17 May 2012

**MARSTON'S PLC**

**INTERIM RESULTS FOR THE 26 WEEKS ENDED 31 MARCH 2012**

# Growth in all divisions and increased interim dividend

**FINANCIAL HIGHLIGHTS**

- Group revenue up 7.6% to £342.1 million (2011: £317.9 million).
- Underlying profit before tax up 14.7% to £33.5 million (2011: £29.2 million).
- Managed like-for-like (lfl) sales up 3.6%; underlying operating margins up 0.3%; operating profit up 6.8%.
- Tenanted and Franchised operating profit up 3.1% with improving trend.
- Brewing revenue up 6.6%; operating profit up 2.7%.
- New swap arrangements reduce annual interest costs by £2-3 million to 2020.
- Underlying earnings per share up 14.6% to 4.7 pence per share (2011: 4.1 pence per share).
- Interim dividend up 5% to 2.2 pence per share (2011: 2.1 pence per share), with increase in dividend cover to 2.1x.

**STRATEGY HIGHLIGHTS**

- **Managed pub development –** On target to complete 25 new-build pubs this financial year, continuing to achieve strong returns with an EBITDA ROC of 18.5%.
- **The 'F-Plan' –** 11% increase in main meals served; food sales now represent 43% of retail sales.
- **Franchised pub development –** Implemented in 419 pubs to date with profit uplift in line with targets.
- **Market leader in premium ale –** Group ale volumes up 2%, with strong growth and market share gains in premium ale.

**CURRENT TRADING – 32 WEEKS TO 12 MAY**

- Managed lfl sales up 2.4% including lfl food sales up 2.7% and lfl wet sales up 2.3%.
- Tenanted and Franchised profits estimated to be up 3%.
- Own-brewed volumes in growth.

**Commenting, Ralph Findlay, Chief Executive Officer, said:**

"We have delivered a good performance in the first half year against a weak consumer backdrop. Our growth in revenue and earnings was underpinned by our strategic focus on delivering value, high service standards and a quality offering to our consumers and customers. Our confidence that we are well positioned for the future is reflected in our declared dividend increase."

**ENQUIRIES:**

**Marston's PLC**
Ralph Findlay, Chief Executive Officer
Andrew Andrea, Chief Financial Officer
Tel: 020 7796 4133 on Thursday 17 May 2012 only
01902 329516 thereafter

**Hudson Sandler**
Andrew Hayes/Andrew Leach
Tel: 020 7796 4133

- **NOTES TO EDITORS**
  - Marston's is a leading pub operator and independent brewer.
  - It has an estate of around 2,150 pubs situated nationally, comprising tenanted, leased, franchised and managed pubs.
  - It is the UK's leading brewer of premium cask and bottled ales, including Marston's Pedigree and Hobgoblin.
    The beer portfolio also includes Banks's, Jennings, Wychwood, Ringwood, Brakspear and Mansfield beers.
  - Marston's employs around 12,000 people throughout England and Wales.

## GROUP OVERVIEW

Our improved performance has been achieved in a challenging consumer environment, with above market rates of growth in managed pubs, tenanted and franchised pubs, and in brewing. Customers and consumers are under pressure, but our focus on value, high service standards and quality products is winning market share.

Revenue was 7.6% higher than last year, with improvement in all three operating divisions. Operating margin is 1.1% below last year due to the continued change of our profit mix towards managed and franchised operations.

Underlying operating profit increased by 1.8% to £67.6 million, including strong operational performances in our trading divisions offset by higher one-off central costs. Underlying profit before tax of £33.5 million is up 14.7% (2011: £29.2 million), reflecting lower interest costs. Underlying earnings per share increased by 14.6% to 4.7 pence per share (2011: 4.1 pence per share).

This growth in revenue and earnings continues the positive momentum achieved throughout the economic downturn, demonstrating the benefits of a resilient business model underpinned by a focused strategy, clear financial objectives, and effective operational management.

**New-build development.** We are on target to open 25 new-build pub-restaurants this financial year, and it is our intention to build 20-25 sites each year thereafter. The performance of the sites built since 2010 continues to be strong, with average turnover of around £27k per week, well ahead of our initial £20k per week target. Profitability also remains strong, producing an estimated annual return on capital of 18.5%, which represents an effective investment capital multiple of 5.4x EBITDA.

**The 'F-Plan'.** Our organic development plans are underpinned by the 'F-Plan' – a focus on food, families, females and forty/fifty somethings – which recognises the longer-term growth trends in the market. In the first half year we continued to make progress, with food sales mix increasing to 43% and the total number of meals served in the last year increasing by 11% to over 27.5 million.

**Development of the Franchise Agreement.** We have indicated our intention to convert around 600 pubs in the tenanted estate to our innovative Franchise Agreement. Franchising pubs is relatively new, but the introduction of this type of agreement in 2009 has enabled us to offer higher standards and greater consistency to pub customers, as well as providing a high level of support to the licensee. We have converted 419 pubs to date and the results have been strong and continue to improve. The model has significant potential to evolve further, and we are trialling Franchise Agreements which may be appropriate for a wider range of pubs, including managed pubs. We expect to be able to report further on those trials at the year end.

