



MARSTON'S Pedigree **OFFICIAL BEER OF ENGLAND** **MARSTON'S Pedigree**
ECB



Interim Results 2007



TWO PINTS OF
PEDI OVER HERE

David Thompson Chairman



Highlights

1. Strong interim results

- good organic growth
- effective integration of acquisitions

2. Continued increase in quality of estate

- acquisitions – Sovereign Inns, Eldridge Pope
- organic investment
- disposals – 279 tenanted pubs sold 10 May 2007

3. Increased cash return to shareholders

- dividend +20% to 4.36 pence per share
- share buy-back increased from £100m to £150m

4. Property portfolio

- will continue to review as market develops

strong results, further opportunities to exploit

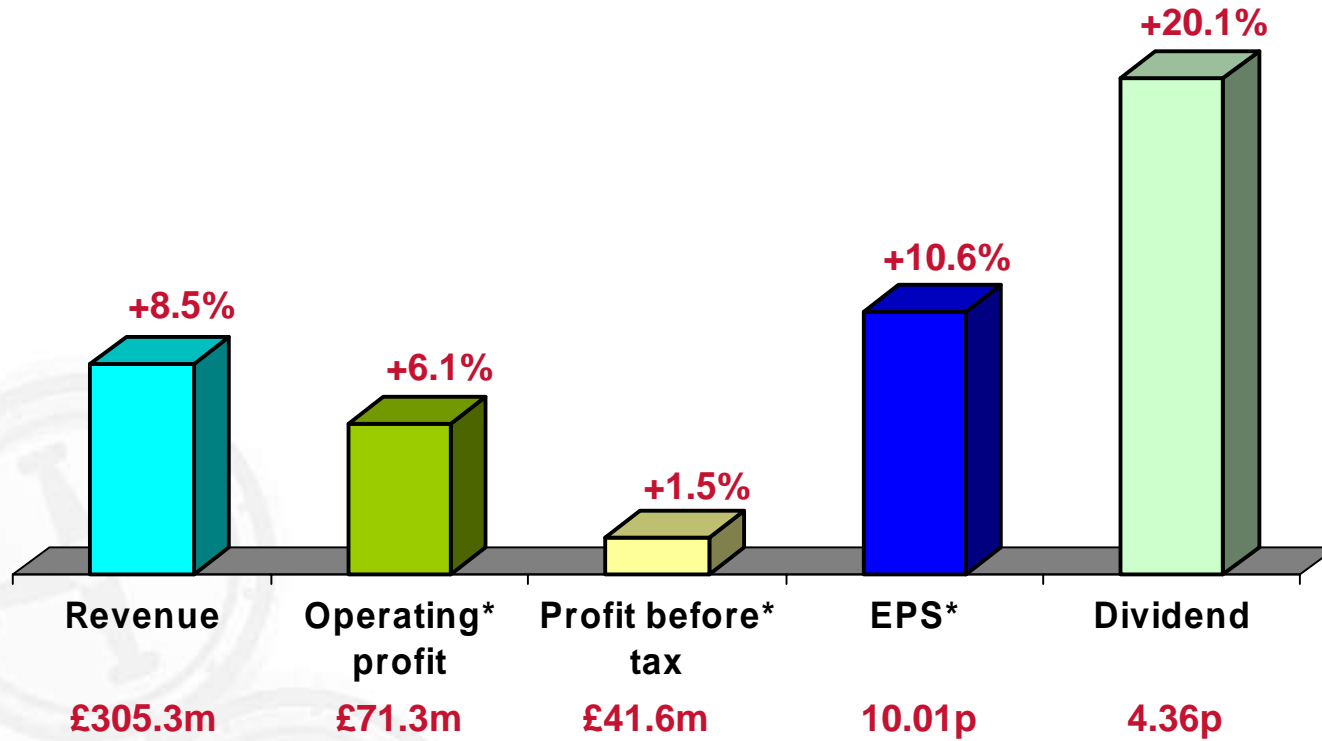


**HAVE YOU GOT
A TRAY PLEASE?**

Paul Inglett Finance Director



Financial highlights

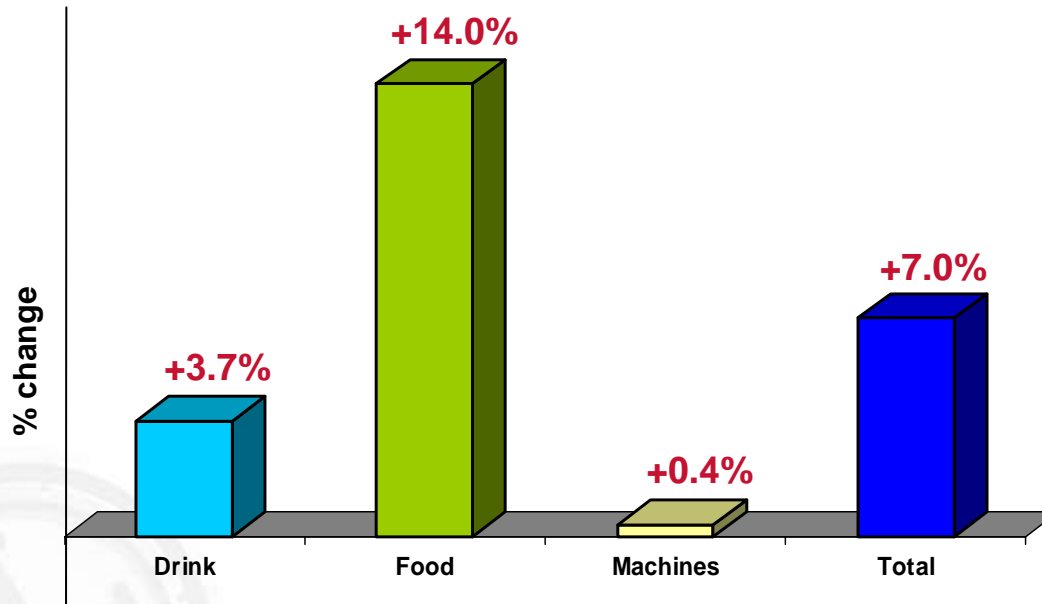


**before exceptional items*

continued double digit growth in EPS and dividends



Like-for-like sales*



- community +7.5%
- town centre +5.9%
- Eldridge Pope estate LFL growth similar to core estate post acquisition
- strong trading continued into 2nd half: +6.6% in 33 weeks to 19 May 2007

