Company Registration No. 05453367 (England and Wales)

MARSTON'S PUBS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 1 OCTOBER 2022

MARSTON'S PUBS LIMITED

COMPANY INFORMATION

Directors	Andrew Andrea	
	Edward Hancock	(Appointed 5 October 2021)
	Robert Leach	(Appointed 5 October 2021)
	Hayleigh Lupino	(Appointed 5 October 2021)
Secretary	Bethan Raybould	
Company number	05453367	
Registered office	Marston's House Brewery Road Wolverhampton WV1 4JT	

MARSTON'S PUBS LIMITED

CONTENTS

The Directors present the strategic report for the period ended 1 October 2022.

Business review

The principal activity of the Company continued to be that of operating managed, tenanted, leased and franchised public houses.

The Board of Marston's PLC manage the Group's operations at a consolidated Group level, rather than on a statutory entity basis. The development, performance, position and key performance indicators of the Group which includes the Company are discussed within the Strategic Report of Marston's PLC which does not form part of this report.

During the current period the Company's turnover was £384.1m (2021: £195.6m) and the operating profit was £66.0m (2021: loss of £12.0m). The full year comparative results were significantly impacted by the social distancing and pub closure requirements arising from the COVID-19 outbreak and the current year results were impacted by the continued recovery from COVID-19 and the impact of Omicron in H1. The loss before tax was £55.6m (2021: £199.2m) again reflecting the impact of COVID-19.

There are no significant changes expected in the nature of the Company's business.

The Group's key performance indicators for the period ended 1 October 2022 are commented on in detail in the Strategic Report of Marston’s PLC. Those that specifically relate to the Company are as follows:

- Total revenue
- Net debt (excluding lease liabilities)
- Free Cash Flow
- % of pubs with >800 Reputation score
- % of pubs with 5* EHO score
- Peakon engagement score >8
- Spend per head v LY %

Principal risks and uncertainties

The principal risks and uncertainties of the Company reflect those of the Marston's Group. The principal risks and uncertainties of the Group which include those of the Company are set out below and are discussed further within the Strategic Report of Marston's PLC which does not form part of this report.

Pandemic

The risk posed by COVID-19 has receded since last year. There remains a risk that new waves of infection, or new variants of the virus, might influence our guests' visits or Government policy if the NHS comes under further strain.

Liquidity

The disruption to trade caused by the pandemic and the consequential impact on profitability could put the liquidity of the business under strain.

Health and safety

Breaches of health and safety regulations attract media attention and high penalties.

Food safety

Breaches of food standards regulations attract adverse media attention and high penalties.

There is a risk that information is collected incorrectly from suppliers and/or misinterpreted for the Group's menu items. There is also a risk if a team member mis-advises a guest on ingredients or serves the wrong meal. Increased regulation directly affecting the Group, or the Group's suppliers, could increase the complexity of the information to be provided and the cost of compliance.

Financial

There is the risk of a breach of the covenants with the Group's lenders, incorrect reporting of financial results and unauthorised transactions.

Market and operational

Failure to attract or retain the best people could negatively impact pub performance. Recruitment could be more of a challenge due to the high number of vacancies currently within the sector.

There is the risk of disruption to key suppliers, particularly those closely involved with day-to-day activities (logistics, food, drink), or a shortage of commodities.

There is the risk that the Group's pubs, brands or services fail to attract guests, do not reflect changing preferences or offer poor service or quality. Equally there is the risk that the Group's prices become uncompetitive during the current cost of living crisis.

Inflationary pressure on costs might be difficult to pass on, resulting in reduced margin.

Political and economic

Changes to Government policy impact upon the cost base for operating pubs, either positively or negatively. At the same time economic factors such as the current period of inflation and high demand for certain commodities and products, also impacts our operating costs and those of our supply chain. Legislative changes also impact business, particularly in recent times the move to decarbonise the economy. It remains uncertain how successful the Government and the Bank of England can be in curbing inflation pressure in the year ahead and what the impact will be on consumer confidence.

Information technology

Threats to IT are both external and internal and could result in a network outage, denial of service or loss, theft or corruption of data.

Section 172(1) statement

This section describes how the Directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006, in exercising their duty to promote the success of the Company for the benefit of its members as a whole.

Directors are required to have regard (amongst other matters) to the interests of wider stakeholders, as well as:

- the likely long-term consequences of any decision they make;the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, guests and others;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly, as between members of the Company.

The Company is a subsidiary of Marston's PLC and, therefore, key decisions which affect the Group, this Company and stakeholders are principally made by the Board of the ultimate parent undertaking and controlling party, Marston's PLC. Further details of how the Board of Marston's PLC have had regard to sections 172(1)(a) to (f) of the Companies Act 2006 in the current reporting period can be found in the Annual Report and Accounts of Marston's PLC, key elements of which include:

Our people

Our people are the heart of our business. Effective employee engagement is central to our strategy, and we recognise that the quality and commitment of our people is integral to the long-term success of the business. Achieving an engagement score of 8 or more on our employee engagement survey is one of our Key Performance Indicators (KPIs). We recognise the importance of having an open relationship with our workforce and investing in tools that empower them to have their say. Marston's is a responsible employer committed to building a diverse culture where our teams and guests feel welcome, supported and included for who they are. We aim to ensure this commitment is reflected in how we attract talent, how we nurture and develop people internally, and how we ensure our guests have the best experience. We do not discriminate in any way, ensuring that training, career development and promotion opportunities are available to all employees irrespective of gender, race, age or disability. The Group is committed to keeping employees up to date on business performance and strategy, helping them to understand the part they can play in building a successful business. This ensures our people are both engaged and enabled, having both the desire and the ability to make a difference. We do this in a variety of ways through centralised communications, as well as leader and manager-led engagement.

Our guests

We truly are 'guest obsessed' and we consider the voice of our guests in almost everything we do. Being loved by our guests and achieving a Reputation score of 800 or more, is one of our KPIs. Reputation generates a score for each of our pubs based on guest feedback across multiple channels and platforms, such as Google and TripAdvisor. This enables us to measure guest satisfaction, listen to what our guests' priorities are and where there is scope for us to improve or refine our offer.

Our partners

Within the Group, we have around 976 pubs that are operated by self-employed Pub Partners under several types of franchise-style agreements, each providing flexible operating models. Most recently, in 2021, we launched the innovative Pillar Partnership. As with all our franchise-style models, other than labour, most of the operating costs (such as energy bills and other utilities) are paid for by Marston's, allowing our Pub Partners to focus on running their business and giving guests the best possible experience.