**'Localness' and premium ale strategy.** Positive trends include increased demand for premium brands, interest in local provenance and a desire for more choice. Our strategy focuses on each of these key areas and we remain market leaders in both the premium cask ale and bottled ale segments of the ale market.

**Dividend.** We are pleased to declare an increase in the interim dividend to 2.2 pence per share, which represents a 5% increase versus last year. Dividend cover has improved to 2.1x and the increase is consistent with the policy guidance we have provided over the past three years.

**Current trading.** We remain on target to make positive progress on each of our strategic objectives in this financial year.

In Managed Houses, like-for-like sales in the 32 weeks to 12 May increased by 2.4%, with food sales growth of 2.7%, and wet sales improving by 2.3%. Trading over the last nine weeks has been slightly below last year principally due to the tough comparatives in the final two weeks of April. In our tenanted and franchised business, profits continue to improve and are estimated to be up 3%. Brewing is performing well and in line with our expectations.

## BUSINESS REVIEW

### MANAGED HOUSES

Total revenue increased by 4.8% to £190.4 million reflecting the continued good performance of the new-build pub-restaurants and strong like-for-like sales, offset by the impact of the disposal of several pubs last year. Underlying operating profit of £28.3 million was up 6.8% (2011: £26.5 million).

Total like-for-like sales were 3.6% above last year, with each of our destination, community and town centre areas in growth. Like-for-like food sales were up by 3.9% and like-for-like wet sales up 3.6%. This performance has been achieved through offering our customers value for money and high service standards delivered in a consistent manner. Food sales now account for 43% of total sales (2011: 41%).

Importantly, the majority of the growth in food sales has been achieved through higher sales volume rather than through price increases. Our two key formats, ‘Two for One’ and ‘Milestone’, offer excellent value for money and have been key contributors to this volume growth. The annualised number of main meals served has increased by 11% in the first half year to over 27.5 million.

The attraction of our pubs to families is a key part of the ‘F-plan’. Our pub-restaurants have a designated family area, our training programmes incorporate ‘family-friendly’ training and our children’s menu won an industry award last year. As a consequence of this focused approach to families, the number of children’s meals served has increased by 8%, continuing a long-term growth trend in this area.

We also recognise that maintaining high service standards is key to driving organic growth. Last year, we introduced the Empathica customer feedback system into the estate, and initial results have been encouraging with performance ahead of industry benchmarks. Our training programme has focused on upselling skills and this has contributed to increased sales of starters, desserts and coffee, all of which have achieved double-digit growth in the period.

After a strong performance last year, wet sales continue to grow in volume and value. In particular, there has been an increase in premium drinks sales that is aligned to the growth of food within the estate. Premium cask ale has grown by 13%, premium lager is up 6% and wine now accounts for around 20% of our drinks volumes.

We achieved a 0.3% improvement in operating margin primarily through lower food and utility costs and tight labour cost control. We expect cost inflation to be manageable for the remainder of 2012 with the majority of costs now fixed.

Capital investment for the period was £37 million, of which £26 million was on new-build sites.

### TENANTED AND FRANCHISED

Total revenue increased by 14.2% to £98.1 million driven by the continued rollout of the Franchise Agreement. Encouragingly, overall volumes were up 4% in a declining market. Underlying operating profit was £39.8 million, an increase of 3.1% driven by the stable performance of the pubs on long-term traditional agreements and the success of our Franchise Agreement.

The estate comprises two categories of pub - approximately 1,000 pubs intended to remain on traditional tenancy and lease agreements, and around 600 pubs that we aim to convert to Franchise Agreements by the end of 2013.

In the 1,000 strong traditional estate, the hard work and dedication of our licensees, our continued focus on setting fair rents, and increased cost saving and business building support has contributed to a stable performance. Revenue is up 2.3%, with rent up 3.4%, and operating profit up 0.6% on last year.

The improvement in rents reflects our long-held view that our rent setting process is fair and sustainable. Tenant stability has also improved, with licensee turnover now around 8%, demonstrating that there is a close link between performance and the appointment of good licensees. Our performance also demonstrates that with a partnership approach and good, well-situated pubs, the tenanted and leased model can meet the challenges of the economic downturn.

In the remaining 600 pubs, profit growth is strong, up 13.5% on last year. This growth has been achieved through the continued rollout of the Franchise Agreement to 419 pubs demonstrating that the franchise model provides a significant growth opportunity. Licensee interest in the Franchise Agreement is high. We now have a good track record with a number of licensees over a period of years which illustrates that franchising offers a low-cost, low-risk entry point to the pub sector which is sustainable.

Operating margin for the division as a whole was 4.3% lower at 40.6%, primarily due to the rollout of the Franchise Agreement which drives a higher cash margin but lower margin percentage. Capital investment was £17 million in the first half year.

**BREWING**

Total revenue increased by 6.6% to £53.6 million, reflecting strong performances in the off-trade and the independent free trade. Underlying operating profit increased by 2.7% to £7.5 million.

Overall ale volumes were up 2% on last year, with bottled ale volumes up 10% and premium cask ale volumes up 2%. We have grown our share in both the premium cask ale and bottled ale categories.

Approximately 75% of our own-brewed beers are sold to third parties, up 1% on last year.