*94% of estate, excluding Eldridge Pope and any pubs acquired in last 2 years

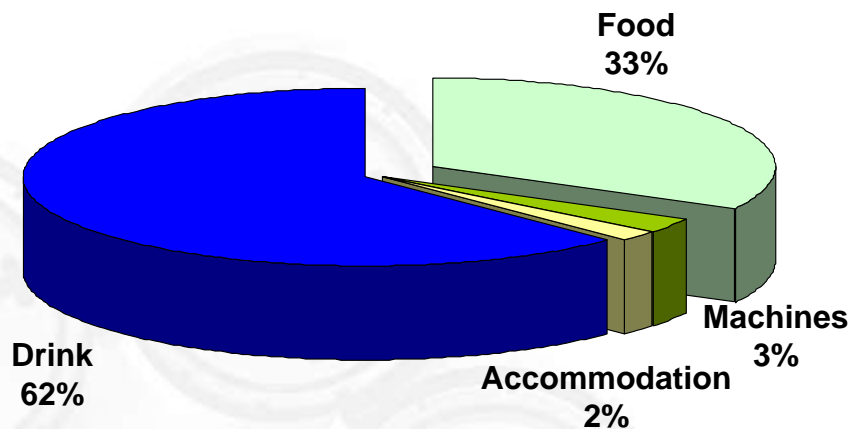
food continues to be key driver of growth

Margins

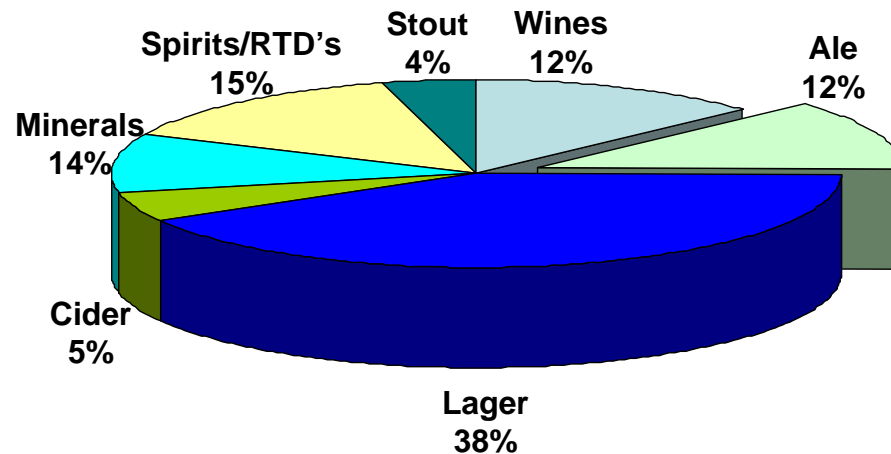
vs H1 2006

- LFL sales growth +7%
- Average selling prices¹ flat
- Gross margin % flat - drink 73%; food 67%
- Volume growth +7%

Turnover H1 2007



Drinks sales²



¹ drink and food

² at retail value for 6 months to March 2007

focus on growing like-for-like gross profit

Balance sheet

	<u>March 2007</u>	<u>March 2006</u>	
<u>£m</u>			
Fixed assets*	1,796	1,597	• impact of acquisitions
Goodwill & investments	244	177	
Net debt	(1,146)	(898)	• impact of acquisitions and share buy-backs
Deferred tax	(121)	(118)	
Net other liabilities	<u>(144)</u>	<u>(116)</u>	
Net assets	<u>629</u>	<u>642</u>	• share buy-backs of £55m in last 12 months

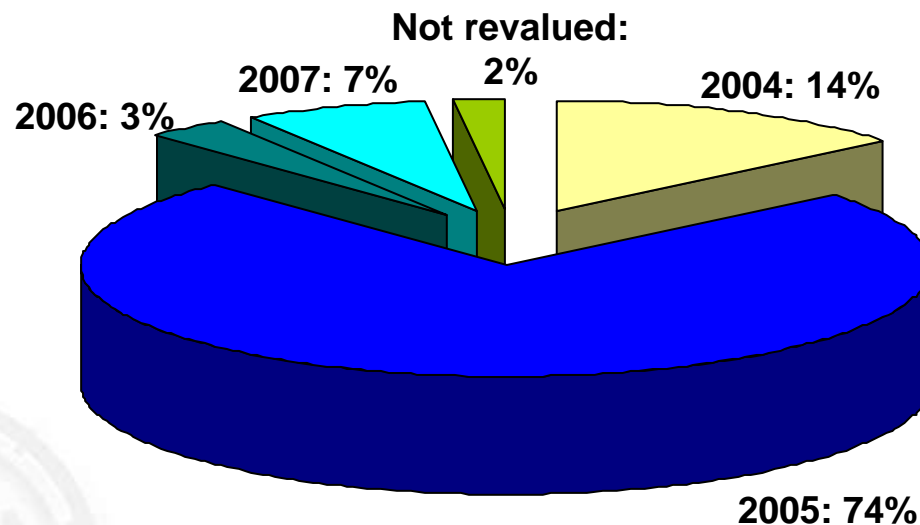
* includes assets held for sale

94% of pubs freehold or long leasehold



Asset revaluations

Latest pub valuation dates*



- c.90% of valuations carried out by Christie + Co.
- accounts valuations exclude any lotting premium

* 2,535 pubs as at 31 March 2007

policy to review on a 5 year rolling cycle



Split of net debt



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Group net debt: £1,146m

Securitisation	
	£m
Original amount	805
Repayments	<u>(16)</u>
Currently outstanding	<u>789</u>

Bank debt			
	Available facility	Drawn	Headroom
£m			
Corporate	400	340	60
Share buy-backs	<u>100</u>	<u>40</u>	<u>60</u>
	<u>500</u>	<u>380</u>	<u>120</u>