The environment and communities

In line with the corporate goals of the Group, we are committed to being a responsible and sustainable business. We are proud to give something back to the communities we serve and, in doing so, create value for all our stakeholders, including the planet. Both the Group and our Pub Partners play an active role in our communities, supporting them through charitable endeavours and generating a positive impact at a local level. We're committed to doing the right thing and delivering the objectives set out in 'Doing more to be proud of', our Environmental, Social and Governance (ESG) initiative. The evolution of our ESG strategy this year involved us engaging and consulting with a wide range of stakeholders to understand what ESG topics mattered to the most, including our guests, our people, advisers and experts and other companies within our sector and beyond.

Suppliers
Our suppliers play an important role in helping us deliver our strategy and providing our guests with the best possible experience. We value long-term partnerships with our suppliers to form strong, sustainable and trusted relationships whilst minimising risk in our supply chain.

Investors
Engagement with shareholders is essential to ensure that we attract and retain long-term investors who support our strategy. In turn, we strive to ensure that we provide fair, balanced and understandable information to shareholders and analysts alike, to ensure that they understand and support our strategy and vision, and have clarity over our financial and non-financial performance.

Government and regulators
We take our responsibilities for the health and wellbeing of our guests and employees very seriously. Our relationships with our Primary Authority, and various other regulatory bodies, help us to ensure we comply with new and emerging legislation in food and drink, health and safety and beyond. This supported by the Group's Risk & Compliance Committee.

We recognise that Government policy decisions impact our business and all of our stakeholders, so we engage with Government directly through consultations and working groups, and indirectly through various lobby groups, including UK Hospitality.

The Board of Marston's PLC believe that the following matters were of strategic importance during the period:

- *Financial stability* - In March 2022, the Board approved covenant amendments to the revolving credit facility agreement dated 7 March 2017 and is in discussions to agree further amendments for 2023. The Board discussions included:
    - Consequences of decisions in the long-term.
    - The Board considered the financial stability of the Group and its long-term sustainability for the benefit of all stakeholders.
- *National Minimum Wage* - In January 2022, the Board unanimously agreed a move away from being a National Minimum Wage employer. The Board discussions included:
    - Consideration of and benefit to the Group's employees.
    - The benefit to the long-term success of the Company as a consequence of improved employee retention rates and avoiding the volatility of the labour market.
    - The positive impact on guest satisfaction as a result of improved speed of service and more experienced and engaged pub teams.
    - Supporting the Government and wider community by contributing to economic growth.
- *ESG targets* - In October 2021, the Board were presented with, and considered, the Group's ESG targets for Net Zero and food waste. The Board discussions included:
    - The impact of the Company's operations on the community and the environment.
    - The interests of guests and employees.

By order of the board

Bethan Raybould
Secretary
15 December 2022

The Directors present their report and the financial statements for the period ended 1 October 2022.

The financial statements of the Company cover the 52 weeks ended 1 October 2022 (2021: 52 weeks ended 2 October 2021).

Directors
The Directors who held office during the period and up to the date of signature of the financial statements were as follows:

Andrew Andrea	
Edward Hancock	(Appointed 5 October 2021)
Robert Leach	(Appointed 5 October 2021)
Hayleigh Lupino	(Appointed 5 October 2021)

Results and dividends
The results for the period are set out on page 12.

No ordinary dividends were paid in the period. The Directors do not recommend payment of a final dividend.

Qualifying third party indemnity provisions
In accordance with the Company's Articles of Association and to the extent permitted by law, the Company has indemnified its Directors against certain liabilities that may be incurred as a result of their position.

Engagement with suppliers, customers and others
A summary of how the Directors have regarded the need to foster the Company’s business relationships with suppliers, customers and others, and the effect of that regard on the principal decisions made during the period, is provided in the strategic report.

Financial instruments
Financial risk management
Financial risk management is undertaken at a Group level and as such the financial risk management of the Company reflects that of the Marston's Group. 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. Risk management is carried out by a central treasury department under policies approved by the Board of Marston's PLC. The key financial risks for the Group are interest rate risk, credit risk and liquidity risk.

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 of a defined interest rate shift on its results.

Credit risk: 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 of Marston's PLC. The utilisation of and adherence to credit limits is regularly monitored.

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.

Further details of the Group's financial risk exposure, and the management objectives and policies thereon, are presented within the Annual Report and Accounts of Marston's PLC.

Future developments
No changes are anticipated in the nature of the business in the foreseeable future.

Auditor
The auditor, KPMG LLP, is deemed to be reappointed under section 487 of the Companies Act 2006.

Statement of disclosure to auditor
So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information of which the Company's auditor is unaware. Additionally, the Directors individually have taken all the necessary steps that they ought to have taken as Directors in order to make themselves aware of all relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the board

Bethan Raybould
Secretary
15 December 2022

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE PERIOD ENDED 1 OCTOBER 2022

The Directors are responsible for preparing the strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF MARSTON'S PUBS LIMITED

Opinion

We have audited the financial statements of Marston's Pubs Limited ('the Company') for the period ended 1 October 2022, which comprise the balance sheet, profit and loss account, statement of comprehensive income, statement of changes in equity, statement of cash flows, and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 1 October 2022 and of its loss for the period then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 to the financial statements which indicates that the Company's ability to continue as a going concern is dependent on the performance of its ultimate parent company, Marston's PLC. The financial statements of Marston's PLC include a material uncertainty related to going concern due to a forecast breach of covenants in the next 12 months. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Going concern basis of preparation

The Directors have prepared the financial statements on the going concern basis. As stated above, they have concluded that a material uncertainty related to going concern exists.

Based on our financial statements audit work, we consider that the Directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ('fraud risks') we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors as to the Company’s high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Company’s channel for ‘whistleblowing’, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading board minutes.
- Considering remuneration incentive schemes and performance targets; and
- Using analytical procedures to identify any unusual or unexpected relationships.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because of the existence of limited opportunities to make inappropriate accounting entries in relation to revenue.

We did not identify any additional fraud risks.

We performed procedures including identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts, seldom used accounts and by unexpected users.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the Directors and other management (as required by auditing standards), and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and Directors' report

The Directors are responsible for the strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial period is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

TO THE MEMBERS OF MARSTON'S PUBS LIMITED

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company’s members, as a body, for our audit work, for this report, or for the opinions we have formed.