The basis of our ‘localness’ strategy is a response to the increasing relevance of local beers to the local consumer. The local brewery volumes all grew significantly in the period, with Wychwood up 9%, Jennings up 24% and Ringwood up 12%. The success of the strategy is further demonstrated by the continued growth in the independent free trade. Our account base has increased by 4% to around 3,250 customers, and premium cask ale sales are up 5%.

In the take home market we have built successfully on our strong 2011 performance, with premium ales up 6%. Take home volumes now account for 49% of our external ale sales volume, up 2% on last year. We have achieved strong premium ale performance across the brand range, with Hobgoblin up 10%, Ringwood up 52% and Jennings up 16%.

Operating margin was down 0.5% to 14.0% as a consequence of the higher mix of sales to the off-trade, which command a lower margin percentage. As indicated last year we have seen some inflationary pressure on costs but this has been mitigated through price increases and improvements in supply chain efficiency. We do not anticipate significant inflationary pressures for the remainder of the year.

**FINANCIAL REVIEW**

**Results for the 26 weeks to 31 March 2012**

| | **Revenue** | | **Underlying operating profit** *(see note 2)* | | **Margin** | |
|---|---|---|---|---|---|---|
| | **2012 £m** | 2011 £m | **2012 £m** | 2011 £m | **2012 %** | 2011 % |
| Managed Houses | **190.4** | 181.7 | **28.3** | 26.5 | **14.9** | 14.6 |
| Tenanted and Franchised | **98.1** | 85.9 | **39.8** | 38.6 | **40.6** | 44.9 |
| Brewing | **53.6** | 50.3 | **7.5** | 7.3 | **14.0** | 14.5 |
| Group Services | **-** | - | **(8.0)** | (6.0) | **(2.3)** | (1.9) |
| **Group** | **342.1** | 317.9 | **67.6** | 66.4 | **19.8** | 20.9 |

Group revenue was 7.6% up on last year, with growth in all divisions. Group operating margin was 1.1% down on last year driven by the increased mix of profits from our managed and franchised business. At segmental level margins improved slightly in Managed Houses, driven by tight cost control, and in Brewing margins were slightly lower due to a higher mix of sales to the off-trade where margins are lower.

Group Services' costs are higher, principally due to insurance costs and one-off advisory fees. We do not expect this level of increase in the second half year.

Underlying operating profit increased by 1.8% to £67.6 million and underlying earnings per share were up 14.6% to 4.7 pence per share (2011: 4.1 pence per share).

Operating profit after exceptional items was £67.6 million and basic earnings per share after exceptional items were 4.1 pence per share (2011: 5.3 pence per share).

**Capital expenditure**

Capital expenditure for the first half year was £59.4 million (2011: £49.1 million), as we continue to invest in the new-build pub development programme and the Franchise Agreement sites. We expect capital expenditure to be around £110 million for the year as a whole (2011: £111.5 million).

**Disposals**

Proceeds of around £21 million have been received from the disposal of 16 pubs and similar properties.

**Financing**

The Group has a £257.5 million bank facility to May 2016 and the amount drawn down at 31 March 2012 was £161 million. This facility, together with our long-term securitisation of approximately £1 billion, provides us with an appropriate level of financing headroom for the medium term, with a structure that continues to provide operational flexibility. The Group has significant headroom on both the banking and securitisation covenants, and importantly the Group has flexibility to transfer pubs between the two debt structures.

Net debt of £1,124 million at 31 March 2012 is broadly in line with last year.

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

**Pensions**

The deficit on our final salary pension scheme is now £2.6 million due to a lower discount rate and higher inflation assumption than the year end.

During the period we concluded the triennial valuation to 30 September 2011. The review concluded that the cash deficit position has improved by around £30 million to £75 million. As a consequence of the review we have agreed to maintain the current top-up contribution plan, which is around £11 million in financial year 2012, increasing by 5.75% annually. The current projections indicate that this payment programme should clear the funding deficit by around 2017.

**Taxation**

The underlying rate of taxation (before exceptional items) has reduced to 20.0% in 2012 from 20.9% in 2011. This is below the standard rate of corporation tax primarily due to credits in respect of deferred tax on property and the recognition of a benefit relating to prior year tax issues.

**Exceptional items**

There are net exceptional charges of £3.7 million after tax. This reflects a £2.8 million write-off of unamortised finance costs relating to the Group's previous bank facility, a net £4.6 million charge relating to the new swap arrangements referred to above and a £3.5 million charge which recognises interest charges arising from outstanding tax liabilities relating to unresolved tax issues. This has been offset by a £2.6 million gain in respect of the mark-to-market movement in the fair value of certain interest rate swaps. There is an exceptional tax credit of £4.6 million of which £2.0 million relates to the items described above and £2.6 million relates to deferred tax in respect of the change in the rate of corporation tax.

**Independent review report to Marston's PLC**

**Introduction**

We have been engaged by the Company to review the condensed set of financial statements in the interim financial information for the 26 weeks ended 31 March 2012, which comprises the Group Income Statement, the Group Statement of Comprehensive Income, the Group Cash Flow Statement, the Group Balance Sheet, the Group Statement of Changes in Equity and the related notes. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

**Directors' responsibilities**

The Interim Report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRS as adopted by the European Union. The condensed set of financial statements included in this Interim Report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

**Our responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the Interim Report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Report for the 26 weeks ended 31 March 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham                                                                                17 May 2012

**Responsibility Statement of the Directors in respect of the Interim Report**

The Directors confirm that these condensed consolidated interim financial statements have been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- material related party transactions in the first six months of the financial year and any material changes in the related party transactions described in the last Annual Report.