Cash/other	
	£m
Cash balances	(37)
Other	<u>14</u>
	<u>(23)</u>

Interest rate:	c.5.4%
% fixed debt:	100%

Interest rate:	c.6.3%
% fixed debt:	0%

Group	c.6.0%*
	c.70%

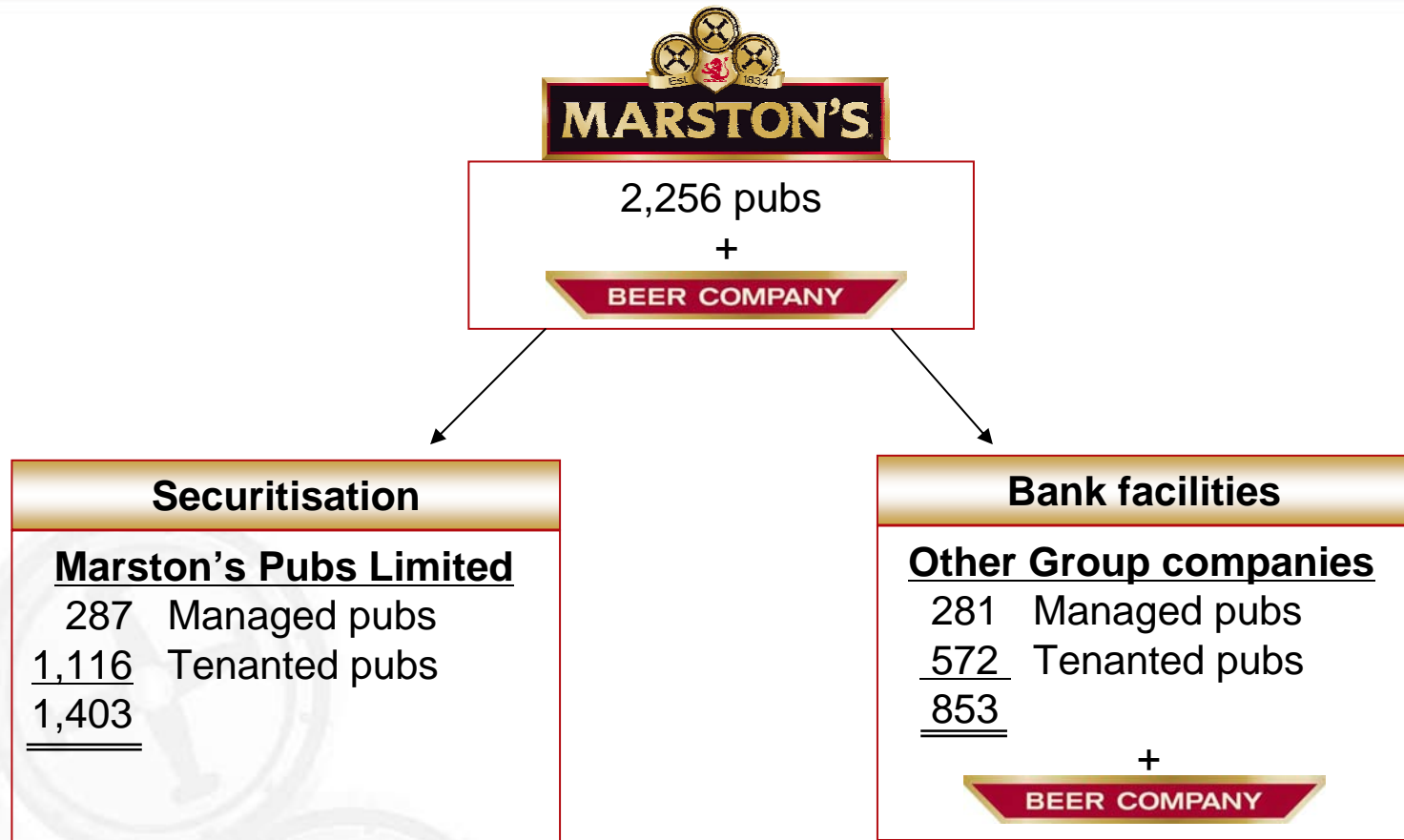
* including amortisation of arrangement fees and interest costs in respect of retirement benefits

