
	0.4	0.7

4. EXCEPTIONAL ITEMS

	2012 £m	2011 £m
Operating items		
Reorganisation costs	**–**	2.7
Impairment of freehold and leasehold properties	**215.1**	–
	215.1	2.7
Non-operating items		
Write-off of unamortised finance costs	**2.8**	–
Interest on outstanding tax liabilities	**3.7**	–
Transfer of cumulative hedging loss from equity to the income statement	**0.8**	–
Gain on recognition of interest rate swaps	**(15.1)**	–
Loss on recognition of interest rate swaps	**18.9**	–
Movement in fair value of interest rate swaps	**(2.9)**	(3.1)
	8.2	(3.1)
	223.3	(0.4)

Notes continued

For the 52 weeks ended 29 September 2012

4. EXCEPTIONAL ITEMS CONTINUED

Impairment of freehold and leasehold properties

At 1 July 2012 the Group's freehold and leasehold properties were revalued by independent chartered surveyors on an open market value basis. The resulting revaluation adjustments have been taken to the revaluation reserve or income statement as appropriate. The amount recognised in the income statement comprises:

	2012 £m
Impairment of other intangible assets (note 11)	**0.8**
Impairment of property, plant and equipment (note 12)	**214.5**
Reversal of impairment of property, plant and equipment (note 12)	**(1.9)**
Impairment of assets held for sale (note 15)	**1.2**
Valuation fees	**0.5**
	215.1

Write-off of unamortised finance costs

During the period the Group entered into a new bank facility. As such the unamortised finance costs relating to the previous facility have been written off.

Interest on outstanding tax liabilities

During the period the Group recognised the interest on outstanding tax liabilities in respect of a number of tax issues currently under negotiation with HM Revenue & Customs.

Transfer of cumulative hedging loss from equity to the income statement

The Group holds an interest rate swap of £20.0 million which was designated as a cash flow hedge of the forecast floating rate interest payments arising on the first £20.0 million of borrowings under the Group's previous bank facility. As the Group has now entered into a new bank facility these forecast transactions are no longer expected to occur. Therefore the cumulative hedging loss of £0.8 million that was reported in equity has been transferred to the income statement.

Recognition of interest rate swaps

On 22 March 2012 the Group entered into four new fixed to floating interest rate swaps of £35.0 million each. In total, these swaps are equal and opposite to the two existing floating to fixed interest rate swaps of £70.0 million each, which the Group entered into in order to fix the interest rate payable on the Group's unsecured bank borrowings. The total fair value of the four new swaps at inception was £15.1 million.

On 22 March 2012 the Group also entered into two new floating to fixed interest rate swaps of £60.0 million each. Going forward these swaps will fix the interest rate on the Group's unsecured bank borrowings. In total, the fair value of these two new swaps at inception was £(18.9) million.

Further details in respect of these swaps are given in note 20.

Movement in fair value of interest rate swaps

The Group's interest rate swaps are revalued to fair value at each balance sheet date. The movement in fair value of interest rate swaps which are not designated as part of a hedge relationship, and the ineffective portion of the movement in fair value of interest rate swaps which are accounted for as hedging instruments are both recognised in the income statement. The net gain of £2.9 million (2011: £3.1 million) is shown as an exceptional item.

Impact of taxation

The current tax credit relating to the above exceptional items amounts to £3.0 million (2011: £0.7 million). The deferred tax credit relating to the above exceptional items amounts to £38.0 million (2011: charge of £0.9 million). In addition, £2.1 million (2011: £5.0 million) has been credited as exceptional in relation to the change in corporation tax rate (note 7).

Prior period exceptional items

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

5. EMPLOYEES

Employee costs	2012 £m	2011 £m
Wages and salaries	**139.8**	135.3
Social security costs	**10.1**	10.3
Pension costs	**3.9**	4.2
Share-based payments	**0.2**	0.3
Termination costs	**0.1**	2.2
	154.1	152.3

An exceptional charge of £nil (2011: £2.3 million) is included in employee costs.

Average monthly number of employees	2012 No.	2011 No.
Bar staff	**10,176**	10,131
Management, administration and production	**2,113**	2,099

Key management personnel

Directors' emoluments are set out in the Directors' Remuneration Report on pages 39 to 45. The total cost to the Group of the Directors' remuneration for the period was £2.3 million (2011: £3.6 million), including employers' national insurance, pension costs and share-based payments.

6. FINANCE COSTS AND INCOME

Finance costs	2012 £m	2011 £m
Bank borrowings	**11.4**	13.3
Securitised debt	**57.5**	60.3
Other interest payable	**1.9**	2.5
	70.8	76.1
Exceptional finance costs		
Write-off of unamortised finance costs	**2.8**	–
Interest on outstanding tax liabilities	**3.7**	–
Transfer of cumulative hedging loss from equity to the income statement	**0.8**	–
Loss on recognition of interest rate swaps	**18.9**	–
	26.2	–
Total finance costs	**97.0**	76.1
Finance income		
Deposit and other interest receivable	**(0.2)**	(0.2)
Net finance income in respect of retirement benefits	**(0.5)**	(2.0)
	(0.7)	(2.2)
Exceptional finance income		
Gain on recognition of interest rate swaps	**(15.1)**	–
	(15.1)	–
Total finance income	**(15.8)**	(2.2)
Movement in fair value of interest rate swaps		
Gain on movement in fair value of interest rate swaps	**(4.3)**	(3.1)
Loss on movement in fair value of interest rate swaps	**1.4**	–
	(2.9)	(3.1)
Net finance costs	**78.3**	70.8

The movement in fair value of interest rate swaps relates to the change in mark to market value of interest rate swaps which are not designated as part of a hedge relationship, and the ineffective portion of the movement in fair value of interest rate swaps which are accounted for as hedging instruments. 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 or derivatives used for hedging (note 20).