The Directors of Marston's PLC are listed in the Marston's PLC Annual Report for 1 October 2011 with the exception of the following changes in the period: Mr Miles Emley retired from the Board on the 27 January 2012 and Mr Nick Backhouse was appointed on 1 February 2012. A list of current Directors is maintained on the Marston's PLC website: www.marstons.co.uk.

By order of the Board:

| | |
|---|---|
| Ralph Findlay<br>Chief Executive Officer<br>17 May 2012 | Andrew Andrea<br>Chief Financial Officer<br>17 May 2012 |

## GROUP INCOME STATEMENT (UNAUDITED)

for the 26 weeks ended 31 March 2012

| | Note | **26 weeks to 31 March 2012** Before exceptional items £m | Exceptional items £m | Total £m | 26 weeks to 2 April 2011 Before exceptional items £m | Exceptional items £m | Total £m | 52 weeks to 1 October 2011 Total £m |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | 2 | **342.1** | **-** | **342.1** | 317.9 | - | 317.9 | 682.2 |
| Operating expenses | | **(274.5)** | **-** | **(274.5)** | (251.5) | - | (251.5) | (530.6) |
| **Operating profit** | 2 | **67.6** | **-** | **67.6** | 66.4 | - | 66.4 | 151.6 |
| Finance costs | 3, 4 | **(34.4)** | **(26.0)** | **(60.4)** | (38.1) | - | (38.1) | (76.1) |
| Finance income | 3, 4 | **0.3** | **15.1** | **15.4** | 0.9 | - | 0.9 | 2.2 |
| Movement in fair value of interest rate swaps | 3, 4 | **-** | **2.6** | **2.6** | - | 6.4 | 6.4 | 3.1 |
| Net finance costs | 4 | **(34.1)** | **(8.3)** | **(42.4)** | (37.2) | 6.4 | (30.8) | (70.8) |
| **Profit before taxation** | | **33.5** | **(8.3)** | **25.2** | 29.2 | 6.4 | 35.6 | 80.8 |
| Taxation | 3, 5 | **(6.7)** | **4.6** | **(2.1)** | (6.1) | 0.8 | (5.3) | (12.0) |
| **Profit for the period attributable to equity shareholders** | | **26.8** | **(3.7)** | **23.1** | 23.1 | 7.2 | 30.3 | 68.8 |

**Earnings per share:**

| | Note | 26 weeks to 31 March 2012 Total | 26 weeks to 2 April 2011 Total | 52 weeks to 1 October 2011 Total |
|---|---|---|---|---|
| Basic earnings per share | 6 | **4.1p** | 5.3p | 12.1p |
| Basic earnings per share before exceptional items | 6 | **4.7p** | 4.1p | 11.2p |
| Diluted earnings per share | 6 | **4.0p** | 5.3p | 12.0p |
| Diluted earnings per share before exceptional items | 6 | **4.7p** | 4.0p | 11.1p |

## GROUP STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

for the 26 weeks ended 31 March 2012

| | **26 weeks to 31 March 2012 £m** | 26 weeks to 2 April 2011 £m | 52 weeks to 1 October 2011 £m |
|---|---|---|---|
| Profit for the period | **23.1** | 30.3 | 68.8 |
| (Losses)/gains arising on cash flow hedges | **(12.2)** | 36.9 | (47.4) |
| Transfers to the income statement on cash flow hedges | **10.4** | 10.7 | 21.1 |
| Actuarial (losses)/gains on retirement benefits | **(17.4)** | 31.0 | 17.0 |
| Reversal of past revaluation surplus | **-** | - | (0.2) |
| Tax income/(expense) relating to components of other comprehensive income | **5.4** | (17.7) | 10.4 |
| Other comprehensive (expense)/income for the period | **(13.8)** | 60.9 | 0.9 |
| Total comprehensive income for the period | **9.3** | 91.2 | 69.7 |