John Leech (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
United Kingdom
15 December 2022

MARSTON'S PUBS LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE PERIOD ENDED 1 OCTOBER 2022

	Notes	Period ended 1 October 2022 £m	Period ended 2 October 2021 £m
Turnover	**3**	384.1	195.6
Trading expenses	**4**	(322.3)	(183.8)
Exceptional items	**5**	4.2	(23.8)
Operating profit/(loss)	**6**	66.0	(12.0)
Interest receivable and similar income	**9**	0.3	-
Interest payable and similar charges	**10**	(211.5)	(194.2)
Other gains and losses	**11**	89.6	7.0
Loss before taxation		(55.6)	(199.2)
Taxation	**12**	2.7	38.2
Loss for the financial period		(52.9)	(161.0)

The results for the current period reflect the 52 weeks ended 1 October 2022 and the results for the prior period reflect the 52 weeks ended 2 October 2021.

The profit and loss account has been prepared on the basis that all operations are continuing operations.

MARSTON'S PUBS LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE PERIOD ENDED 1 OCTOBER 2022

	Period ended 1 October 2022 £m	Period ended 2 October 2021 £m
Loss for the period	(52.9)	(161.0)
Items of other comprehensive income		
Revaluation of tangible fixed assets	33.6	(14.0)
Cash flow hedges gain arising in the period	21.8	3.5
Transfers to the profit and loss account on cash flow hedges	16.1	20.3
Tax relating to items of other comprehensive income	(17.4)	(6.2)
Other comprehensive income for the period	54.1	3.6
Total comprehensive income/(expense) for the period	1.2	(157.4)

The results for the current period reflect the 52 weeks ended 1 October 2022 and the results for the prior period reflect the 52 weeks ended 2 October 2021.

MARSTON'S PUBS LIMITED

BALANCE SHEET

AS AT 1 OCTOBER 2022

	Notes	1 October 2022 £m	£m	2 October 2021 £m	£m
Fixed assets					
Goodwill	**13**		15.5		23.5
Other intangible assets	**13**		14.7		15.6
Total intangible assets			30.2		39.1
Tangible assets	**14**		1,152.0		1,096.7
			1,182.2		1,135.8
Current assets					
Stocks	**16**	6.1		6.5	
Debtors	**17**	28.4		19.8	
Cash at bank and in hand		21.0		25.8	
		55.5		52.1	
Creditors: amounts falling due within one year	**18**	(111.0)		(115.1)	
Net current liabilities			(55.5)		(63.0)
Total assets less current liabilities			1,126.7		1,072.8
Creditors: amounts falling due after more than one year	**19**		(2,117.2)		(2,109.9)
Provisions for liabilities	**21**		(47.6)		(2.2)
Net liabilities			(1,038.1)		(1,039.3)
Capital and reserves					
Called up share capital	**23**		-		-
Revaluation reserve	**24**		195.7		170.0
Hedging reserve	**25**		(46.8)		(75.2)
Profit and loss reserves			(1,187.0)		(1,134.1)
Total equity			(1,038.1)		(1,039.3)

The financial statements were approved by the board of Directors and authorised for issue on 15 December 2022 and are signed on its behalf by:

H-Lupino

Hayleigh Lupino
Director

Company Registration No. 05453367

MARSTON'S PUBS LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 1 OCTOBER 2022

	Share capital	Revaluation reserve	Hedging reserve	Profit and loss reserves	Total
	£m	£m	£m	£m	£m
Balance at 4 October 2020	-	192.3	(100.5)	(973.7)	(881.9)
Period ended 2 October 2021:					
Loss for the period	-	-	-	(161.0)	(161.0)
Other comprehensive income:					
Revaluation of tangible fixed assets	-	(14.0)	-	-	(14.0)
Cash flow hedges gain arising in the period	-	-	3.5	-	3.5
Transfers to the profit and loss account on cash flow hedges	-	-	20.3	-	20.3
Tax relating to items of other comprehensive income	-	(7.7)	1.5	-	(6.2)
Total comprehensive (expense)/income for the period	-	(21.7)	25.3	(161.0)	(157.4)
Transfers	-	(0.6)	-	0.6	-
Balance at 2 October 2021	-	170.0	(75.2)	(1,134.1)	(1,039.3)
Period ended 1 October 2022:					
Loss for the period	-	-	-	(52.9)	(52.9)
Other comprehensive income:					
Revaluation of tangible fixed assets	-	33.6	-	-	33.6
Cash flow hedges gain arising in the period	-	-	21.8	-	21.8
Transfers to the profit and loss account on cash flow hedges	-	-	16.1	-	16.1
Tax relating to items of other comprehensive income	-	(7.9)	(9.5)	-	(17.4)
Total comprehensive income/(expense) for the period	-	25.7	28.4	(52.9)	1.2
Balance at 1 October 2022	-	195.7	(46.8)	(1,187.0)	(1,038.1)

MARSTON'S PUBS LIMITED

STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDED 1 OCTOBER 2022

	Notes	2022 £m	2022 £m	2021 £m	2021 £m
Operating activities					
Cash generated from operations	**31**		83.2		46.4
Interest paid			(42.4)		(36.8)
Income taxes refunded			26.4		36.0
Net cash inflow from operating activities			67.2		45.6
Investing activities					
Purchase of intangible fixed assets		(0.1)		(3.4)	
Purchase of tangible fixed assets		(31.5)		(18.0)	
Proceeds on disposal of tangible fixed assets		2.4		5.1	
Net cash outflow from investing activities			(29.2)		(16.3)
Financing activities					
Repayment of borrowings		(42.8)		(29.1)	
Net cash outflow from financing activities			(42.8)		(29.1)
Net (decrease)/increase in cash and cash equivalents			(4.8)		0.2
Cash and cash equivalents at beginning of period			25.8		25.6
Cash and cash equivalents at end of period			21.0		25.8

The cash flows for the current period reflect the 52 weeks ended 1 October 2022 and the cash flows for the prior period reflect the 52 weeks ended 2 October 2021.

1 Accounting policies

Company information

Marston's Pubs Limited is a private company limited by shares incorporated in England and Wales. The registered office is Marston's House, Brewery Road, Wolverhampton, WV1 4JT.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102) and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the Company. Monetary amounts in these financial statements are rounded to the nearest £0.1m.

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of effective freehold land and buildings and the holding of certain financial instruments at fair value. The principal accounting policies adopted are set out below.

1.2 Business combinations

The cost of a business combination is the fair value at the acquisition date of the assets given, equity instruments issued and liabilities incurred or assumed, plus costs directly attributable to the business combination. The excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognised as goodwill.