current bank facility headroom of £120m



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Split of assets*

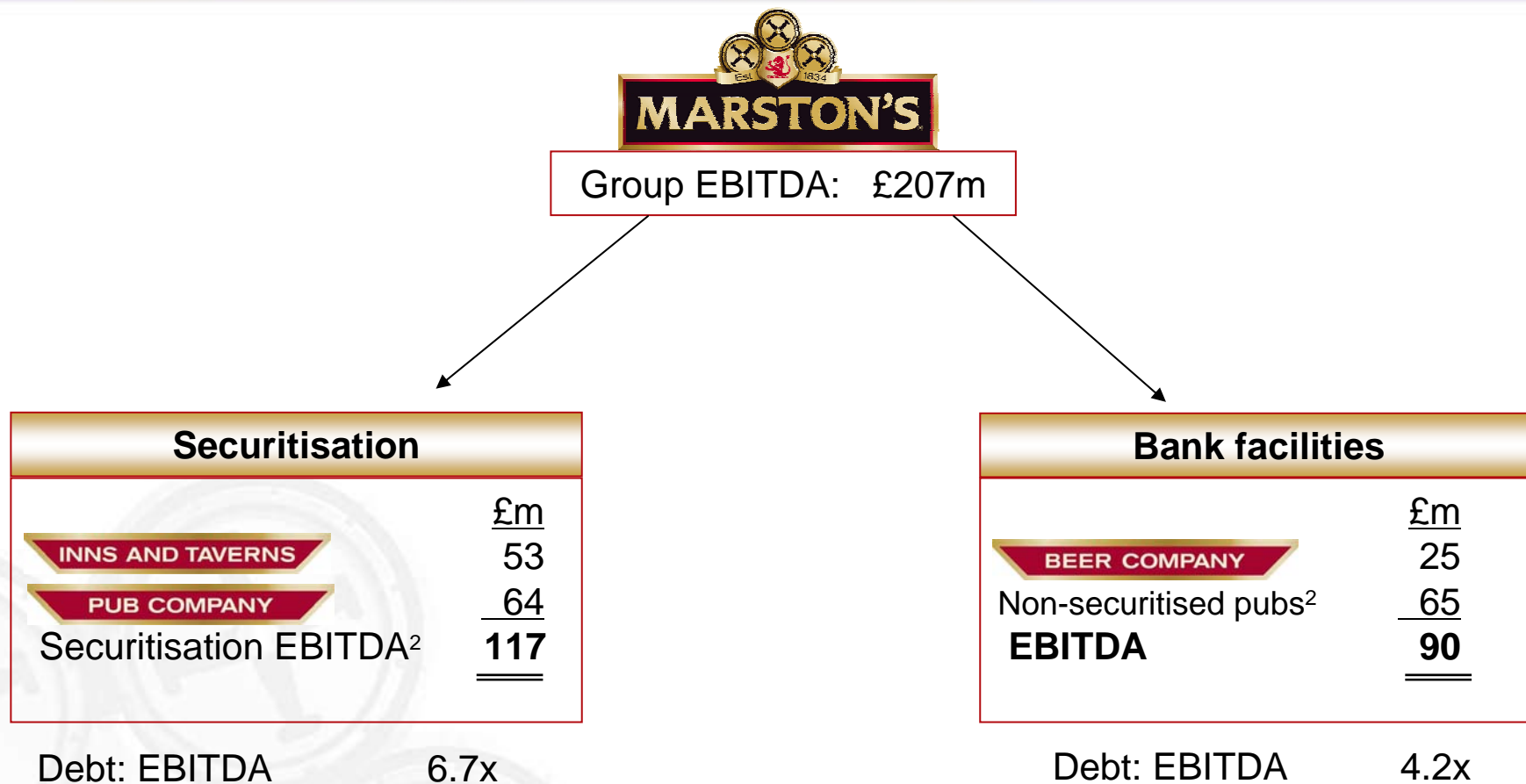


* as at 31 March 2007, adjusted for sale of 279 pubs on 10 May 2007

38% of pubs not securitised



Split of EBITDA¹



¹ pro-forma 12 months to March 2007, adjusted for full year impact of Eldridge Pope and Sovereign Inns

² net of allocation of PLC central costs

opportunity to securitise more assets



Financing ratios

	12 months to <u>March 2007</u>	<u>Target</u>
Interest cover	2.9x	2.25x – 2.75x
Net debt: EBITDA*	5.5x	5.25x – 6.0x

Balance sheet efficiency

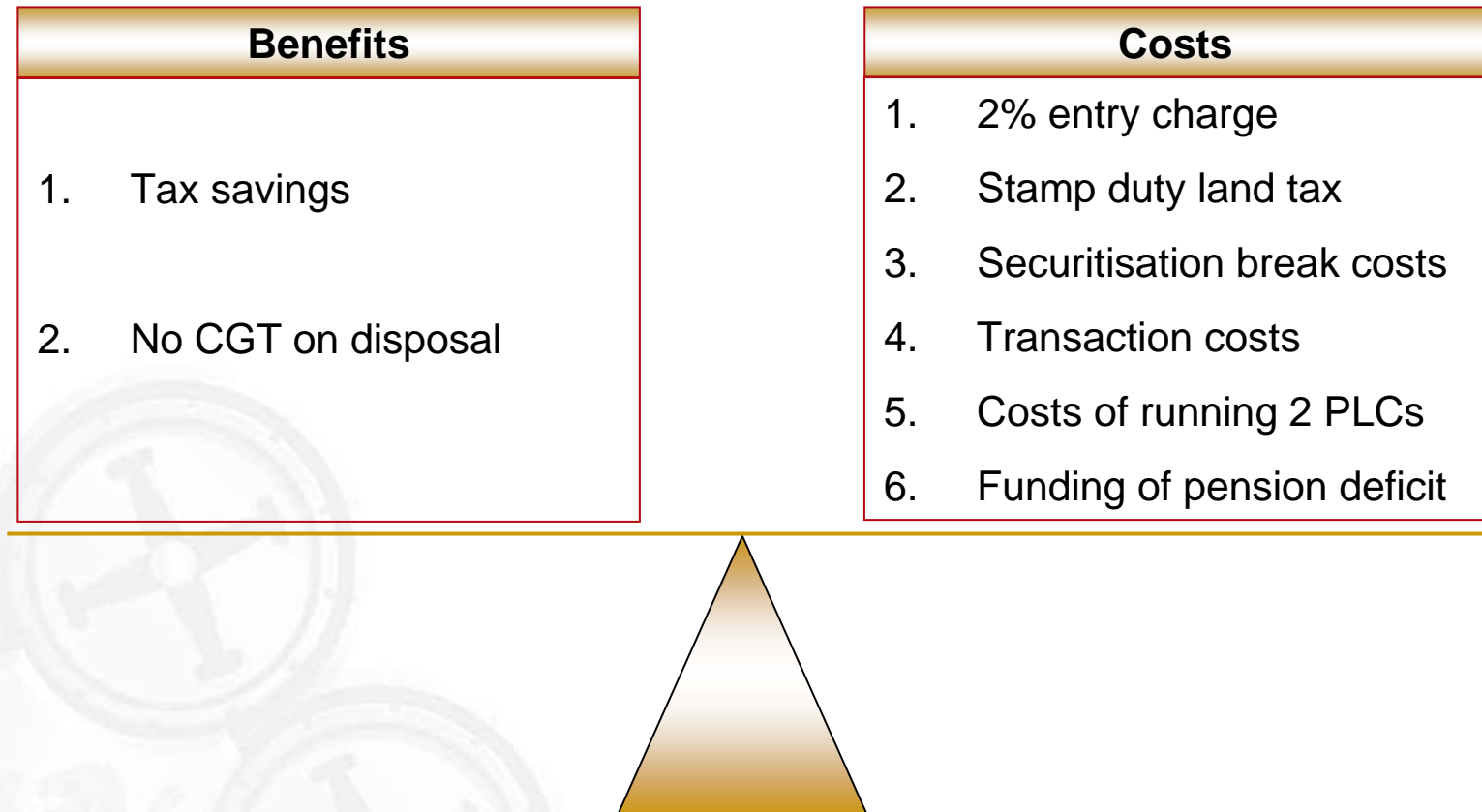
- committed to £150m of share buy-backs this year
- increased interim dividend by 20%
- opportunity to securitise up to 38% of pub estate
- retain some flexibility to fund acquisitions

** pro-forma 12 months to March 2007, adjusted for full year impact of Eldridge Pope and Sovereign Inns*

aim to maintain efficient balance sheet



REITs: financial cost/benefit analysis



estimated to be broadly neutral

REITs considerations

- 1. Clear benefit of freehold ownership**
 - operational flexibility
 - benefit of long-term capital appreciation
- 2. Cost/benefit analysis is broadly neutral**
 - REITs not currently compelling
- 3. Other alternative structures still emerging**
 - monitor market developments
 - continue to discuss with advisors

rationale for converting is not currently compelling



Financial summary

1. Good progress in key financial measures

- continued double digit earnings growth
- 20% increase in interim dividend

2. Improved balance sheet efficiency

- £40m share buy-backs, further £110m to follow
- opportunity to gear up business further

3. REITs

- tax benefits not compelling
- continue to review situation as market develops
- ongoing evaluation of alternative structures

good progress, but further opportunities to exploit





PEDIS ALL ROUND?