## GROUP CASH FLOW STATEMENT (UNAUDITED)

for the 26 weeks ended 31 March 2012

| | Note | **26 weeks to 31 March 2012 £m** | 26 weeks to 2 April 2011 £m | 52 weeks to 1 October 2011 £m |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Operating profit before exceptional items | | **67.6** | 66.4 | 154.3 |
| Exceptional operating items | | **-** | - | (2.7) |
| Depreciation and amortisation | | **21.0** | 20.4 | 41.5 |
| **EBITDA*** | | **88.6** | 86.8 | 193.1 |
| Working capital and non-cash movements | | **(4.7)** | 2.2 | 12.9 |
| Difference between defined benefit pension contributions paid and amounts charged | | **(7.4)** | (7.1) | (13.0) |
| Income tax paid | | **(1.7)** | (2.9) | (10.6) |
| **Net cash inflow from operating activities** | | **74.8** | 79.0 | 182.4 |
| | | | | |
| **Investing activities** | | | | |
| Interest received | | **0.3** | 0.2 | 0.4 |
| Sale of property, plant and equipment and assets held for sale | | **21.4** | 3.7 | 13.3 |
| Purchase of property, plant and equipment and intangible assets | | **(59.4)** | (49.1) | (111.5) |
| Sale of subsidiary and associated business | | **-** | 2.0 | 1.9 |
| Movement in other non-current assets | | **1.4** | 1.0 | 2.1 |
| **Net cash outflow from investing activities** | | **(36.3)** | (42.2) | (93.8) |
| | | | | |
| **Financing activities** | | | | |
| Equity dividends paid | | **(21.0)** | (21.0) | (33.0) |
| Interest paid | | **(37.3)** | (36.8) | (70.3) |
| Arrangement costs of new bank facilities | | **(3.5)** | - | - |
| Proceeds of ordinary share capital issued | | **-** | - | 0.1 |
| Repayment of securitised debt | | **(10.4)** | (9.8) | (20.3) |
| Repayment of bank loans | | **(126.0)** | - | - |
| Advance of bank loans | | **161.0** | 14.0 | 29.0 |
| Repayment of loan notes | | **-** | (0.6) | (0.6) |
| **Net cash outflow from financing activities** | | **(37.2)** | (54.2) | (95.1) |
| **Net increase/(decrease) in cash and cash equivalents** | 8 | **1.3** | (17.4) | (6.5) |

**Reconciliation of net cash flow to movement in net debt**

| | Note | **26 weeks to 31 March 2012 £m** | 26 weeks to 2 April 2011 £m | 52 weeks to 1 October 2011 £m |
|---|---|---|---|---|
| **Increase/(decrease) in cash and cash equivalents in the period** | 8 | **1.3** | (17.4) | (6.5) |
| Cash inflow from movement in debt | | **(24.6)** | (3.6) | (8.1) |
| Change in debt resulting from cash flows | 8 | **(23.3)** | (21.0) | (14.6) |
| Non-cash movements and deferred issue costs | 8 | **0.2** | (2.0) | (4.0) |
| **Movement in net debt in the period** | | **(23.1)** | (23.0) | (18.6) |
| **Net debt at beginning of the period** | 8 | **(1,100.8)** | (1,082.2) | (1,082.2) |
| **Net debt at end of the period** | 8 | **(1,123.9)** | (1,105.2) | (1,100.8) |

* EBITDA – Earnings before interest, tax, depreciation and amortisation

## GROUP BALANCE SHEET (UNAUDITED)

as at 31 March 2012

| | Note | 31 March 2012 £m | 2 April 2011 £m | 1 October 2011 £m |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Goodwill | | **224.2** | 224.2 | 224.2 |
| Other intangible assets | | **24.6** | 24.3 | 24.6 |
| Property, plant and equipment | 7 | **2,027.4** | 1,960.0 | 1,989.4 |
| Deferred tax assets | | **64.0** | 42.1 | 63.3 |
| Retirement benefit surplus | | **-** | 13.9 | 7.1 |
| Other non-current assets | | **15.7** | 18.2 | 17.1 |
| | | **2,355.9** | 2,282.7 | 2,325.7 |
| **Current assets** | | | | |
| Inventories | | **22.5** | 19.4 | 18.8 |
| Trade and other receivables | | **60.3** | 67.5 | 74.5 |
| Derivative financial instruments | | **15.1** | - | - |
| Cash and cash equivalents | 8 | **54.3** | 50.3 | 76.6 |
| | | **152.2** | 137.2 | 169.9 |
| **Assets held for sale** | | **5.2** | 8.4 | 6.5 |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Borrowings | 8 | **(20.6)** | (25.2) | (41.1) |
| Derivative financial instruments | | **(15.8)** | (14.4) | (17.6) |
| Trade and other payables | | **(151.6)** | (123.3) | (143.9) |
| Current tax liabilities | | **(26.5)** | (27.4) | (25.8) |
| | | **(214.5)** | (190.3) | (228.4) |
| **Non-current liabilities** | | | | |
| Borrowings | 8 | **(1,157.6)** | (1,130.3) | (1,136.3) |
| Derivative financial instruments | | **(156.0)** | (61.3) | (135.2) |
| Retirement benefit obligations | | **(2.6)** | - | - |
| Deferred tax liabilities | | **(154.3)** | (165.7) | (159.3) |
| Other non-current liabilities | | **(0.4)** | (0.3) | (0.4) |
| Provisions for other liabilities and charges | | **(21.8)** | (29.6) | (24.9) |
| | | **(1,492.7)** | (1,387.2) | (1,456.1) |
| **Net assets** | | **806.1** | 850.8 | 817.6 |
| **Shareholders' equity** | | | | |
| Equity share capital | | **44.3** | 44.3 | 44.3 |
| Share premium account | | **332.6** | 332.5 | 332.6 |
| Merger reserve | | **41.5** | 41.5 | 41.5 |
| Revaluation reserve | | **415.1** | 405.5 | 411.4 |
| Capital redemption reserve | | **6.8** | 6.8 | 6.8 |
| Hedging reserve | | **(104.1)** | (45.4) | (101.4) |
| Own shares | | **(130.9)** | (130.9) | (130.9) |
| Retained earnings | | **200.8** | 196.5 | 213.3 |
| **Total equity** | | **806.1** | 850.8 | 817.6 |