Provisional fair values recognised for business combinations in previous periods are adjusted retrospectively for final fair values determined in the 12 months following the acquisition date.

1.3 Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the strategic report.

The Company is a subsidiary of Marston's PLC and therefore its ability to operate as a going concern and to discharge its liabilities as they fall due is fundamentally linked to that of the Group (i.e. Marston's PLC and its subsidiaries).

The cost-of-living crisis and the impact of COVID-19 has led to lower profit and operating cashflows than would otherwise have resulted had these macroeconomic conditions not existed. As a result of this there remains uncertainty about the future financial performance of the Group, which could cast significant doubt over the Group's ability to trade as a going concern.

The Group's sources of funding include its securitised debt, a £280.0 million bank facility available until 2024, of which £215.0 million was drawn at 1 October 2022, a £40.0 million private placement in place until 2024, and a £5.0 million seasonal overdraft facility which extends to £20.0 million from 25 January to 6 May and 1 July to 12 August each year.

There are two covenants associated with the Group's securitised debt – free cash flow to debt service coverage ratio (FCF DSCR) and Net Worth. The FCF DSCR is a measure of free cash flow to debt service for the group headed by Marston's Pubs Parent Limited and is required to be a minimum of 1.1 over both a two-quarter and four-quarter period, and the Net Worth is derived from the net assets of that group of companies. There was headroom of £432.4 million on the Net Worth Covenant, headroom of 0.2 on the two-quarter FCF DSCR Covenant and headroom of 0.2 on the four-quarter FCF DSCR Covenant at 1 October 2022.

There are two covenants associated with both the Group's bank and private placement borrowings for the non-securitised group of companies. The Debt Cover covenant is a measure of net borrowings to EBITDA (a maximum of 5.0 times from 1 October 2022, reducing on a stepped basis to 3.5 times from 1 April 2023).

1 Accounting policies **(Continued)**

The Interest Cover covenant is a measure of EBITDA to finance charges, which is a minimum of 1.2 times from 1 October 2022, rising on a stepped basis to 2.0 times from 1 July 2023 for the Group's bank borrowings and 3.0 times from 1 April 2023 for the private placement borrowings. There was headroom of 0.2 on the Debt Cover covenant and headroom of 0.4 on the Interest Cover covenant at 1 October 2022. There are additional Liquidity and Unencumbered Asset Cover covenants for the Group's private placement borrowings only. The Liquidity covenant is a measure of headroom on the Group's bank and private placement borrowings, which is a minimum of £75 million on the last day of each fiscal month from 30 September 2022, increasing to £100 million from 31 January 2023. The Unencumbered Asset Cover covenant is a measure of tangible assets of the non-securitised group of companies to net borrowings, which is a minimum of 1.5 as at 1 October 2022. Liquidity was £78 million against the covenant level of £75 million and headroom was 0.1 on the Unencumbered Asset Cover covenant at 1 October 2022.

The directors of Marston's PLC and the Directors of the Company have performed an assessment of going concern over the period of 12 months from the date of signing these financial statements, to assess the adequacy of the Group's financial resources. In performing their assessment, the Directors considered the Group's financial position and exposure to principal risks, including the cost-of-living crisis and the continuing impact of COVID-19. The Group's base case forecasts assume an increase in sales volumes, below inflation sales price rises, and below inflation operational cost increases as a result of the Group's gas prices being fixed until 2025 and electricity prices fixed throughout the upcoming winter. The Debt Cover and Interest Cover bank and private placement covenants, and private placement Unencumbered Asset Cover covenant, are forecast to be breached in 2023 commencing from the 31 December 2022 test date such that covenant amendments will be required for this quarter and potentially subsequent quarters in the 2023 financial year. In respect of the Liquidity covenant associated with the Group's £40 million private placement borrowings for the fiscal month ending on or about 31 October 2022, there was a technical default, for which waivers have been secured (see note 28). The Group also obtained prospective waivers from its private placement provider for the fiscal months ending on or about 30 November 2022 and 31 December 2022 Liquidity covenants and further amendments to this Liquidity covenant will be required during the year. The forecast breaches that will require further covenant amendments result from the continued recovery from COVID-19 and the impact of Omicron in H1.

The Directors have also considered a severe but plausible downside scenario, incorporating a 5% reduction in sales volumes from the cost-of-living crisis. It has been assumed that variable costs will move in line with the change in sales volumes and a further 2% price increase can be taken to mitigate some of the volume decline. The Group has identified further mitigating actions that could be taken including a deferral of an element of the planned maintenance expenditure, as well as a deferral of investment capital expenditure, in periods with lower liquidity headroom. The conclusion of this assessment was that the Directors are satisfied that the Group has adequate liquidity to withstand such a severe but plausible downside scenario. However, as above, the bank and private placement covenants are forecast to be breached in 2023 commencing from the 31 December 2022 test date; the forecast breaches that will require further amendments result from the continued recovery from COVID-19 and the impact of Omicron in H1.

On both the base case and severe but plausible downside case there is adequate headroom forecast throughout the period under review. However, as the forecasts indicate that covenants are expected to be breached within the next 12 months, the Directors have concluded that a material uncertainty over going concern exists. The Group is in negotiations with its lenders and, on the basis of the previous covenant waivers and amendments secured, and the return to pre-pandemic levels of trading during the current financial period, the Directors expect to be able to secure covenant amendments for financial year 2023 before 31 December 2022.

Considering the above, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future, being at least 12 months from the date of signing these financial statements. For this reason, the Directors continue to adopt the going concern basis of accounting in preparing these financial statements. However, a material uncertainty exists, in particular with respect to the ability of the Group to achieve the required covenant amendments, which may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

1 Accounting policies **(Continued)**

1.4 Turnover

Turnover is recognised at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates.

Turnover in respect of drink, food and accommodation is recognised at the point at which the goods or services are provided. Gaming machine income is recognised as earned. Rental income is recognised in the period to which it relates.

1.5 Intangible fixed assets - goodwill

Goodwill represents the excess of the cost of acquisition of unincorporated businesses over the fair value of net assets acquired. It is initially recognised as an asset at cost and is subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Goodwill is considered to have a finite useful life and is amortised on a systematic basis over its expected life, which is presumed to be 10 years.

1.6 Intangible fixed assets other than goodwill

Intangible assets acquired separately from a business are recognised at cost and are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets acquired on business combinations are recognised separately from goodwill at the acquisition date if the fair value can be measured reliably.

Intangible assets comprise computer software, which is considered to have a finite useful life.