Notes continued

For the 52 weeks ended 29 September 2012

7. TAXATION

Income statement	2012 £m	2011 £m
Current tax		
Current period	**18.2**	15.4
Credit in respect of tax on exceptional items	**(3.0)**	(0.7)
Adjustments in respect of prior periods	**(1.9)**	(3.3)
	13.3	11.4
Deferred tax		
Current period	**2.1**	1.0
Adjustments in respect of prior periods	**(0.5)**	3.7
Exceptional charge in respect of interest rate swaps	**0.8**	0.9
Exceptional credit in relation to impairments	**(38.8)**	–
Exceptional credit in relation to the change in tax rate	**(2.1)**	(5.0)
	(38.5)	0.6
Taxation (credit)/charge reported in the income statement	**(25.2)**	12.0

Statement of comprehensive income	2012 £m	2011 £m
(Losses)/gains on actuarial valuation of retirement benefits	**(11.2)**	4.5
Impairment and revaluation of properties	**51.9**	(5.2)
Losses on cash flow hedges	**(8.3)**	(7.1)
Deferred tax credit in respect of the change in tax rate	**(5.5)**	(2.6)
Taxation charge/(credit) reported in the statement of comprehensive income	**26.9**	(10.4)

Recognised directly in equity	2012 £m	2011 £m
Tax on share-based payments	**(0.1)**	–
Taxation credit recognised directly in equity	**(0.1)**	–

The actual tax rate for the period is higher (2011: lower) than the standard rate of corporation tax of 25% (2011: 27%). The differences are explained below:

Tax reconciliation	2012 £m	2011 £m
(Loss)/profit before tax	**(135.5)**	80.8
(Loss)/profit before tax multiplied by the corporation tax rate of 25% (2011: 27%)	**(33.9)**	21.8
Effect of:		
Adjustments to tax in respect of prior periods	**(2.4)**	0.4
Net deferred tax charge/(credit) in respect of land and buildings	**12.8**	(5.4)
Costs not deductible for tax purposes	**0.4**	0.2
Impact of change in tax rate	**(2.1)**	(5.0)
Current period taxation (credit)/charge	**(25.2)**	12.0

The March 2011 Budget announced that the standard rate of corporation tax would change from 28% to 26% with effect from 1 April 2011. Accordingly, the Group's profits for the prior period were 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 three 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 was recognised in the prior period in respect of this.

The March 2012 Budget announced that the standard rate of corporation tax would now change from 26% to 24% with effect from 1 April 2012. Accordingly, the Group's losses for the current period are taxed at an effective rate of 25%. The Budget also announced a further reduction in the standard rate of corporation tax from 24% to 22% phased in over two years at 1% per annum from April 2013. The change from 24% to 23% with effect from 1 April 2013 was enacted in the Finance Act 2012. An exceptional deferred tax credit of £2.1 million has been recognised in the current period in respect of this.

8. ORDINARY DIVIDENDS ON EQUITY SHARES

Paid in the period	**2012 £m**	2011 £m
Final dividend for 2011 of 3.70p per share (2010: 3.70p)	**21.0**	21.0
Interim dividend for 2012 of 2.20p per share (2011: 2.10p)	**12.5**	12.0
	33.5	33.0

A final dividend for 2012 of 3.90p per share amounting to £22.2 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 28 January 2013 to those shareholders on the register at close of business on 14 December 2012.

9. EARNINGS PER ORDINARY SHARE

Basic earnings per share are calculated by dividing the (loss)/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.

	2012		2011	
	Earnings £m	**Per share amount p**	Earnings £m	Per share amount p
Basic (loss)/earnings per share	**(110.3)**	**(19.4)**	68.8	12.1
Diluted (loss)/earnings per share*	**(110.3)**	**(19.4)**	68.8	12.0
Underlying earnings per share figures				
Basic earnings per share before exceptional items	**69.9**	**12.3**	63.6	11.2
Diluted earnings per share before exceptional items	**69.9**	**12.2**	63.6	11.1

* The 2012 diluted earnings per share is the same as the basic earnings per share as the inclusion of the dilutive potential ordinary shares would reduce the loss per share and as such is not dilutive in accordance with IAS 33 'Earnings per Share'.

	2012 m	2011 m
Basic weighted average number of shares	**568.9**	568.9
Dilutive options	**4.6**	3.1
Diluted weighted average number of shares	**573.5**	572.0

10. GOODWILL

	£m
Cost	
At 2 October 2011 and 29 September 2012	**225.3**
Aggregate impairment	
At 2 October 2011 and 29 September 2012	**1.1**
Net book amount at 1 October 2011	224.2
Net book amount at 29 September 2012	**224.2**

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10. GOODWILL CONTINUED

	£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**

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 (2011: £115.2 million) to Managed Pubs, £85.4 million (2011: £85.4 million) to Tenanted and Franchised and £23.6 million (2011: £23.6 million) to Brewing. Goodwill has been allocated to operating segments based on the extent to which the benefits of acquisitions flow to that segment.

The key assumptions used in determining value in use are the pre-tax discount rate applied to the cash flow projections of 6.0% (2011: 6.5%) and the growth rate used to extrapolate the projected cash flows beyond the one year budgets of 2.0% (2011: 2.0%) in line with an expected long-term growth rate which is below the long-term average growth rate for the industry. Risk factors are considered to be similar in each of the Group's operating segments.

Other commercial assumptions relate to market growth, market share and net selling prices. These assumptions are based on historic trends adjusted for management estimates of future prospects. These estimates take account of economic forecasts, marketing plans, political factors and assessments of competitors' strategy.

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

11. OTHER INTANGIBLE ASSETS

	Acquired brands £m	Lease premiums £m	Computer software £m	Development costs £m	Total £m
Cost					
At 2 October 2011	19.3	2.0	6.7	0.1	28.1
Additions	–	–	0.8	–	0.8
Net transfers to assets held for sale and disposals	–	–	(0.2)	–	(0.2)
At 29 September 2012	**19.3**	**2.0**	**7.3**	**0.1**	**28.7**
Amortisation					
At 2 October 2011	–	0.5	3.0	–	3.5
Charge for the period	–	0.1	0.9	–	1.0
Impairment	–	0.8	–	–	0.8
Net transfers to assets held for sale and disposals	–	–	(0.1)	–	(0.1)
At 29 September 2012	**–**	**1.4**	**3.8**	**–**	**5.2**
Net book amount at 1 October 2011	19.3	1.5	3.7	0.1	24.6
Net book amount at 29 September 2012	**19.3**	**0.6**	**3.5**	**0.1**	**23.5**

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.

11. OTHER INTANGIBLE ASSETS CONTINUED

	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**

The carrying value of acquired brands is split as follows:

	2012 £m	2011 £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 Brewing.