Ralph Findlay **Chief Executive**



Marston's strategy

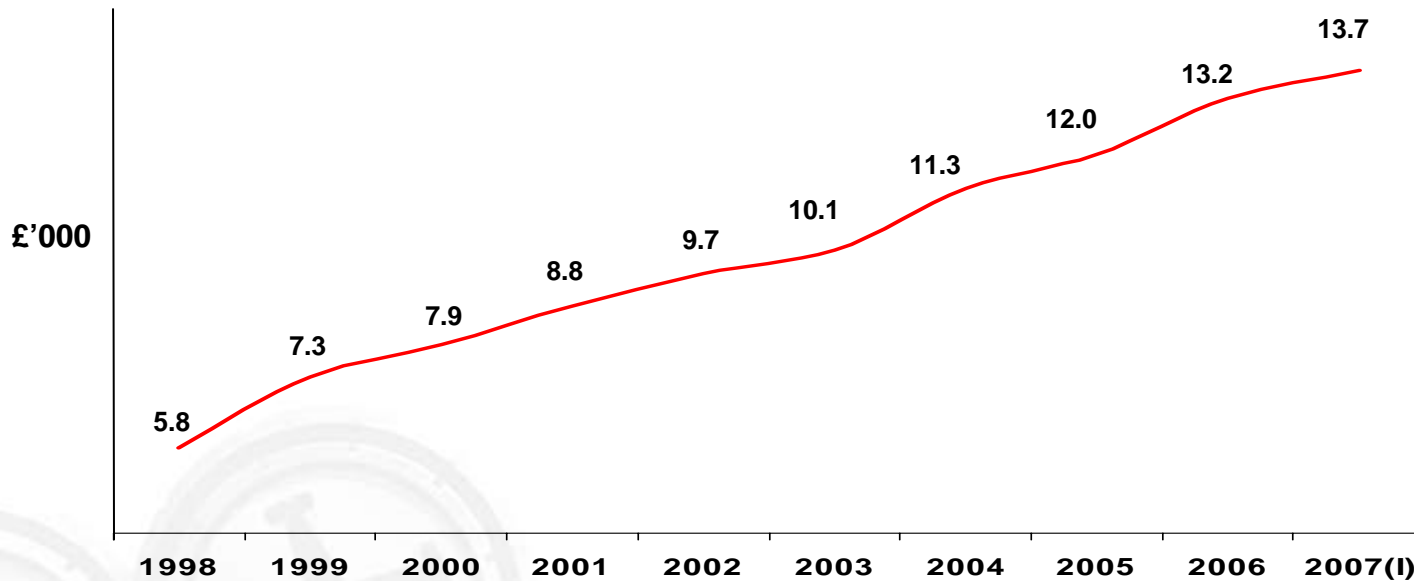
- 1. Growth through development of national, high quality pub estate**
 - corporate acquisitions
 - new build pubs/acquisitions of existing pubs
 - predominantly community pubs
- 2. Exploit benefits of integrated model**
 - operational flexibility
 - adding value to acquisitions
- 3. Maintain a strong, efficient balance sheet**
 - predominantly freehold ownership
 - long-term low cost debt financing
- 4. Sustainable long-term value for shareholders**

clear, consistent and straightforward strategy



Consistent growth in turnover per pub

Average turnover per week per pub £'000

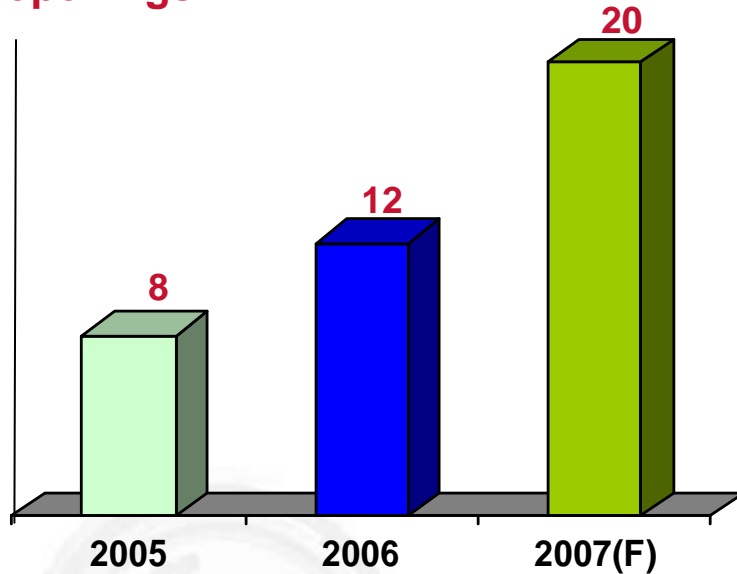


- active estate management – >600 pubs transferred to tenancy since 1999
- major acquisitions – Wizard Inns (2004); Eldridge Pope (January 2007)
- new build pubs/pubs acquired – 12 in 2006; 20 forecast in 2007