# GROUP STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

## for the 26 weeks ended 31 March 2012

| | Equity share capital £m | Share premium account £m | Merger reserve £m | Revaluation reserve £m | Capital redemption reserve £m | Hedging reserve £m | Own shares £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|
| At 2 October 2011 | 44.3 | 332.6 | 41.5 | 411.4 | 6.8 | (101.4) | (130.9) | 213.3 | 817.6 |
| Profit for the period | - | - | - | - | - | - | - | 23.1 | 23.1 |
| Actuarial losses | - | - | - | - | - | - | - | (17.4) | (17.4) |
| Tax on actuarial losses | - | - | - | - | - | - | - | 2.4 | 2.4 |
| Losses on cash flow hedges | - | - | - | - | - | (12.2) | - | - | (12.2) |
| Transfers to the income statement on cash flow hedges | - | - | - | - | - | 10.4 | - | - | 10.4 |
| Tax on hedging reserve movements | - | - | - | - | - | (0.9) | - | - | (0.9) |
| Deferred tax on properties | - | - | - | 3.9 | - | - | - | - | 3.9 |
| Total comprehensive income/(expense) | - | - | - | 3.9 | - | (2.7) | - | 8.1 | 9.3 |
| Share-based payments | - | - | - | - | - | - | - | 0.2 | 0.2 |
| Disposal of properties | - | - | - | (0.2) | - | - | - | 0.2 | - |
| Dividends paid | - | - | - | - | - | - | - | (21.0) | (21.0) |
| Total transactions with owners | - | - | - | (0.2) | - | - | - | (20.6) | (20.8) |
| At 31 March 2012 | 44.3 | 332.6 | 41.5 | 415.1 | 6.8 | (104.1) | (130.9) | 200.8 | 806.1 |

## for the 26 weeks ended 2 April 2011

| | Equity share capital £m | Share premium account £m | Merger reserve £m | Revaluation reserve £m | Capital redemption reserve £m | Hedging reserve £m | Own shares £m | Foreign exchange reserve £m | Retained earnings £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|---|
| At 3 October 2010 | 44.3 | 332.5 | 41.5 | 401.7 | 6.8 | (79.5) | (130.9) | 0.2 | 163.9 | 780.5 |
| Profit for the period | - | - | - | - | - | - | - | - | 30.3 | 30.3 |
| Actuarial gains | - | - | - | - | - | - | - | - | 31.0 | 31.0 |
| Tax on actuarial gains | - | - | - | - | - | - | - | - | (8.3) | (8.3) |
| Gains on cash flow hedges | - | - | - | - | - | 36.9 | - | - | - | 36.9 |
| Transfers to the income statement on cash flow hedges | - | - | - | - | - | 10.7 | - | - | - | 10.7 |
| Tax on hedging reserve movements | - | - | - | - | - | (13.5) | - | - | - | (13.5) |
| Deferred tax on properties | - | - | - | 4.1 | - | - | - | - | - | 4.1 |
| Total comprehensive income | - | - | - | 4.1 | - | 34.1 | - | - | 53.0 | 91.2 |
| Share-based payments | - | - | - | - | - | - | - | - | 0.1 | 0.1 |
| Disposal of properties | - | - | - | (0.3) | - | - | - | (0.2) | 0.5 | - |
| Dividends paid | - | - | - | - | - | - | - | - | (21.0) | (21.0) |
| Total transactions with owners | - | - | - | (0.3) | - | - | - | (0.2) | (20.4) | (20.9) |
| At 2 April 2011 | 44.3 | 332.5 | 41.5 | 405.5 | 6.8 | (45.4) | (130.9) | - | 196.5 | 850.8 |

## NOTES

## 1 Basis of preparation of interim financial information

This interim financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The same accounting policies, presentation and methods of computation are followed in the interim financial information as applied in the Group's audited financial statements for the 52 weeks ended 1 October 2011.

The financial information for the 52 weeks ended 1 October 2011 is extracted from the audited accounts for that period, which have been delivered to the Registrar of Companies. The Auditors' report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The interim financial information does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The interim financial information for the 26 weeks ended 31 March 2012 and the comparatives to 2 April 2011 are unaudited, but have been reviewed by the Auditors.

The Group does not consider that any standards or interpretations issued by the International Accounting Standards Board (IASB), but not yet applicable, will have a significant impact on the financial statements for the 52 weeks ending 29 September 2012.

The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing this interim financial information.

## 2 Segment reporting

| | **31 March 2012** | | | | | |
|---|---|---|---|---|---|---|
| | **Managed Houses £m** | **Tenanted and Franchised £m** | **Brewing £m** | **Group Services £m** | **Unallocated £m** | **Group £m** |
| Revenue | **190.4** | **98.1** | **68.2** | **-** | **-** | **356.7** |
| Less: Sales to other segments | **-** | **-** | **(14.6)** | **-** | **-** | **(14.6)** |
| External revenue | **190.4** | **98.1** | **53.6** | **-** | **-** | **342.1** |
| Operating profit before exceptional items | **28.3** | **39.8** | **7.5** | **(8.0)** | **-** | **67.6** |
| Exceptional items | **-** | **-** | **-** | **-** | **-** | **-** |
| Operating profit | **28.3** | **39.8** | **7.5** | **(8.0)** | **-** | **67.6** |
| Total assets | **1,036.1** | **1,130.7** | **182.8** | **30.3** | **133.4** | **2,513.3** |
| Net assets | **940.7** | **1,098.4** | **150.4** | **16.6** | **(1,400.0)** | **806.1** |