Amortisation is recognised so as to write off the cost of assets less their residual values on a straight-line basis over their useful lives as follows:

Computer software	5 to 20 years

1.7 Tangible fixed assets

Land and buildings which are either freehold or are in substance freehold assets are classed as effective freehold land and buildings. This includes leasehold land and buildings with a term exceeding 100 years at acquisition/commencement of the lease or where there is an option to purchase the freehold at the end of the lease term for a nominal amount. All other leasehold land and buildings are classed as leasehold land and buildings.

Effective freehold land and buildings are initially measured at cost and subsequently measured at valuation, net of depreciation and any impairment losses. Leasehold land and buildings and plant, fixtures and fittings are measured at cost, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values on a straight-line basis over their useful lives as follows:

Effective freehold land and buildings	the lower of the lease period and 50 years
Leasehold land and buildings	the lower of the lease period and 50 years
Plant, fixtures and fittings	5 to 10 years

The Company's effective freehold land and buildings in respect of its pub estate are considered to have a residual value equal to their current valuation and as such no depreciation is charged on these assets.

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

1 Accounting policies **(Continued)**

1.8 Impairment of fixed assets

At each reporting end date, the Company reviews the carrying amounts of its tangible and intangible fixed assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.9 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Stocks are valued on a ‘first in, first out’ basis.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stock over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

1.10 Financial instruments

The Company has elected to apply the recognition and measurement provisions of IFRS 9 'Financial Instruments', the disclosure requirements of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 and the presentation requirements of paragraphs 11.38A and 12.25B of FRS 102 to account for all of its financial instruments.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifies its financial assets in one of the following two categories: at fair value through profit or loss and at amortised cost. The Company classifies its financial liabilities in one of the following two categories: at fair value through profit or loss and other financial liabilities.

The Company classifies a financial asset as at amortised cost if the asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest.

Financial instruments at fair value through profit or loss

Derivatives are categorised as financial instruments at fair value through profit or loss. The Company holds no other financial instruments at fair value through profit or loss.

1 Accounting policies **(Continued)**

Financial assets at amortised cost

Financial assets at amortised cost comprise trade debtors, other debtors and cash and cash equivalents in the balance sheet and are measured using the effective interest method.

Other financial liabilities

Non-derivative financial liabilities are classified as other financial liabilities. The Company's other financial liabilities comprise borrowings, other creditors and amounts owed to Group undertakings. 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 Company has transferred substantially all risks and rewards of ownership.

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

Derivative financial instruments

The Company uses derivative financial instruments to hedge its exposure to fluctuations in interest rates.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting end date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedging relationship.

1 Accounting policies **(Continued)**

Hedge accounting

At the inception of a hedging relationship, the Company documents the relationship between the hedging instrument and the hedged item along with its risk management objectives and strategy for undertaking the hedge transaction. At the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item.

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 profit or loss.

For the purpose of evaluating whether there is an economic relationship between the hedged item and the hedging instrument, the Company assumes that the benchmark interest rate is not altered as a result of interest rate benchmark reform. For a cash flow hedge of a forecast transaction and the purpose of assessing whether the forecast transaction is highly probable, the Company assumes that the benchmark interest rate will not be altered as a result of interest rate benchmark reform. In determining whether a previously designated forecast transaction in a discontinued cash flow hedge is still expected to occur, the Company assumes that the interest rate benchmark cash flows designated as a hedge will not be altered as a result of interest rate benchmark reform.

The Company ceases to apply these specific policies for assessing the economic relationship between the hedged item and the hedging instrument and undertaking its highly probable assessment of the forecast cash flows when the uncertainty arising from interest rate benchmark reform regarding the timing and the amount of the interest rate benchmark based cash flows is no longer present, or when the hedging relationship is discontinued.

When the basis for determining the contractual cash flows of the hedged item or hedging instrument changes as a result of interest rate benchmark reform and therefore there is no longer uncertainty arising about the cash flows of the hedged item or the hedging instrument, the Company amends the formal designation of that hedging relationship to reflect the changes required by interest rate benchmark reform. For this purpose the hedge designation is amended only to designate an alternative benchmark rate as the hedged risk, to update the description of the hedged item or to update the description of the hedging instrument. Such an amendment to the formal designation of a hedging relationship does not constitute the discontinuation of the hedging relationship or the designation of a new hedging relationship.

When the interest rate benchmark on which the hedged future cash flows had been based is changed as required by interest rate benchmark reform, for the purpose of determining whether the hedged future cash flows are expected to occur, the Company deems that the amount accumulated in the hedging reserve for that hedging relationship is based on the alternative benchmark rate on which the hedged future cash flows will be based.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss.

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 profit and loss account. 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 profit and loss account.

1 Accounting policies **(Continued)**

Trade debtors and other debtors

Trade debtors and other debtors are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment.

The Company applies the expected credit loss model to calculate any loss allowance for trade debtors and other debtors.

For trade debtors and other debtors that result from transactions that are within the scope of IFRS 15 ‘Revenue from Contracts with Customers’ or from transactions that are within the scope of IFRS 16 ‘Leases’ the loss allowance is measured as the lifetime expected credit losses. For any other trade or other debtors the loss allowance is measured as the 12-month expected credit losses unless the credit risk has increased significantly since initial recognition, in which case the lifetime expected credit losses are used.

The carrying amount of trade debtors and other debtors is reduced through the use of an allowance account, and the amount of the loss allowance is recognised in the profit and loss account within other net operating charges. The Company's policy is to write off trade debtors and other debtors when there is no reasonable expectation of recovery of the balance due. Indicators that there is no reasonable expectation of recovery depend on the type of debtor/customer and include a debt being over four months old, the failure of the debtor to engage in a repayment plan and the failure to recover any amounts through enforcement activity. Subsequent recoveries of amounts previously written off are credited against other net operating charges in the profit and loss account.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand.

Borrowings

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

If the basis for determining the contractual cash flows of borrowings measured at amortised cost changes as a result of interest rate benchmark reform, then the effective interest rate of the borrowings is updated to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform when the change is necessary as a direct consequence of the reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

Other creditors and amounts owed to Group undertakings

Other creditors and amounts owed to Group undertakings are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities

Financial liabilities are derecognised when the Company’s contractual obligations expire or are discharged or cancelled.

1.11 Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the Company.

1.12 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

1 Accounting policies **(Continued)**

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.13 Leases

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

Rentals payable under operating leases, including any lease incentives received, are charged to the profit and loss account on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

1.14 Exceptional items

Exceptional items are items that, by virtue of their nature, size or expected frequency, warrant separate disclosure in the financial statements in order to fully understand the Company's underlying performance.