demonstrates significant improvement in quality of estate

Increasing contribution from new-build pubs

Pub openings

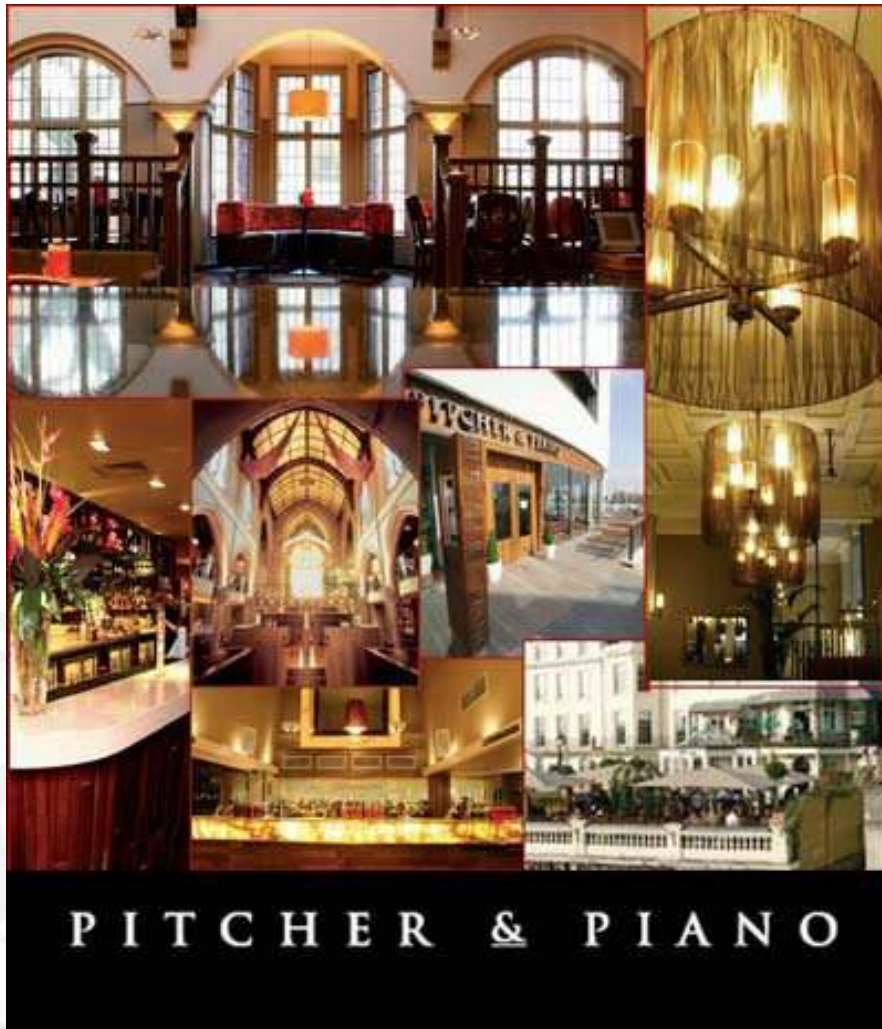
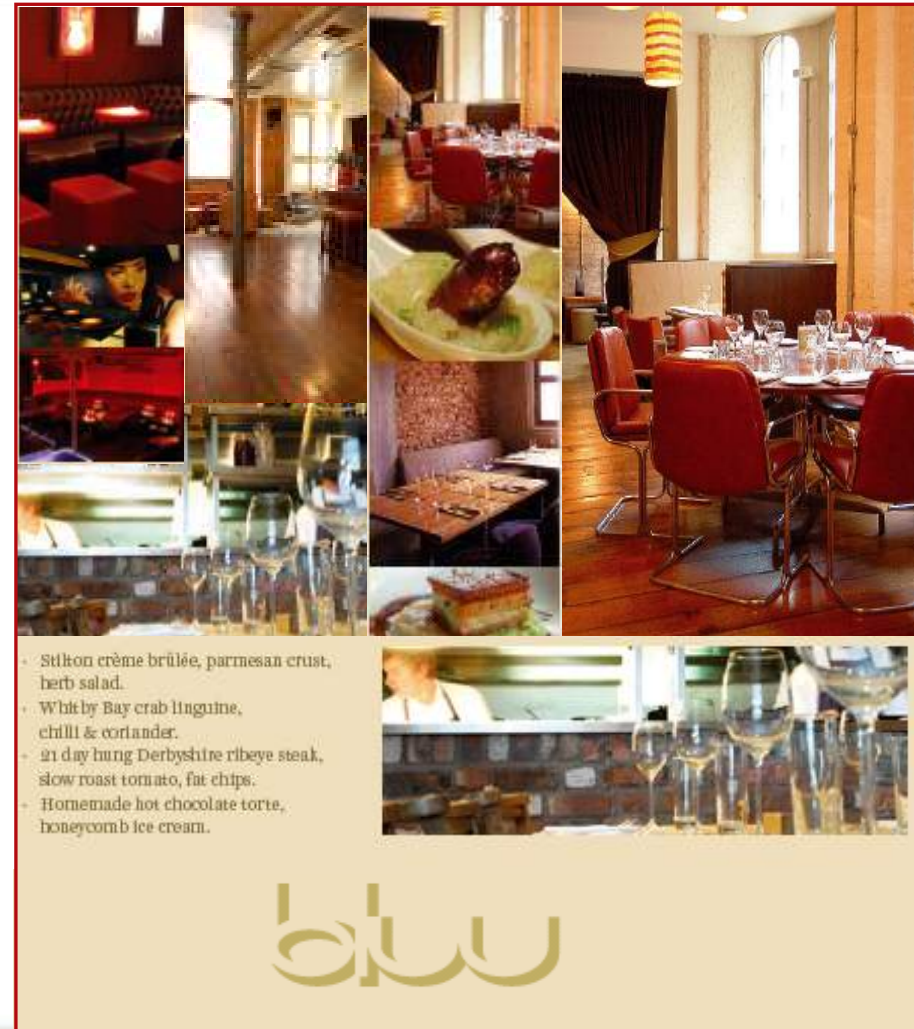


The Maple Tree, Doncaster

- **H1 2007 openings (7):** Brighton, Bristol, Cheshire, Exeter, Hertfordshire, London, Nuneaton
- **average investment c£2m:** EBITDA returns 15%+
- **investment focus:** food, families, females, non-discount high street
- **principally freehold:** modern design, energy efficient

target: 20 new build/acquired pubs p.a.

Branded high street development adds value

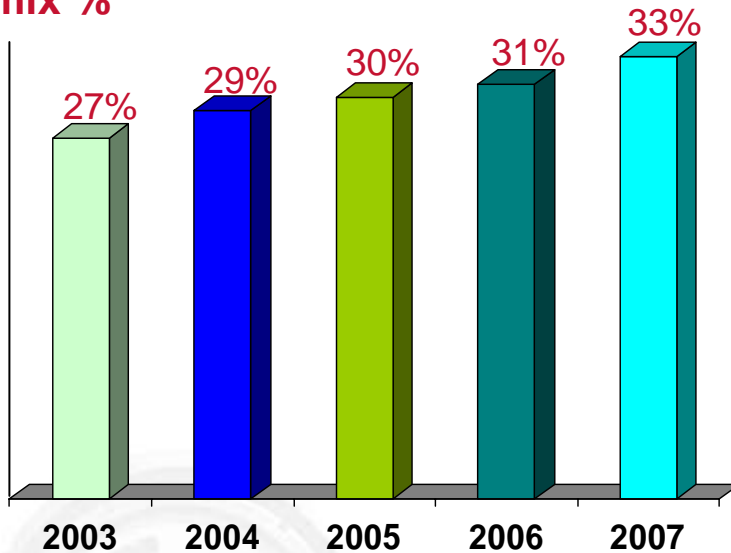
- Stilton crème brûlée, parmesan crust, herb salad.
- Whitby Bay crab Linguine, chilli & coriander.
- 21 day hung Derbyshire ribeye steak, slow roast tomato, fat chips.
- Homemade hot chocolate torte, honeycomb ice cream.