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 6.0% (2011: 6.5%) and a long-term growth rate used to extrapolate cash flows beyond the cash flow projection period of one year of 2.0% (2011: 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 2 October 2011	1,819.5	40.4	351.6	2,211.5
Additions	91.3	3.9	36.3	131.5
Net transfers to assets held for sale and disposals	(58.8)	(2.3)	(35.6)	(96.7)
Revaluation	(32.6)	–	–	(32.6)
At 29 September 2012	**1,819.4**	**42.0**	**352.3**	**2,213.7**
Depreciation				
At 2 October 2011	13.5	22.5	186.1	222.1
Charge for the period	2.0	3.2	34.5	39.7
Net transfers to assets held for sale and disposals	–	(2.3)	(28.4)	(30.7)
Revaluation/impairment	(15.2)	–	2.2	(13.0)
At 29 September 2012	**0.3**	**23.4**	**194.4**	**218.1**
Net book amount at 1 October 2011	1,806.0	17.9	165.5	1,989.4
Net book amount at 29 September 2012	**1,819.1**	**18.6**	**157.9**	**1,995.6**

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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 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**

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

	2012 £m	2011 £m
Freehold properties	**1,607.3**	1,621.8
Leasehold properties over 50 years unexpired	**190.4**	156.8
Leasehold properties under 50 years unexpired	**21.4**	27.4
	1,819.1	1,806.0

Cost or valuation of land and buildings comprises:

	2012 £m	2011 £m
Valuation	**1,771.3**	1,668.7
At cost	**48.1**	150.8
	1,819.4	1,819.5

If the freehold and leasehold properties had not been revalued, the historical cost net book amount would be £1,349.0 million (2011: £1,346.5 million).

Cost at 29 September 2012 includes £28.0 million (2011: £7.7 million) of assets in the course of construction.

Interest costs of £nil (2011: £nil) 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 £2.2 million (2011: £5.1 million).

Capital expenditure authorised and committed at the period end but not provided for in the financial statements was £14.9 million (2011: £13.7 million).

Revaluation/impairment

At 1 July 2012 independent chartered surveyors revalued the Group's freehold and leasehold properties on an open market value basis. These valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve or income statement as appropriate.

During the prior period various properties were reviewed for impairment. These impairments were taken either to the income statement or, where the impairment reversed a previous upwards revaluation, to the revaluation reserve.

12. PROPERTY, PLANT AND EQUIPMENT CONTINUED

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

	2012 £m	2011 £m
Income statement:		
Revaluation loss charged as an impairment	**(214.5)**	(0.5)
Reversal of past impairments	**1.9**	–
	(212.6)	(0.5)
Revaluation reserve:		
Unrealised revaluation surplus	**329.9**	–
Reversal of past revaluation surplus	**(136.9)**	(0.2)
	193.0	(0.2)
Net decrease in shareholders' equity/property, plant and equipment	**(19.6)**	(0.7)

13. OTHER NON-CURRENT ASSETS

Trade loans	2012 £m	2011 £m
At beginning of the period	**17.1**	19.2
Additions	**2.1**	2.2
Disposals, repayments and impairments	**(4.9)**	(4.3)
At end of the period	**14.3**	17.1

Other non-current assets are shown net of a provision of £1.7 million (2011: £1.8 million).

14. INVENTORIES

	2012 £m	2011 £m
Raw materials and consumables	**5.7**	4.7
Work in progress	**0.5**	0.5
Finished goods	**16.0**	13.6
	22.2	18.8

15. ASSETS HELD FOR SALE

	2012 £m	2011 £m
Properties	**39.2**	6.5

As part of the revaluation of the Group's freehold and leasehold properties in the period, all properties classed as held for sale were reviewed for impairment. This review identified an impairment of £1.2 million (2011: £nil) which has been taken to the income statement.

16. TRADE AND OTHER RECEIVABLES

	2012 £m	2011 £m
Trade receivables	**27.1**	28.9
Prepayments and accrued income	**20.3**	15.0
Other receivables	**15.1**	30.6
	62.5	74.5

Trade receivables are shown net of a provision of £0.9 million (2011: £1.0 million). Other receivables are shown net of a provision of £5.4 million (2011: £12.5 million).

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16. TRADE AND OTHER RECEIVABLES CONTINUED

The ageing analysis of trade receivables is as follows:

	2012 £m	2011 £m
Neither past due nor impaired	**19.1**	22.2
Less than 30 days	**4.5**	3.0
31 to 60 days	**0.8**	0.9
Greater than 60 days	**2.7**	2.8
	27.1	28.9

Included within other receivables is an amount of £6.8 million (2011: £7.7 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 29 September 2012 the value of collateral held in the form of cash deposits was £8.5 million (2011: £8.9 million).

17. BORROWINGS

Current	2012 £m	2011 £m
Unsecured bank borrowings	**(0.8)**	22.1
Securitised debt	**22.1**	19.0
	21.3	41.1

Non-current	2012 £m	2011 £m
Unsecured bank borrowings	**172.9**	124.7
Securitised debt	**987.6**	1,011.5
Preference shares	**0.1**	0.1
	1,160.6	1,136.3

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.

Maturity of borrowings

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

	2012			2011		
Due:	**Gross borrowings £m**	**Unamortised issue costs £m**	**Net borrowings £m**	Gross borrowings £m	Unamortised issue costs £m	Net borrowings £m
Within one year	**22.7**	**(1.4)**	**21.3**	45.0	(3.9)	41.1
In more than one year but less than two years	**199.0**	**(1.4)**	**197.6**	148.7	(2.1)	146.6
In more than two years but less than five years	**80.5**	**(3.0)**	**77.5**	76.1	(2.1)	74.0
In more than five years	**891.2**	**(5.7)**	**885.5**	919.6	(3.9)	915.7
	1,193.4	**(11.5)**	**1,181.9**	1,189.4	(12.0)	1,177.4

17. BORROWINGS CONTINUED

Fair value of borrowings

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

	Carrying amount		Fair value	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Unsecured bank borrowings	**175.0**	149.6	**175.0**	149.6
Securitised debt	**1,018.3**	1,039.7	**879.3**	905.2
Preference shares	**0.1**	0.1	**0.1**	0.1
	1,193.4	1,189.4	**1,054.4**	1,054.9

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:

	2012	2011
Unsecured bank borrowings	**Variable***	Variable*
Preference shares	**6.00%**	6.00%

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

Preference shares

The Group has 75,000 (2011: 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

Interest rate swaps	**2012 £m**	2011 £m
Current assets	**13.7**	–
Current liabilities	**(14.1)**	(17.6)
Non-current liabilities	**(187.3)**	(135.2)
	(187.7)	(152.8)

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 29 September 2012, four (2011: eight) of the securitised pubs were sold to third parties, five pubs (2011: one) were sold to another member of the Group and no pubs (2011: three) were acquired from other members of the Group. The carrying amount of the securitised pubs at 29 September 2012 was £1,414.4 million (2011: £1,433.2 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 29 September 2012 consists of six tranches with the following principal terms:

Tranche	**2012 £m**	2011 £m	Interest	Principal repayment period – by instalments	Expected average life	Expected maturity date
A1	**147.2**	162.1	Floating	2012 to 2020	8 years	2020
A2	**214.0**	214.0	Fixed/floating	2020 to 2027	15 years	2027
A3	**200.0**	200.0	Fixed/floating	2027 to 2032	20 years	2032
A4	**222.1**	228.6	Floating	2012 to 2031	19 years	2031
AB1	**80.0**	80.0	Floating	2031 to 2035	23 years	2035
B	**155.0**	155.0	Fixed/floating	2032 to 2035	23 years	2035
	1,018.3	1,039.7				

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19. SECURITISED DEBT CONTINUED

Interest on the Class A1 notes was 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 29 September 2012 Marston's Pubs Limited held cash of £51.0 million (2011: £60.8 million), which was governed by certain restrictions under the covenants associated with the securitisation.