1.15 Government grants

Government grants are recognised at the fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met and the grant will be received.

Government grants relating to turnover are recognised as income over the periods when the related costs are incurred. Grants relating to an asset are recognised in income systematically over the asset's expected useful life. If part of such a grant is deferred it is recognised as deferred income rather than being deducted from the asset's carrying amount.

2 Judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Critical judgements

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Exceptional items

The Company classifies certain items as exceptional in the profit and loss account, as set out in its accounting policy. Determining which items should be so classified requires judgements to be made as to which items meet the definition and warrant separate disclosure in the accounts.

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows:

Tangible fixed assets

The Company carries its effective freehold land and buildings at fair value. These properties are valued by external valuers on an open market value basis, primarily using earnings multiples derived from prices in observed transactions involving comparable businesses. The estimation of the fair values requires a combination of assumptions, including future earnings and appropriate multiples.

The carrying amount of tangible fixed assets is shown in note 14.

Valuation of interest rate swaps

The Company's interest rate swaps are held at fair value. The Company utilises valuations from counterparties who use a variety of assumptions based on market conditions existing at each balance sheet date. The fair values are highly sensitive to the inputs to the valuations, such as discount rates, analysis of credit risk and yield curves. The carrying amount of the interest rate swaps is shown in note 15.

3 Turnover

	2022 £m	2021 £m
Turnover by category		
Sale of goods	352.5	182.2
Rendering of services	31.6	13.4
	384.1	195.6

Turnover is attributable to the one principal activity of the Company. Turnover originates in the UK and is not materially different from turnover by destination.

4 Trading expenses

	2022 £m	2021 £m
Change in stocks of finished goods	0.6	(0.8)
Other operating income	(2.7)	(4.6)
Raw materials and consumables	103.1	54.5
Staff costs recharged from Group undertakings	74.8	47.5
Depreciation and other amounts written off tangible and intangible fixed assets	19.7	19.4
Other net operating charges	126.8	67.8
	322.3	183.8

Government grants of £0.5m (2021: £4.2m) in respect of COVID-19 assistance from local authorities are included within other operating income.

5 Exceptional (income)/costs

	2022 £m	2021 £m
Impairment of tangible fixed assets	26.8	45.1
Reversal of past impairment of tangible fixed assets	(27.7)	(24.4)
Impact of COVID-19	-	3.1
VAT claims	(3.3)	-
	(4.2)	23.8

At 3 July 2022 the Company’s effective freehold properties were revalued by independent chartered surveyors on an open market value basis. The Company also undertook an impairment review of its leasehold properties in the current period.

In the current period the Company recognised a credit in respect of amounts receivable from HM Revenue & Customs (HMRC) in relation to VAT on gaming machine income.

6 Operating profit/(loss)

Operating profit/(loss) for the period is stated after charging/(crediting):	2022 £m	2021 £m
Depreciation of tangible fixed assets	10.9	10.9
Impairment of tangible fixed assets	26.8	45.1
Reversal of past impairment of tangible fixed assets	(27.7)	(24.4)
Profit on disposal of tangible fixed assets	(0.8)	(0.7)
Amortisation of intangible fixed assets	8.8	8.5
Loss on disposal of intangible fixed assets	0.1	-
Operating lease charges	1.2	1.3

7 Auditor's remuneration

Auditor’s remuneration was negligible and borne by the ultimate parent company, Marston's PLC. The Company incurred no non-audit fees during the current or prior period.

8 Employees

The average monthly number of people employed by the Company during the period was nil (2021: nil). The Directors received no remuneration in respect of their services to the Company (2021: £nil). Details of staff costs recharged from Group undertakings are provided in note 4.

9 Interest receivable and similar income

	2022 £m	2021 £m
Interest income		
Other interest income	0.3	-

10 Interest payable and similar charges

	2022 £m	2021 £m
Interest on financial liabilities measured at amortised cost:		
Subordinated loan interest	173.8	153.6
Securitised debt interest	35.8	37.9
	209.6	191.5
Other finance costs:		
Other interest and similar charges	1.9	2.7
	211.5	194.2

11 Other gains and losses

	2022 £m	2021 £m
Interest rate swap movements		
Reclassification of losses on cash flow hedges to profit or loss	(9.9)	(11.5)
Hedge ineffectiveness on cash flow hedges (net of cash paid)	2.3	-
Change in the value of interest rate swaps held at fair value through profit or loss	97.2	18.5
	89.6	7.0

12 Taxation

	2022 £m	2021 £m
Current tax		
UK corporation tax on results for the current period	(30.4)	(23.0)
Adjustments in respect of prior periods	(0.3)	(0.4)
Total current tax	(30.7)	(23.4)

12 Taxation (Continued)

Deferred tax		
Origination and reversal of timing differences	28.0	(11.5)
Changes in tax rates	-	(3.3)
Total deferred tax	28.0	(14.8)
Total tax credit	(2.7)	(38.2)

The March 2021 Budget announced that the main rate of corporation tax would change from 19% to 25% with effect from 1 April 2023. This change was substantively enacted on 24 May 2021. This will increase the Company's future current tax charge accordingly. The deferred tax assets and liabilities at 1 October 2022 have been calculated at 25% (2021: 25%).

The tax credit for the period can be reconciled to the loss per the profit and loss account as follows:

	2022 £m	2021 £m
Loss before taxation	(55.6)	(199.2)
Expected tax based on the standard rate of corporation tax in the UK of 19% (2021: 19%)	(10.6)	(37.8)
Tax effect of expenses that are not deductible in determining taxable profit	0.6	3.1
Adjustments in respect of prior periods	0.8	(0.2)
Effect of change in corporation tax rate	-	(3.3)
Difference between deferred and current tax rates	6.5	-
Tax credit for the period	(2.7)	(38.2)

In addition to the amount recognised in the profit and loss account, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2022 £m	2021 £m
Deferred tax arising on:		
Revaluation of property	7.9	7.7
Cash flow hedges	9.5	(1.5)
Total tax recognised in other comprehensive income	17.4	6.2

13 Intangible fixed assets

	Goodwill	Computer software	Total
	£m	£m	£m
Cost			
At 3 October 2021	140.4	17.1	157.5
Additions - separately acquired	-	0.1	0.1
Disposals	(0.6)	(0.1)	(0.7)
At 1 October 2022	139.8	17.1	156.9
Amortisation and impairment			
At 3 October 2021	116.9	1.5	118.4
Amortisation charged for the period	7.9	0.9	8.8
Disposals	(0.5)	-	(0.5)
At 1 October 2022	124.3	2.4	126.7
Carrying amount			
At 1 October 2022	15.5	14.7	30.2
At 2 October 2021	23.5	15.6	39.1

Amortisation of intangible fixed assets is included within depreciation and other amounts written off tangible and intangible fixed assets as part of trading expenses in the profit and loss account.