| | 2 April 2011 | | | | | |
|---|---|---|---|---|---|---|
| | Managed Houses £m | Tenanted and Franchised £m | Brewing £m | Group Services £m | Unallocated £m | Group £m |
| Revenue | 181.7 | 85.9 | 64.7 | - | - | 332.3 |
| Less: Sales to other segments | - | - | (14.4) | - | - | (14.4) |
| External revenue | 181.7 | 85.9 | 50.3 | - | - | 317.9 |
| Operating profit before exceptional items | 26.5 | 38.6 | 7.3 | (6.0) | - | 66.4 |
| Exceptional items | - | - | - | - | - | - |
| Operating profit | 26.5 | 38.6 | 7.3 | (6.0) | - | 66.4 |
| Total assets | 997.5 | 1,111.1 | 176.0 | 37.4 | 106.3 | 2,428.3 |
| Net assets | 916.1 | 1,088.4 | 143.1 | 21.2 | (1,318.0) | 850.8 |

Operating profit before exceptional items is a key measure of profitability used by the chief operating decision maker.

Unallocated comprises net debt, tax, derivatives and retirement benefits.

## NOTES

## 3 Exceptional items

| | 31 March 2012 £m | 2 April 2011 £m |
|---|---|---|
| **Non-operating items** | | |
| Write-off of unamortised finance costs | **2.8** | - |
| Interest on outstanding tax liabilities | **3.5** | - |
| Transfer of cumulative hedging loss from equity to the income statement | **0.8** | - |
| Gain on recognition of interest rate swaps | **(15.1)** | - |
| Loss on recognition of interest rate swaps | **18.9** | - |
| Movement in fair value of interest rate swaps | **(2.6)** | (6.4) |
| | **8.3** | (6.4) |

*Write-off of unamortised finance costs*

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

*Interest on outstanding tax liabilities*

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

*Transfer of cumulative hedging loss from equity to the income statement*

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

*Recognition of interest rate swaps*

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

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

*Movement in fair value of interest rate swaps*

The Group's interest rate swaps are revalued to fair value at each balance sheet date. The movement in fair value of interest rate swaps which are not designated as part of a hedge relationship, and the ineffective portion of the movement in fair value of interest rate swaps which are accounted for as hedging instruments, are both recognised in the income statement. The net gain of £2.6 million (2011: £6.4 million) is shown as an exceptional item. In addition to this, a loss of £2.6 million (2011: gain of £47.6 million) has been recognised in the hedging reserve, in relation to the effective portion of the movement in fair value of interest rate swaps which are accounted for as hedging instruments.

*Impact of taxation*

The current tax credit relating to the above exceptional items amounts to £3.6 million (2011: £nil). The deferred tax charge relating to the above exceptional items amounts to £1.6 million (2011: £1.7 million). In addition, £2.6 million (2011: £2.5 million) has been credited as exceptional in relation to the change in corporation tax rate.

## 4 Finance costs and income

| | 31 March 2012 £m | 2 April 2011 £m |
|---|---|---|
| **Finance costs** | | |
| Bank borrowings | **4.6** | 6.5 |
| Securitised debt | **28.8** | 30.3 |
| Other interest payable | **1.0** | 1.3 |
| | **34.4** | 38.1 |
| **Exceptional finance costs** | | |
| Write-off of unamortised finance costs | **2.8** | - |
| Interest on outstanding tax liabilities | **3.5** | - |
| Transfer of cumulative hedging loss from equity to the income statement | **0.8** | - |
| Loss on recognition of interest rate swaps | **18.9** | - |
| | **26.0** | - |
| **Total finance costs** | **60.4** | 38.1 |
| **Finance income** | | |
| Deposit and other interest receivable | **(0.1)** | (0.1) |
| Net finance income in respect of retirement benefits | **(0.2)** | (0.8) |
| | **(0.3)** | (0.9) |
| **Exceptional finance income** | | |
| Gain on recognition of interest rate swaps | **(15.1)** | - |
| | **(15.1)** | - |
| **Total finance income** | **(15.4)** | (0.9) |
| **Movement in fair value of interest rate swaps** | | |
| Gain on movement in fair value of interest rate swaps | **(2.7)** | (6.4) |
| Loss on movement in fair value of interest rate swaps | **0.1** | - |
| | **(2.6)** | (6.4) |
| **Net finance costs** | **42.4** | 30.8 |

## 5 Taxation

The taxation charge for the 26 weeks ended 31 March 2012 has been calculated by applying an estimate of the effective tax rate before exceptional items for the 52 weeks ending 29 September 2012 (approximately 20.0%) (26 weeks ended 2 April 2011: approximately 20.9%) and includes a benefit relating to prior year tax issues.

| | 31 March 2012 £m | 2 April 2011 £m |
|---|---|---|
| Current tax | **2.3** | 5.0 |
| Deferred tax | **(0.2)** | 0.3 |
| | **2.1** | 5.3 |

The tax charge includes a current tax credit of £3.6 million (2011: £nil) and a deferred tax charge of £1.6 million (2011: £1.7 million) relating to the tax on exceptional items (note 3), together with an exceptional deferred tax credit of £2.6 million (2011: £2.5 million) in relation to the change in corporation tax rate.