20. FINANCIAL INSTRUMENTS

Financial instruments by category

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

At 29 September 2012	Assets at fair value through profit or loss £m	Loans and receivables £m	Total £m
Assets as per the balance sheet			
Derivative financial instruments	13.7	–	13.7
Trade receivables (before provision)	–	28.0	28.0
Other receivables (before provision)	–	20.5	20.5
Trade loans (before provision)	–	16.0	16.0
Cash and cash equivalents	–	60.8	60.8
	13.7	**125.3**	**139.0**

At 29 September 2012	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	187.3	14.1	–	201.4
Borrowings	–	–	1,181.9	1,181.9
Trade payables	–	–	61.0	61.0
Other payables	–	–	26.6	26.6
	187.3	**14.1**	**1,269.5**	**1,470.9**

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**

20. FINANCIAL INSTRUMENTS CONTINUED

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
Other payables	–	–	16.6	16.6
	135.2	**17.6**	**1,250.1**	**1,402.9**

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 and other payables, are assumed to approximate their fair values.

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:

	2012				2011			
Assets as per the balance sheet	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative financial instruments	**–**	**13.7**	**–**	**13.7**	–	–	–	–

	2012				2011			
Liabilities as per the balance sheet	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative financial instruments	**–**	**201.4**	**–**	**201.4**	–	152.8	–	152.8

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), counterparty risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, investment of excess liquidity and use of derivative and non-derivative financial instruments.

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20. FINANCIAL INSTRUMENTS CONTINUED

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, 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 29 September 2012, with all other variables held constant, post-tax (loss)/profit for the period would have been £0.3 million lower/higher (2011: £0.2 million higher/lower) as a result of higher/lower (2011: lower/higher) interest expense.

Interest rate swaps designated as part of a hedging arrangement
The Group uses interest rate swaps to fix the interest rate payable on the floating rate tranches of its securitised debt (note 19). The notional principal amounts of these interest rate swap contracts at 29 September 2012 totalled £449.3 million (2011: £470.7 million). These interest rate swaps, including borrowing margins, fix interest at 6.2% and 6.0%. The movement in fair value recognised in other comprehensive income in the period was a loss of £28.5 million (2011: £26.6 million).

On 22 March 2012 the Group entered into two forward starting interest rate swaps of £60.0 million each to fix the interest rate payable on the Group's unsecured bank borrowings. The interest rate swaps commenced on 27 April 2012, fix interest at 4.1% and terminate on 30 April 2020. In total, the fair value of these two new swaps at inception was £(18.9) million (note 4). The movement in fair value recognised in other comprehensive income in the period was a loss of £5.6 million (2011: £nil).

Interest rate swaps not designated as part of a hedging arrangement
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 interest rate swaps fix interest at 5.5% and 5.6% and terminate on 1 October 2014. The movement in fair value recognised in the income statement in the period was a gain of £3.9 million (2011: £3.1 million).

On 22 March 2012 the Group entered into four new fixed to floating interest rate swaps of £35.0 million each. In total, these swaps are equal and opposite to the above two floating to fixed interest rate swaps of £70.0 million each. The total fair value of the four new swaps at inception was £15.1 million (note 4). The movement in fair value recognised in the income statement in the period was a loss of £1.4 million (2011: £nil).

On 20 May 2009 the Group entered into a forward starting interest rate swap of £20.0 million. This interest rate swap commenced on 9 August 2010, fixes interest at 3.3% and terminates on 8 August 2013. At the prior period end this swap was designated as a cash flow hedge of the forecast floating rate interest payments arising on the first £20.0 million of borrowings under the Group's previous bank facility. During the current period the Group entered into a new bank facility and as such these forecast transactions are no longer expected to occur. Therefore the cumulative hedging loss of £0.8 million that was reported in equity has been transferred to the income statement. The movement in fair value recognised in other comprehensive income in the period was a gain of £0.1 million (2011: £0.3 million). The movement in fair value recognised in the income statement in the period was a gain of £0.4 million (2011: £nil).

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

	2012			2011		
	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	**35.0**	**1,158.4**	**1,193.4**	–	1,189.4	1,189.4

The weighted average interest rate of the fixed rate financial borrowings was 5.4% (2011: 5.5%) and the weighted average period for which the rate is fixed was 16 years (2011: 6 years).

20. FINANCIAL INSTRUMENTS CONTINUED

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.

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 29 September 2012	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
Borrowings	69.7	69.9	388.9	1,407.4	1,935.9
Derivative financial instruments	30.5	29.6	56.4	105.0	221.5
Trade payables	61.0	–	–	–	61.0
Other payables	26.6	–	–	–	26.6
	187.8	**99.5**	**445.3**	**1,512.4**	**2,245.0**

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
Other payables	16.6	–	–	–	16.6
	162.7	**219.6**	**253.7**	**1,591.0**	**2,227.0**

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21. TRADE AND OTHER PAYABLES

	2012 £m	2011 £m
Trade payables	**61.0**	56.1
Other taxes and social security	**23.5**	23.8
Accruals and deferred income	**45.8**	47.4
Other payables	**26.6**	16.6
	156.9	143.9

Other payables include £11.0 million (2011: £nil) payable in respect of a supplier credit arrangement.