14 Tangible fixed assets

	Effective freehold land and buildings	Leasehold land and buildings	Plant, fixtures and fittings	Total
	£m	£m	£m	£m
Cost or valuation				
At 3 October 2021	1,028.3	15.4	116.2	1,159.9
Additions	17.3	0.7	15.4	33.4
Disposals	(1.4)	-	(11.2)	(12.6)
Revaluation	35.8	-	-	35.8
At 1 October 2022	1,080.0	16.1	120.4	1,216.5
Depreciation and impairment				
At 3 October 2021	-	2.5	60.7	63.2
Depreciation charged in the period	-	0.1	10.8	10.9
Eliminated in respect of disposals	-	-	(10.9)	(10.9)
Impairment	-	1.3	-	1.3
At 1 October 2022	-	3.9	60.6	64.5
Carrying amount				
At 1 October 2022	1,080.0	12.2	59.8	1,152.0
At 2 October 2021	1,028.3	12.9	55.5	1,096.7

14 Tangible fixed assets **(Continued)**

The carrying amount of land and buildings comprises:

	2022 £m	2021 £m
Freehold	1,030.5	985.4
Leasehold land and buildings with a term greater than 100 years at acquisition/commencement	49.5	42.9
Leasehold land and buildings with a term less than 100 years at acquisition/commencement	12.2	12.9
	1,092.2	1,041.2

At 3 July 2022 the Company's effective freehold properties were revalued by independent chartered surveyors on an open market value basis. During the current and prior period various properties were also reviewed for impairment and/or material changes in value. These valuation adjustments were recognised in the revaluation reserve or within exceptional items in the profit and loss account as appropriate. The Company has concluded that the valuation as at 3 July 2022 does not differ materially from that which would have been determined using fair value as at 1 October 2022.

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

	2022 £m	2021 £m
Profit and loss account:		
Reversal of past impairment	27.7	24.4
Impairment	(26.8)	(45.1)
	0.9	(20.7)
Revaluation reserve:		
Unrealised revaluation surplus	(23.3)	41.8
Reversal of past revaluation surplus	56.9	(55.8)
	33.6	(14.0)
Net increase/(decrease) in shareholders' equity/tangible fixed assets	34.5	(34.7)

If revalued assets were stated on an historical cost basis rather than a fair value basis, the total amounts included would have been as follows:

	2022 £m	2021 £m
Carrying amount	835.3	817.2

The Company's properties are pledged as security for the securitised debt (note 20).

15 Financial instruments

	2022 £m	2021 £m
Carrying amount of financial assets		
Measured at amortised cost	26.8	31.5
Carrying amount of financial liabilities		
Measured at fair value through profit or loss		
- Derivative financial instruments	25.5	153.0
Measured at amortised cost	2,171.5	2,036.1

Details of the Company's long-term borrowings are given in note 20.

The only financial instruments that the Company holds at fair value are interest rate swaps which are classified as derivative financial instruments in the table above. The fair values of the Company's interest rate swaps are obtained using a market approach and reflect the estimated amount the Company would expect to pay or receive on termination of the instruments, adjusted for the Company's own credit risk. The Company utilises valuations from counterparties who use a variety of assumptions based on market conditions existing at each balance sheet date.

Hedging arrangements

The Company uses its interest rate swaps to fix the interest rate payable on the floating rate elements of its securitised debt (note 20). The fair value of the interest rate swap designated as a hedging instrument is £5.3m (2021: £35.6m).

16 Stocks

	2022 £m	2021 £m
Raw materials and consumables	1.5	1.3
Finished goods and goods for resale	4.6	5.2
	6.1	6.5

17 Debtors

Amounts falling due within one year:	2022 £m	2021 £m
Trade debtors	5.5	5.1
Corporation tax recoverable	17.1	12.8
Other debtors	0.3	0.6
Prepayments and accrued income	5.5	1.3
	28.4	19.8

18 Creditors: amounts falling due within one year

	Notes	2022 £m	2021 £m
Other borrowings	**20**	48.5	51.8
Amounts owed to Group undertakings		26.2	21.0
Other taxation and social security		6.6	7.7
Other creditors		5.1	6.4
Accruals and deferred income		24.6	28.2
		111.0	115.1

19 Creditors: amounts falling due after more than one year

	Notes	2022 £m	2021 £m
Other borrowings	**20**	2,091.7	1,956.9
Derivative financial instruments		25.5	153.0
		2,117.2	2,109.9

Borrowings included above which fall due after five years are as follows:

	2022 £m	2021 £m
Payable by instalments	422.2	470.7
Payable other than by instalments	1,490.4	1,316.6
	1,912.6	1,787.3

20 Borrowings

	2022 £m	2021 £m
12.5% subordinated loan due to ultimate parent	1,490.4	1,316.6
Securitised debt	649.8	692.1
	2,140.2	2,008.7
Payable within one year	48.5	51.8
Payable after one year	2,091.7	1,956.9

On 9 August 2005 Marston's Issuer PLC issued £805.0m of secured loan notes in connection with the securitisation of 1,592 pubs held in Marston's Pubs Limited. On 22 November 2007, a further £330.0m of secured loan notes (tranches A4 and AB1) were issued by Marston's Issuer PLC in connection with the securitisation of an additional 437 of the Company's pubs. The loan notes are secured over the properties and their future income streams and the funds were subsequently lent to Marston's Pubs Limited. On 15 January 2014 Marston's Pubs Limited purchased all the AB1 notes at par. The notes were immediately cancelled and the corresponding balance lent to the Company by Marston's Issuer PLC was treated as having been prepaid by way of set-off in consideration for the surrender of the notes.

20 Borrowings **(Continued)**

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. As a result of the COVID-19 outbreak the Company had in place certain covenant waivers in the current and prior period.