blu

target: high quality offer, not price led

Food offer becoming more important

Food mix %



- centralised menu development/food procurement across all pubs
- specified suppliers/ingredients used by national distributor
- greater emphasis on family, value, health and 'provenance'
- H1 LFL sales growth in food +14%; gross margin c.67%

food is >50% of sales in new-build pubs

Segmentation clearer, more consistent







	Branded food	Great food	Locals
no. of pubs¹	94	95	216
average sales/week	£16k	£13k	£12k
profit² conversion	28%	27%	30%
food sales mix	59%	42%	24%
			

¹ excluding pubs identified for disposal

² EBITDAR

food sales are significant across all segments

High Street portfolio performing strongly

	Branded high street		Unbranded high street	
no. of pubs ¹	46		95	
average sales/week	£20k		£13k	
profit ² conversion	28%		34%	
food sales mix	18%		13%	

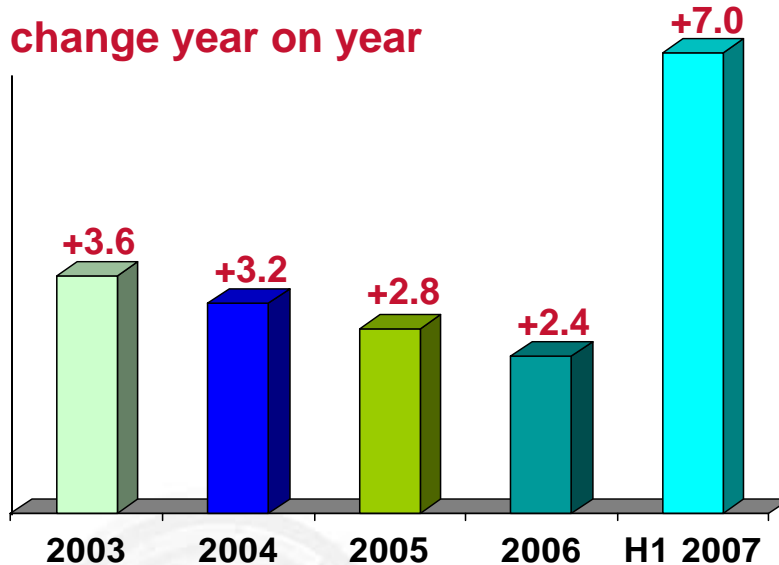
¹ excluding pubs identified for disposal

² EBITDAR

further potential to increase food sales in high street segments

Consistent like-for-like sales growth

% change year on year



Catherine Wheel, Bibury, Nr. Cirencester

- H1 2007 - good weather, estate segmentation, menu development
- increased customer spend, not price
- 2006 - World Cup, hot summer
- 2004 - Euro 2004

good trading momentum at the start of H2

1. Strong emphasis on food

- food sales c.30% of retail turnover
- 'Company of the Year' award at The Publican Food Awards 2006
- further menu development opportunities
 - review of HJ Wellfed, Tavern Table and 'Menu V'



2. Accommodation is 5% of EP managed turnover

- 'Nostalgic Inns' – 26 excellent pubs with rooms
- **combined** estate has c.800 rooms
- rising occupancy, strong like-for-like sales growth
 - on-line booking agencies, web-based marketing
 - centralised reservations to be introduced during H2



Fisherman's Cot, Tiverton, Devon

* excluding 18 pubs identified for disposal

emphasis on food, pubs with accommodation

Eldridge Pope: attractive pub estate



Half Moon Inn, Sherborne, Dorset



Eliot Arms, Cirencester, Gloucester



Swan, Thatcham, Berkshire



White Hart, Chippenham, Wiltshire



Angel Inn, Lyminster, Hampshire



Que Pasa, Banbury, Oxfordshire

well positioned to exploit positive market trends

1. Synergy capture on-track

- expected cost savings of £4.6m in year 1
- further purchasing benefits of £1m targeted in year 2

2. Extension of brands/trading formats

- conversions: c.6 Que Pasa bars to Pitcher & Piano, c.15 unbranded Marston's bars to Que Pasa

3. Strong management team

- senior operational management remain with Marston's
- examples of good 'EP practice' taken up
 - reduced closure period for pub refurbishment
 - selective use of EP design criteria

Eldridge Pope is performing in line with our expectations

1. Continued focus on 'F Plan' to exploit market trends

- clear food emphasis, more focus on income from rooms
- alignment of offer towards families, female customers
- reduction in wet-led promotion, more 'Every Day Fair Prices'

2. Leading new-build site developer

- fast decision-making process, strong partnerships with developers
- community food developments in residential areas
- promotion of premium Pitcher & Piano/Bluu bars for prime leasehold sites

3. Branded retail development programme

- Que Pasa conversion opportunities
- extension of Marston's food branding through new-builds and refurbishments
- exploitation of Eldridge Pope ideas for retail development

we have a good platform for continued development

Increasing quality: 'raising the bar'

- 1. All BDM's trained on the BII 'Profitable Business Portfolio'**
 - professional development programme - running a successful pub
- 2. Greater transparency for tenants and lessees**
 - BII accreditation for providing more information to tenants
 - unique in continuing to insist on the use of 'plain English' agreements
 - commitment not to use upward-only rent agreements
 - introduction of 3 month 'cooling off' period
- 3. Introduced open book accounting**
 - all new licensees work with specialist accountants for 1 year
 - part funded by Marston's
- 4. Introduced tenants 'repair funds'**
 - requirement to save £2-4k p.a. to spend on pub décor/repairs

greater emphasis on recruiting the right tenant for the right pub

Strategy for continued growth

1. Continual improvement in the quality of the estate

- 279 pubs sold on 10 May 2007 for £82.5m
- acquisition of 20-30 pubs p.a. and managed pub transfers
- ongoing disposals estimated at 20-30 p.a.
- significant capital investment programme

2. 'Sustainable growth, uncompromising standards'

- application of 'F Plan' to tenanted/leased pubs
- increased support, higher standards in dealing with licensees
 - 'raising the bar'
 - on-line ordering from June 2007
 - greater focus on rent as % of EBITDA
 - growth in non-tied products