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 23% (2011: 25%). The movement on the deferred tax accounts is shown below:

	2012 £m	2011 £m
At beginning of the period	**96.0**	105.8
(Credited)/charged to the income statement	**(38.5)**	0.6
Charged/(credited) to equity		
Impairment and revaluation of properties	**42.6**	(10.5)
Hedging reserve	**(5.0)**	(4.4)
Retirement benefits	**(7.4)**	4.5
Share-based payments	**(0.1)**	–
At end of the period	**87.6**	96.0

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 2 October 2011	1.8	37.4	107.0	6.9	6.2	159.3
(Credited)/charged to the income statement	–	(2.1)	(35.5)	(4.9)	1.4	(41.1)
(Credited)/charged to equity	(1.8)	–	42.6	–	–	40.8
At 29 September 2012	**–**	**35.3**	**114.1**	**2.0**	**7.6**	**159.0**

Deferred tax assets	Pensions £m	Tax losses £m	Hedging reserve £m	Other £m	Total £m
At 2 October 2011	–	(24.8)	(33.8)	(4.7)	(63.3)
Charged to the income statement	–	1.3	–	1.3	2.6
Credited to equity	(5.6)	–	(5.0)	(0.1)	(10.7)
At 29 September 2012	**(5.6)**	**(23.5)**	**(38.8)**	**(3.5)**	**(71.4)**

Net deferred tax liability	
At 1 October 2011	96.0
At 29 September 2012	**87.6**

22. DEFERRED TAX CONTINUED

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 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

	2012 £m	2011 £m
Other liabilities	**0.6**	0.4

24. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Property leases	2012 £m	2011 £m
At beginning of the period	**24.9**	32.3
Released in the period	**(4.6)**	(5.6)
Provided in the period	**2.7**	3.3
Unwinding of discount	**0.9**	1.2
Utilised in the period	**(6.2)**	(6.3)
At end of the period	**17.7**	24.9

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 57 years (2011: 1 to 58 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:

	2012 £m	2011 £m
Defined contribution schemes	**2.8**	2.5

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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 29 September 2012 for the purposes of IAS 19. The principal assumptions made by the actuaries were:

	2012	2011
Discount rate	**4.4%**	5.3%
Rate of increase in pensionable salaries	**3.1%**	3.6%
Rate of increase in pensions – 5% LPI	**2.6%**	3.1%
Rate of increase in pensions – 2.5% LPI	**1.9%**	2.3%
Inflation assumption (RPI)	**2.6%**	3.1%
Inflation assumption (CPI)	**2.0%**	2.4%
Expected return on scheme assets	**4.9%**	5.1%
Life expectancy for active and deferred members from age 65		
Male	**23.4 years**	22.5 years
Female	**25.8 years**	25.8 years
Life expectancy for current pensioners from age 65		
Male	**21.6 years**	20.5 years
Female	**23.8 years**	23.7 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 liabilities during the period:

	Scheme assets		Scheme liabilities		Net (deficit)/surplus	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
At beginning of the period	**368.7**	357.9	**(361.6)**	(382.9)	**7.1**	(25.0)
Current service cost	**–**	–	**(2.1)**	(2.7)	**(2.1)**	(2.7)
Interest cost on benefit obligations	**–**	–	**(18.8)**	(19.2)	**(18.8)**	(19.2)
Expected return on scheme assets	**19.3**	21.2	**–**	–	**19.3**	21.2
Employer contributions	**14.0**	14.7	**–**	–	**14.0**	14.7
Employee contributions	**0.1**	0.1	**(0.1)**	(0.1)	**–**	–
Benefits paid	**(16.6)**	(16.6)	**16.6**	16.6	**–**	–
Curtailment gain	**–**	–	**1.0**	1.0	**1.0**	1.0
Actuarial gains/(losses)	**4.9**	(8.6)	**(49.9)**	25.7	**(45.0)**	17.1
At end of the period	**390.4**	368.7	**(414.9)**	(361.6)	**(24.5)**	7.1

During the current period a proportion of the scheme liabilities was secured by a buy-in policy and as such this proportion of liabilities is matched by annuities.

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

	2012	2011
Equities/Properties	**49.0%**	47.0%
Bonds/Gilts	**38.0%**	52.0%
Cash/Other	**1.0%**	1.0%
Buy-in policy (matching annuities)	**12.0%**	–

The actual return on scheme assets was a gain of £24.2 million (2011: £12.6 million).

25. RETIREMENT BENEFITS CONTINUED

Pension costs recognised in the income statement

The amounts recognised in the income statement are as follows:

	2012 £m	2011 £m
Current service cost	**2.1**	2.7
Interest cost on benefit obligations	**18.8**	19.2
Expected return on scheme assets	**(19.3)**	(21.2)
Curtailment gain	**(1.0)**	(1.0)
Total expense/(income) recognised in the income statement	**0.6**	(0.3)

A charge of £1.1 million (2011: £1.7 million) is included within employee costs (note 5) and a credit of £0.5 million (2011: £2.0 million) is included within finance costs and income (note 6).

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

	2012 £m	2011 £m
At beginning of the period	**(2.1)**	(19.2)
Net actuarial (losses)/gains recognised in the period	**(45.0)**	17.1
At end of the period	**(47.1)**	(2.1)

Actuarial losses of £0.2 million (2011: £0.1 million) in respect of post-retirement medical benefits have been included in the statement of comprehensive income.

History of experience gains and losses

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of scheme liabilities	**(414.9)**	(361.6)	(382.9)	(349.8)	(311.6)
Fair value of scheme assets	**390.4**	368.7	357.9	314.5	273.7
(Deficit)/surplus	**(24.5)**	7.1	(25.0)	(35.3)	(37.9)
Experience adjustments arising on scheme liabilities	**5.3**	–	–	13.1	–
Experience adjustments arising on scheme assets	**4.9**	(8.6)	26.4	22.2	(54.8)

The employer contributions expected to be paid during the financial period ending 5 October 2013 amount to £15.3 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.

(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 page 42, 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 2011, 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 the outstanding share options.

	Number of shares		Weighted average exercise price	
SAYE:	**2012 m**	2011 m	**2012 p**	2011 p
Outstanding at beginning of the period	**6.3**	6.0	**87.7**	92.3
Granted	**1.3**	1.3	**78.7**	86.1
Exercised	**(0.2)**	(0.1)	**93.0**	83.6
Expired	**(1.2)**	(0.9)	**97.6**	115.3
Outstanding at end of the period	**6.2**	6.3	**83.8**	87.7
Exercisable at end of the period	**0.2**	0.3	**135.6**	131.9
Range of exercise prices	**76.1p to 265.5p**	76.1p to 265.5p		
Weighted average remaining contractual life (years)	**3.0**	3.5		

	Number of shares		Weighted average exercise price	
ESOP:	**2012 m**	2011 m	**2012 p**	2011 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)	**0.3**	1.3		

	Number of shares		Weighted average exercise price	
LTIP:	**2012 m**	2011 m	**2012 p**	2011 p
Outstanding at beginning of the period	**3.6**	4.1	**–**	–
Granted	**2.3**	2.0	**–**	–
Expired	**(0.8)**	(2.5)	**–**	–
Outstanding at end of the period	**5.1**	3.6	**–**	–
Exercisable at end of the period	**–**	–		
Exercise price	**–**	–		

LTIP options 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:

	2012	2011
Dividend yield %	**6.4**	5.8
Expected volatility %	**32.9 to 45.5**	40.0 to 52.2
Risk free interest rate %	**0.4 to 1.3**	1.2 to 2.8
Expected life of rights		
SAYE	**3 to 7 years**	3 to 7 years
ESOP	**3 years**	3 years
LTIP	**3 years**	3 years

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 14.5p (2011: 18.5p). The fair value of options granted during the period in relation to the LTIP was 80.9p (2011: 82.8p).