The principal terms and gross amounts outstanding (excluding deferred issue costs) for each tranche of securitised debt are as follows:

	2022 £m	2021 £m	Interest	Principal repayment period - by instalments	Expected average life	Expected maturity date
A2	164.0	194.4	Fixed/floating	2022 to 2027	5 years	2027
A3	200.0	200.0	Fixed/floating	2027 to 2032	10 years	2032
A4	133.7	146.1	Floating	2022 to 2031	9 years	2031
B	155.0	155.0	Fixed/floating	2032 to 2035	13 years	2035
	652.7	695.5				

The interest payable on each tranche is as follows:

	Before step up	After step up	Step up date
A2	5.1576%	SONIA + 0.1193% + 1.32%	July 2019
A3	5.1774%	SONIA + 0.1193% + 1.45%	April 2027
A4	3-month LIBOR + 0.65%	SONIA + 0.1193% + 1.625%	October 2012
B	5.6410%	SONIA + 0.1193% + 2.55%	July 2019

The Company has agreed with its bondholders to replace 3-month LIBOR with the compounded Sterling Overnight Index Average (SONIA) plus 0.1193% after the discontinuance of LIBOR.

All floating rate notes are economically hedged in full by the Company using interest rate swaps whereby all interest payments are swapped to fixed interest payable.

The Company also has a 12.5% subordinated loan due to Marston's PLC, the ultimate parent company. This loan is unsecured and subordinate to the amounts due under the securitisation.

21 Provisions for liabilities

	Notes	2022 £m	2021 £m
Deferred tax liabilities	**22**	47.6	2.2
		47.6	2.2

22 Deferred taxation

The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

Balances:	Liabilities 2022 £m	Liabilities 2021 £m
Accelerated capital allowances	21.3	15.7
Tax losses	(1.3)	(1.7)
Property related items	50.1	42.4
Other timing differences	(17.0)	(17.0)
Interest rate swaps	(5.5)	(37.2)
	47.6	2.2

Movements in the period:	2022 £m
Liability at 3 October 2021	2.2
Charge to profit or loss	28.0
Charge to other comprehensive income	17.4
Liability at 1 October 2022	47.6

23 Share capital

	2022 £m	2021 £m
Ordinary share capital		
Issued and fully paid		
1 ordinary share of £1 each	-	-

The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

24 Revaluation reserve

When effective freehold land and buildings are revalued any gains and losses are recognised in the revaluation reserve, except to the extent that a revaluation gain reverses a revaluation loss previously recognised in profit or loss or a revaluation loss exceeds the accumulated revaluation gains recognised in the revaluation reserve; such gains and losses are recognised in profit or loss. The associated deferred tax on revaluations is also recognised in the revaluation reserve. Amounts representing the equivalent depreciation are transferred to profit and loss reserves annually and the full amount is transferred on disposal of the associated property.

25 Hedging reserve

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the hedging reserve along with any associated deferred tax. Amounts recognised in the hedging reserve are reclassified to profit or loss in the periods when the hedged item is recognised in the profit and loss account.

26 Operating lease commitments

Lessee

The Company leases various properties and items of equipment under non-cancellable operating leases. The leases have various terms, escalation clauses and renewal rights.

At the reporting end date the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2022 £m	2021 £m
Within one year	0.5	0.6
Between one and five years	1.9	1.8
In over five years	11.1	11.5
	13.5	13.9

Lessor

The Company leases a proportion of its licensed estate and other unlicensed properties to tenants. The majority of lease agreements have terms of 21 years or less and are classified as operating leases.

At the reporting end date the Company had contracted with tenants for the following minimum lease payments:

	2022 £m	2021 £m
Within one year	8.1	9.3
Between one and five years	16.8	22.4
In over five years	9.3	12.4
	34.2	44.1

27 Capital commitments

	2022 £m	2021 £m
At 1 October 2022 the Company had capital commitments as follows:		
Contracted for but not provided in the financial statements:		
Acquisition of tangible fixed assets	2.6	0.9

28 Events after the reporting date

In respect of the Liquidity covenant associated with the Group's £40 million private placement borrowings for the fiscal month ending on or about 31 October 2022, there was a technical default, for which waivers have been secured. The Group received the waivers required from its bank and private placement lenders. This Liquidity covenant required the Group's total Liquidity headroom to be no less than £75 million. The Group also obtained prospective waivers from its private placement provider for the fiscal months ending on or about 30 November 2022 and 31 December 2022 Liquidity covenants during November 2022; required as a result of the continued recovery from COVID-19 and the impact of Omicron in H1 2022. The terms of the Group's bank and private placement borrowings remain unchanged.

29 Related party transactions

On 9 August 2005 the Company was loaned £805.0m by Marston's Issuer PLC and on 22 November 2007 a further £330.0m was loaned by Marston's Issuer PLC. In addition, interest rate swap contracts entered into by Marston's Issuer PLC are used by Marston's Pubs Limited in relation to both the above loans. Interest of £13.5m (2021: £18.4m) had accrued on the loans and associated swaps at 1 October 2022 and capital repayments of £42.8m (2021: £29.1m) were made during the period. The total amount payable in relation to the swap arrangements at the period end was £25.5m (2021: £153.0m). Total interest charged was £35.3m (2021: £37.4m) and the outstanding balance of the loans at the period end is disclosed in note 20.

30 Controlling party

The immediate parent undertaking is Marston's Pubs Parent Limited, which is the parent undertaking of the smallest group to consolidate the financial statements of Marston's Pubs Limited. The ultimate parent undertaking and controlling party is Marston's PLC, which is the parent undertaking of the largest group to consolidate the financial statements of Marston's Pubs Limited.

The registered office of both Marston's PLC and Marston's Pubs Parent Limited is Marston's House, Brewery Road, Wolverhampton, WV1 4JT and copies of their accounts can be obtained from the Group Secretary at this address.

31 Cash generated from operations

	2022 £m	2021 £m
Loss for the period after tax	(52.9)	(161.0)
Adjustments for:		
Taxation credited	(2.7)	(38.2)
Finance costs	211.5	194.2
Investment income	(0.3)	-
Profit on disposal of tangible fixed assets	(0.8)	(0.7)
Write-off of goodwill on disposal	0.1	0.1
Loss on disposal of intangible fixed assets	0.1	-
Amortisation and impairment of intangible fixed assets	8.8	8.5
Depreciation and impairment of tangible fixed assets	10.0	31.6
Other gains and losses	(89.6)	(7.0)
Movements in working capital:		
Decrease/(increase) in stocks	0.4	(1.0)
Increase in debtors	(3.9)	(2.5)
(Decrease)/increase in creditors	(2.7)	3.3
Intercompany movement	5.2	19.1
Cash generated from operations	83.2	46.4