## 6 Earnings per ordinary share

| | 31 March 2012 | | | 2 April 2011 | | |
|---|---|---|---|---|---|---|
| | **Earnings** | **Weighted average number of shares** | **Per share amount** | Earnings | Weighted average number of shares | Per share amount |
| | **£m** | **m** | **p** | £m | m | p |
| Basic earnings per share | **23.1** | **568.9** | **4.1** | 30.3 | 568.9 | 5.3 |
| Diluted earnings per share | **23.1** | **573.2** | **4.0** | 30.3 | 573.9 | 5.3 |
| **Underlying earnings per share figures** | | | | | | |
| Basic earnings per share before exceptional items | **26.8** | **568.9** | **4.7** | 23.1 | 568.9 | 4.1 |
| Diluted earnings per share before exceptional items | **26.8** | **573.2** | **4.7** | 23.1 | 573.9 | 4.0 |

Basic earnings per share are calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the period, excluding treasury shares and those held in the Executive Share Option Plan and the Long Term Incentive Plan.

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

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

## 7 Property, plant and equipment

| | **£m** |
|---|---|
| Net book amount at 2 October 2011 | 1,989.4 |
| Additions | 61.7 |
| Net transfers to assets held for sale and disposals | (3.2) |
| Depreciation, impairment and other movements | (20.5) |
| **Net book amount at 31 March 2012** | **2,027.4** |

| | **£m** |
|---|---|
| Net book amount at 3 October 2010 | 1,930.2 |
| Additions | 51.8 |
| Net transfers to assets held for sale and disposals | (1.9) |
| Depreciation, impairment and other movements | (20.1) |
| Net book amount at 2 April 2011 | 1,960.0 |

In the second half of the financial year an external valuation of the Group's properties will be undertaken.

There were no impairments in the period (26 weeks ended 2 April 2011: none).

## 8 Analysis of net debt

| | 31 March 2012 £m | Cash flow £m | Non-cash movements and deferred issue costs £m | 1 October 2011 £m |
|---|---|---|---|---|
| **Cash and cash equivalents** | | | | |
| Cash at bank and in hand | **54.3** | (22.3) | - | 76.6 |
| Bank overdrafts | **-** | 23.6 | - | (23.6) |
| | **54.3** | 1.3 | - | 53.0 |
| **Debt due within one year** | | | | |
| Bank loans | **0.8** | - | (0.7) | 1.5 |
| Securitised debt | **(21.4)** | 10.4 | (12.8) | (19.0) |
| | **(20.6)** | 10.4 | (13.5) | (17.5) |
| **Debt due after one year** | | | | |
| Bank loans | **(158.5)** | (35.0) | 1.2 | (124.7) |
| Securitised debt | **(999.0)** | - | 12.5 | (1,011.5) |
| Preference shares | **(0.1)** | - | - | (0.1) |
| | **(1,157.6)** | (35.0) | 13.7 | (1,136.3) |
| **Net debt** | **(1,123.9)** | (23.3) | 0.2 | (1,100.8) |

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

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

Included within cash at bank and in hand is an amount of £4.3 million (at 1 October 2011: £4.3 million), which relates to a letter of credit with Royal Sun Alliance Insurance, and an amount of £8.9 million (at 1 October 2011: £8.9 million), which relates to collateral held in the form of cash deposits. These amounts are considered to be restricted cash.

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

## 9 Material transactions

Additional contributions of £5.6 million (26 weeks ended 2 April 2011: £5.3 million) were made in the period to the Marston's PLC Pension and Life Assurance Scheme.

There were no significant related party transactions during the period (26 weeks ended 2 April 2011: none).

## 10 Capital commitments

Capital expenditure authorised and committed at the period end but not provided for in this interim financial information was £8.9 million (at 1 October 2011: £13.7 million).

## 11 Contingent liabilities

There have been no material changes to contingent liabilities since 1 October 2011.

## 12 Seasonality of interim operations

The Group's financial results and cash flows have, historically, been subject to seasonal trends between the first and second half of the financial year. Traditionally, the second half of the financial year sees higher revenue and profitability, as a result of better weather conditions.

There is no assurance that this trend will continue in the future.

## 13 Events after the balance sheet date

An interim dividend of £12.5 million, being 2.20p (2011: 2.10p) per ordinary share, has been proposed and will be paid on 2 July 2012 to those shareholders on the register at the close of business on 1 June 2012. This interim financial information does not reflect this dividend payable.

## 14 Principal risks and uncertainties

The Group set out in its 2011 Annual Report the principal risks and uncertainties that could impact its performance; these remain unchanged since the Annual Report was published and are expected to remain unchanged for the second half of the financial year.

## NOTES

### 15 Interim results

The interim results were approved by the Board on 17 May 2012.

### 16 Copies

Copies of these results are available on the Marston's PLC website (www.marstons.co.uk) and on request from The Company Secretary, Marston's PLC, Marston's House, Brewery Road, Wolverhampton, WV1 4JT.