The weighted average share price for options exercised over the period was 111.5p (2011: 103.3p). The total charge for the period relating to employee share-based payment plans was £0.2 million (2011: £0.3 million), all of which related to equity-settled share-based payment transactions. After tax, the total charge was £0.1 million (2011: £0.2 million).

27. EQUITY SHARE CAPITAL

Allotted, called up and fully paid	2012 Number m	2012 Value £m	2011 Number m	2011 Value £m
Ordinary shares of 7.375p each:				
At beginning of the period	**600.9**	**44.3**	600.8	44.3
Allotted under share option schemes	**0.2**	**–**	0.1	–
At end of the period	**601.1**	**44.3**	600.9	44.3

A total of 0.2 million (2011: 0.1 million) ordinary shares were issued during the period ended 29 September 2012 pursuant to the exercise of ESOP and SAYE share options. The aggregate consideration in respect of these exercises was £0.2 million (2011: £0.1 million).

At 29 September 2012 there were 0.1 million (2011: 0.1 million) executive share options outstanding and 6.2 million (2011: 6.3 million) SAYE options outstanding at prices from 76.1p to 265.5p per share exercisable between 2012 and 2020. Details of the Group's LTIP and other executive share option schemes are included in the Directors' Remuneration Report on pages 42 to 43.

28. OTHER COMPONENTS OF EQUITY

The merger reserve was recognised on the acquisition of Burtonwood and reflected 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 balance on the merger reserve of £41.5 million was transferred to retained earnings in the current period as the assets to which the balance related have been realised.

The capital redemption reserve of £6.8 million (2011: £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.

	2012 Number of shares m	2012 Value £m	2011 Number of shares m	2011 Value £m
ESOP	**0.1**	**0.1**	0.1	0.1
LTIP	**1.7**	**4.1**	1.7	4.1
Treasury shares	**30.2**	**126.7**	30.2	126.7
	32.0	**130.9**	32.0	130.9

The market value of own shares held is £36.5 million (2011: £29.7 million). Shares held by the LTIP represent 0.3% (2011: 0.3%) of issued share capital. Treasury shares held represent 5.0% (2011: 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 both balances risks and returns at an acceptable level and retains sufficient funds to comply with lending covenants, achieve working capital targets and meet investment requirements. The Board reviews the Group's dividend policy and funding requirements at least once a year.

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29. WORKING CAPITAL AND NON-CASH MOVEMENTS

	2012 £m	2011 £m
Income from other non-current assets	**(0.4)**	(0.3)
Increase in inventories	**(3.4)**	(1.6)
(Increase)/decrease in trade and other receivables	**(1.9)**	4.7
Increase in trade and other payables and other non-current liabilities	**3.2**	14.4
Movements in respect of property, plant and equipment, assets held for sale and intangible assets	**212.4**	(4.6)
Share-based payments	**0.2**	0.3
Working capital and non-cash movements	**210.1**	12.9

Further details of movements in respect of property, plant and equipment, assets held for sale and intangible assets are given in notes 4, 11, 12 and 15.

30. NET DEBT

Analysis of net debt	2012 £m	Cash flow £m	Non-cash movements and deferred issue costs £m	2011 £m
Cash and cash equivalents				
Cash at bank and in hand	**60.8**	(15.8)	–	76.6
Bank overdrafts	**–**	23.6	–	(23.6)
	60.8	7.8	–	53.0
Debt due within one year				
Bank loans	**0.8**	–	(0.7)	1.5
Securitised debt	**(22.1)**	21.4	(24.5)	(19.0)
	(21.3)	21.4	(25.2)	(17.5)
Debt due after one year				
Bank loans	**(172.9)**	(49.0)	0.8	(124.7)
Securitised debt	**(987.6)**	–	23.9	(1,011.5)
Preference shares	**(0.1)**	–	–	(0.1)
	(1,160.6)	(49.0)	24.7	(1,136.3)
Net debt	**(1,121.1)**	(19.8)	(0.5)	(1,100.8)

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. Bank loans due after one year represent amounts drawn down under the Group's revolving credit facility, net of unamortised issue costs expected to be charged to the income statement after 12 months from the balance sheet date.

Net debt does not include other financial liabilities such as trade and other payables.

Included within cash at bank and in hand is an amount of £3.7 million (2011: £4.3 million), which relates to a letter of credit with Royal Sun Alliance Insurance, an amount of £0.5 million (2011: £nil), which relates to a letter of credit with Aviva, and an amount of £8.5 million (2011: £8.9 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).

Reconciliation of net cash flow to movement in net debt	2012 £m	2011 £m
Increase/(decrease) in cash and cash equivalents in the period	**7.8**	(6.5)
Cash inflow from movement in debt	**(27.6)**	(8.1)
Change in debt resulting from cash flows	**(19.8)**	(14.6)
Non-cash movements and deferred issue costs	**(0.5)**	(4.0)
Movement in net debt in the period	**(20.3)**	(18.6)
Net debt at beginning of the period	**(1,100.8)**	(1,082.2)
Net debt at end of the period	**(1,121.1)**	(1,100.8)

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:

	2012		2011	
Due:	**Land and buildings £m**	**Other £m**	Land and buildings £m	Other £m
Within one year	**13.7**	**0.5**	14.2	0.5
In more than one year but less than five years	**51.4**	**0.5**	52.6	0.4
In more than five years	**229.4**	**–**	212.6	–
	294.5	**1.0**	279.4	0.9

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:

	2012		2011	
Due:	**Land and buildings £m**	**Other £m**	Land and buildings £m	Other £m
Within one year	**28.2**	**–**	31.6	–
In more than one year but less than five years	**82.8**	**–**	94.9	–
In more than five years	**177.0**	**–**	183.8	–
	288.0	**–**	310.3	–

32. SPECIAL PURPOSE ENTITY – MARSTON'S ISSUER PLC

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

Income statement	**2012 £m**	2011 £m
Finance costs	**(56.9)**	(57.8)
Finance income	**56.9**	57.8
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	**2012 £m**	2011 £m
Net cash inflow from operating activities	**–**	–
Investing activities		
Interest received	**57.4**	58.3
Repayment of loans advanced	**21.4**	20.3
Net cash inflow from investing activities	**78.8**	78.6
Financing activities		
Interest paid	**(57.4)**	(58.3)
Repayment of securitised debt	**(21.4)**	(20.3)
Net cash outflow from financing activities	**(78.8)**	(78.6)
Net increase in cash and cash equivalents	**–**	–

Notes continued

For the 52 weeks ended 29 September 2012

32. SPECIAL PURPOSE ENTITY – MARSTON'S ISSUER PLC CONTINUED

Balance sheet	2012 £m	2011 £m
Assets		
Amounts due from Marston's Pubs Limited	**1,018.3**	1,039.7
Other receivables	**174.9**	146.8
Liabilities		
Securitised debt	**(1,018.3)**	(1,039.7)
Other payables	**(174.8)**	(146.7)
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 potential de-grouping liability now stands at £49.0 million (2011: £49.8 million), of which £46.6 million (2011: £46.6 million) relates to CGT and £2.4 million (2011: £3.2 million) relates to SDLT.