3. Continual improvement in skill levels

- external training eg.BII
- "Pedigree People Programme": BDM to Operations Director

estate quality is more important than scale

1. Volume +1.0% for key brands

- Marston's Pedigree, Jennings Cumberland Ale, Marston's Smooth, Banks's Original
- Marston's share of total ale market 7.5%

2. Volume +4.8% in premium ale

- share of cask premium ale 17.7%

3. Operating margin down 0.7% vs 2006

- inflationary price increases
- higher energy costs
- improved productivity/efficiencies from capital investment
- increased marketing investment



focus on quality of distribution and margin, not volume

Increased marketing investment



continued investment vital to increasing market share

Smoking ban

1. Preparations well advanced

- 90% of pubs have outside trading areas
- investment substantially complete - £20m+ to date

2. Disposal of 279 pubs on 10 May 2007 reduces risk

3. Pubs with food are less exposed and have more opportunity

- c.90% of tenanted/leased pubs offer food
- 33% of managed pub turnover comes from food

4. Experience in Wales to date (182* pubs)

- encouraging trade since 2 April
- planning and preparation vital ahead of the ban

** following the disposal of 40 pubs in Wales on 10 May 2007*

short term risks, longer term opportunity



Summary (1)

1. Strong first-half results

- EPS +10.6%
- like-for-like food sales in managed pubs +14.0%
- underlying operating margin ahead of last year

2. Plans to increase cash returns to shareholders

- interim dividend +20% vs 2006
- share buy-back increased from £100m to £150m

3. Integration of acquisitions

- systems integration complete, synergy estimates confirmed
- performance in line with expectations



Summary (2)

4. Financing structure

- freehold ownership confers clear benefits
- continue to monitor market developments

5. Smoking ban

- preparations well advanced
- disposal of 279 pubs on 10 May 2007 reduces risk
- experience in Wales encouraging

6. Organic development

- new-build pub development programme on-track
- 20 new-build or acquired pubs to be opened this financial year

7. Current trading

- good and in line with expectations
- like-for-like sales +6.6% in Marston's Inns and Taverns*

* 33 weeks to 19 May 2007





**MAKE MINE A
MARSTON'S**

Interim Results 2007 Appendices



Financial highlights¹

INNS AND TAVERNS

		<u>2007</u> ²	<u>2006</u>	<u>% change</u>
Revenue	£m	154.6	153.1	+ 1.0%
EBITDA	£m	36.4	36.3	+ 0.3%
Operating profit	£m	26.1	25.9	+ 0.8%
Operating margin	%	16.9	16.9	-
Average no. of pubs		458	535	

¹ before exceptional items

² excludes pubs acquired as part of the acquisition of Eldridge Pope

Financial highlights¹

PUB COMPANY		<u>2007²</u>	<u>2006</u>	<u>% change</u>
Revenue	£m	97.1	86.4	+12.4%
EBITDA	£m	48.2	42.9	+12.4%
Operating profit	£m	43.3	38.0	+13.9%
Operating margin	%	44.6	44.0	+ 0.6%
Average no. of pubs		1,890	1,756	

¹before exceptional items

²excludes pubs acquired as part of the acquisition of Eldridge Pope and Sovereign Inns

BEER COMPANY		<u>2007</u>	<u>2006</u>	<u>% change</u>
Revenue	£m	40.2	41.9	(4.1)%
EBITDA	£m	11.2	11.5	(2.6)%
Operating profit	£m	7.4	8.0	(7.5)%
Operating margin	%	18.4	19.1	(0.7)%

* before exceptional items

Estate movement

<u>Pub numbers</u>	<u>Managed</u>	<u>Tenanted</u>	<u>Group</u>
September 2006	459	1,893	2,352
Acquisitions/new builds	120	83	203
Disposals	(11)	(9)	(20)
March 2007*	<u>568</u>	<u>1,967</u>	<u>2,535</u>

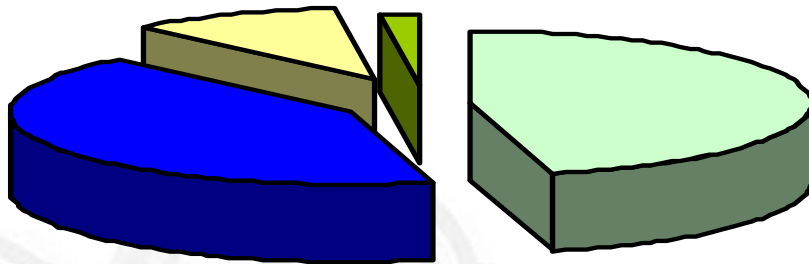
* includes 279 tenanted pubs sold on 10 May 2007



Capital investment

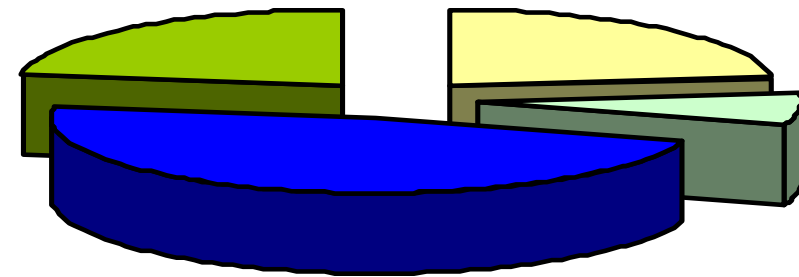
Total spend: £69.0m (2006: £50.8m)

By division



■ Inns and Taverns	£31.8m
■ Pub Company	£29.0m
■ Beer Company	£6.8m
■ Central	£1.4m

By nature of spend



■ New builds/sites	£16.0m
■ Single site acquisitions	£4.9m
■ Investment capex	£32.6m
■ Maintenance capex	£15.5m

full year forecast: £120m

Additional information and guidance

•	Average number of shares in H1 2007	302.7m	
•	Number of shares in issue as at 25 May 2007	296.1m	
•	Additional dilutive number of shares	3.8m	
		Forecast <u>2007</u>	Forecast <u>2008</u>
•	Forecast tax rate	c.27%	26.5%-27.5%
•	Capex forecast: Existing business	£75m	£55m
	: New builds/sites	£35m	£40m
	: Pub acquisitions	<u>£10m</u>	<u>£10m</u>
		<u>£120m</u>	<u>£105m</u>
•	Forecast disposal proceeds	£105m+	£20m+



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Interim Results 2007