In previous periods the Group received refunds totalling £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 (ECJ), which released its decision on 10 November 2011 confirming the key principles upon which Rank's case relied. The case has now been remitted to the First-tier Tribunal (FTT), to reconsider the evidence in line with the ECJ's findings. Following the FTT hearing and decision, the matter is likely to be appealed to at least one other UK Court. 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 £3.7 million (2011: £4.3 million) and a letter of credit in favour of Aviva totalling £0.5 million (2011: £nil) to secure reinsurance contracts. The letters of credit are secured on fixed deposits for the same amount.

The Group has also entered into a Deed of Guarantee with the trustees of the Marston's PLC Pension and Life Assurance Scheme ('the Scheme') whereby it guarantees to the Trustees the ongoing obligations of the Group to contribute to the Scheme, and the obligations of the Group to contribute to the Scheme in the event of a debt becoming due under section 75 of the Pensions Act 1995 on the occurrence of either a Group company entering liquidation or the Scheme winding up.

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

We have audited the parent Company financial statements of Marston's PLC for the period ended 29 September 2012 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 46, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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 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 financial statements:

- give a true and fair view of the state of the Company's affairs as at 29 September 2012 and of its profit for the period then ended;
- 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;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

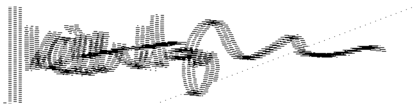
We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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 matters

We have reported separately on the Group financial statements of Marston's PLC for the period ended 29 September 2012.



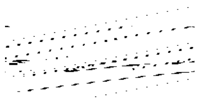
Keith Harrington
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
29 November 2012

Company Balance Sheet

As at 29 September 2012

	Note	29 September 2012 £m	1 October 2011 £m
Fixed assets			
Tangible assets	3	**185.1**	201.0
Investments	4	**260.9**	260.9
		446.0	461.9
Current assets			
Assets held for sale	5	**10.1**	–
Debtors			
Amounts falling due within one year	6	**825.0**	782.7
Amounts falling due after more than one year	6	**566.1**	521.5
Cash at bank and in hand		**29.1**	46.2
		1,430.3	1,350.4
Creditors Amounts falling due within one year	7	**(976.1)**	(915.2)
Net current assets		**454.2**	435.2
Total assets less current liabilities		**900.2**	897.1
Creditors Amounts falling due after more than one year	7	**(0.1)**	(0.1)
Provisions for liabilities and charges	8	**(9.9)**	(11.7)
Net assets		**890.2**	885.3
Capital and reserves			
Equity share capital	10	**44.3**	44.3
Share premium account	11	**332.8**	332.6
Revaluation reserve	11	**52.6**	30.8
Capital redemption reserve	11	**6.8**	6.8
Own shares	11	**(130.9)**	(130.9)
Profit and loss account	11	**584.6**	601.7
Total shareholders' funds	12	**890.2**	885.3

The financial statements on pages 88 to 94 were approved by the Board on 29 November 2012 and signed on its behalf by:



Ralph Findlay
Chief Executive Officer
29 November 2012

Notes

For the 52 weeks ended 29 September 2012

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 derivative financial instruments, 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 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.

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.

Notes continued

For the 52 weeks ended 29 September 2012

1. ACCOUNTING POLICIES CONTINUED

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.

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.

Derivative financial instruments
The Company uses derivative financial instruments to hedge the Group's exposure to fluctuations in interest rates. Derivative financial instruments are initially recognised in the balance sheet at fair value and are subsequently remeasured to their fair value at each balance sheet date. The Company has not designated any derivative financial instruments as hedging instruments and as such any gains or losses on remeasurement are recognised in the profit and loss account immediately.

2. AUDITORS' REMUNERATION

Fees payable to the Company's Auditors for the audit of the Company's annual accounts are disclosed in note 3 to the Group financial statements. Fees paid to the Company's Auditors for non-audit services to the Company itself are not required to be disclosed as the Group financial statements disclose such fees on a consolidated basis.

3. TANGIBLE FIXED ASSETS

	Land and buildings £m	Fixtures, fittings, plant and equipment £m	Total £m
Cost or valuation			
At 2 October 2011	201.3	15.5	216.8
Additions	4.3	0.7	5.0
Net transfers to assets held for sale and disposals	(11.6)	(0.7)	(12.3)
Revaluation	(12.4)	–	(12.4)
Net transfers to Group undertakings	(5.1)	–	(5.1)
At 29 September 2012	**176.5**	**15.5**	**192.0**
Depreciation			
At 2 October 2011	10.0	5.8	15.8
Charge for the period	1.2	1.5	2.7
Net transfers to assets held for sale and disposals	–	(0.7)	(0.7)
Revaluation	(10.9)	–	(10.9)
At 29 September 2012	**0.3**	**6.6**	**6.9**
Net book value at 1 October 2011	191.3	9.7	201.0
Net book value at 29 September 2012	**176.2**	**8.9**	**185.1**

3. TANGIBLE FIXED ASSETS CONTINUED

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

	2012 £m	2011 £m
Freehold properties	**120.3**	136.9
Leasehold properties over 50 years unexpired	**44.9**	40.5
Leasehold properties under 50 years unexpired	**11.0**	13.9
	176.2	191.3

Cost or valuation of land and buildings comprises:

	2012 £m	2011 £m
Valuation	**175.5**	169.9
At cost	**1.0**	31.4
	176.5	201.3

Cost at 29 September 2012 includes £1.0 million (2011: £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 £1.0 million (2011: £0.9 million).

At 1 July 2012 independent chartered surveyors revalued the Company's freehold and leasehold properties on an open market value basis. These valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve or profit and loss account as appropriate.

During the prior period various properties were reviewed for impairment. These impairments were taken to the profit and loss account.

If the land and buildings had not been revalued, the historical cost net book value would be £123.8 million (2011: £160.5 million).

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

	2012 £m	2011 £m
Profit and loss account:		
Revaluation loss charged as an impairment	**(25.2)**	(0.1)
Reversal of past impairments	**0.6**	–
	(24.6)	(0.1)
Revaluation reserve:		
Unrealised revaluation surplus	**27.7**	–
Reversal of past revaluation surplus	**(4.6)**	–
	23.1	–
Net decrease in shareholders' funds/fixed assets	**(1.5)**	(0.1)

4. FIXED ASSET INVESTMENTS

	Subsidiary undertakings £m
Cost	
At 2 October 2011 and 29 September 2012	**312.0**
Impairments	
At 2 October 2011 and 29 September 2012	**51.1**
Net book value at 1 October 2011	260.9
Net book value at 29 September 2012	**260.9**

Notes continued

For the 52 weeks ended 29 September 2012

4. FIXED ASSET INVESTMENTS CONTINUED

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.

5. ASSETS HELD FOR SALE

	2012 £m	2011 £m
Properties	**10.1**	–

6. DEBTORS

Amounts falling due within one year	**2012 £m**	2011 £m
Amounts owed by Group undertakings	**761.4**	753.3
Interest owed by Group undertakings	**22.9**	13.7
Derivative financial instruments	**38.2**	–
Prepayments and accrued income	**2.3**	–
Other debtors	**0.2**	15.7
	825.0	782.7
Amounts falling due after more than one year		
12.5% subordinated loan owed by Group undertakings	**566.1**	521.5

7. CREDITORS

Amounts falling due within one year	**2012 £m**	2011 £m
Amounts owed to Group undertakings	**884.2**	877.1
Interest owed to Group undertakings	**33.5**	26.7
Corporation tax	**6.1**	11.2
Accruals and deferred income	**3.1**	0.2
Derivative financial instruments	**38.2**	–
Other creditors	**11.0**	–
	976.1	915.2
Amounts falling due after more than one year		
Preference shares	**0.1**	0.1

Other creditors represent amounts payable in respect of a supplier credit arrangement.

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 2 October 2011	6.2	5.5	11.7
Released in the period	–	(0.9)	(0.9)
Provided in the period	–	0.5	0.5
Unwinding of discount	–	0.2	0.2
Utilised in the period	–	(1.4)	(1.4)
Charged to the profit and loss account	(0.2)	–	(0.2)
At 29 September 2012	**6.0**	**3.9**	**9.9**

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 32 years (2011: 1 to 33 years).

Deferred tax

The amount provided in respect of deferred tax is as follows:

	2012 £m	2011 £m
Excess of capital allowances over accumulated depreciation	**6.0**	6.2

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 or substantively enacted at the balance sheet date.

9. OPERATING LEASE COMMITMENTS

At 29 September 2012 the Company had annual commitments under non-cancellable operating leases as follows:

	2012		2011	
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	**0.5**	**–**	0.6	–
After five years	**5.9**	**–**	5.5	–
	6.4	**–**	6.3	–

10. SHARE CAPITAL

	2012		2011	
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	**600.9**	**44.3**	600.8	44.3
Allotted under share option schemes	**0.2**	**–**	0.1	–
At end of the period	**601.1**	**44.3**	600.9	44.3

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

Notes continued

For the 52 weeks ended 29 September 2012

11. RESERVES

	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Own shares £m	Profit and loss account £m	Total £m
At 2 October 2011	332.6	30.8	6.8	(130.9)	601.7	841.0
Issue of shares	0.2	–	–	–	–	0.2
Property revaluation	–	27.7	–	–	–	27.7
Property impairment	–	(4.6)	–	–	–	(4.6)
Disposal of properties	–	(0.8)	–	–	0.8	–
Transfer to profit and loss account	–	(0.5)	–	–	0.5	–
Profit for the financial period	–	–	–	–	15.1	15.1
Dividends paid	–	–	–	–	(33.5)	(33.5)
At 29 September 2012	**332.8**	**52.6**	**6.8**	**(130.9)**	**584.6**	**845.9**

The capital redemption reserve arose on share buy-backs.

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

12. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2012 £m	2011 £m
Profit for the financial period	**15.1**	47.7
Dividends paid	**(33.5)**	(33.0)
Issue of shares	**0.2**	0.1
Impairment/revaluation of properties	**23.1**	–
Net addition to shareholders' funds	**4.9**	14.8
Opening shareholders' funds	**885.3**	870.5
Closing shareholders' funds	**890.2**	885.3

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 14 December 2011 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 to Barclays Bank PLC. The maximum aggregate liability of the Guarantors under the deed as at 29 September 2012 was £20.0 million.

Shareholder Information

ADVISERS

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

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

Solicitors
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Shoosmiths LLP, 7th Floor, 125 Colmore Row, Birmingham, B3 2SH
Wragge & Co LLP, 55 Colmore Row, Birmingham, B3 2AS

Stockbrokers
Numis Securities Limited, The London Stock Exchange Building, 10 Paternoster Square, London, EC4M 7LT
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COMPANY DETAILS

Registered office
Marston's House, Brewery Road, Wolverhampton, WV1 4JT

Telephone
01902 711811

Company Registration Number
31461

Financial calendar

Ex-dividend date	12 December 2012
Record date for final dividend	14 December 2012
AGM	22 January 2013
Final dividend payment date	28 January 2013
Interim results	16 May 2013

Share fraud warning
Marston's PLC has become aware that a small number of shareholders have received unsolicited telephone calls concerning their investment in the Company. These calls are from overseas based organisations who offer to buy Marston's shares for considerably more than the current market price. In some cases the caller has suggested that there is currently a takeover offer for Marston's. There is no such offer and we suspect that the calls are bogus.

Shareholders are advised to be very wary of any unsolicited investment advice, offers to buy shares or offers of free company reports. These operations are commonly known as 'boiler rooms'. Callers can be very persistent and extremely persuasive. We are aware that they attempt to persuade shareholders to provide email addresses or other personal information. Shareholders should not provide any such details.

The Financial Services Authority (FSA) provides the following guidance should you be contacted in this manner:

- obtain the name of the person calling and the organisation they represent;
- check that they are properly authorised by the FSA by checking www.fsa.gov.uk/register/home.do
- call the organisation back to verify their identity using the telephone number listed for them on the FSA register. If you deal with an unauthorised firm you would not be eligible to receive payment under the Financial Services Compensation Scheme;
- report any suspicions to the FSA by calling 0845 606 1234;
- report the matter to the National Fraud Authority on 0300 123 2040 or visit www.actionfraud.police.uk
- if the calls persist, hang up.

Please also inform our registrars, Equiniti, by calling 0871 384 2962

Shareholder Notes

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To find out more visit www.marstons.co.uk

Stock code: MARS