15 October 2008

Marston's PLC

Year-end Trading Statement

Marston's PLC issues the following update on trading for the year ended 4 October 2008. The preliminary results are expected to be announced on 5 December 2008.

Trading

Our performance has been resilient in difficult market conditions. We expect earnings before exceptional items for the year ended 4 October 2008 to be in line with our expectations after benefiting from a slightly reduced tax charge.

Group turnover was approximately 2% ahead of last year. During the second half-year declining consumer confidence and increasing inflationary pressures contributed to very testing market conditions. These factors, together with poor summer weather, are reflected in more subdued sales and, as anticipated, continued pressure on margins due to rising food, energy and brewing costs. Weaker sales and margin pressure have been mitigated by good cost management.

In Marston's Inns and Taverns, our managed pub division, like-for-like sales were 0.6% below last year against strong comparatives (2007: 4.6% growth). Food sales now account for 36% of total retail sales, and our value for money operating formats in particular have continued to perform strongly. Average spend per head on food, volumes of meals sold and like-for-like food sales were all ahead of last year. During the year 16 new pubs and bars were opened.

In Marston's Pub Company, our tenanted and leased pub division, like-for-like profit was 1.7% below last year including a decline of around 3% in the second half-year. The level of support offered to tenants and lessees of Marston's Pub Company has increased to approximately £2 million reflecting market conditions. Measures available to support retailers include rent alleviations, discounts, business building tools, and assistance in reducing costs. Those pubs let on substantive agreements account for 83% of our tenanted and leased estate and achieved profit growth overall.

In Marston's Beer Company we continued to increase market share in a weak beer market which saw a decline of around 10% in on-trade beer volumes. Total volumes of own brewed beers increased by 5.0% and volumes of premium ale by 17.5% including the acquisitions of Ringwood and Wychwood Brewery.

Exceptional items will include a cost of approximately £4 million relating principally to the reorganisation of head office support functions completed during the summer which will improve operational efficiency and reduce future costs.

Balance Sheet

Cash generation remains robust, and our balance sheet is supported by a substantially freehold pub estate.

Net debt as at 4 October was approximately £1.27 billion. Capital expenditure was around £115 million for the year. We sold 43 pubs and other properties for in excess of £20 million, which is slightly above the book value. This year capital expenditure will be reduced to below £60 million. Maintenance capital will be at similar levels to last year but we will open fewer new pubs as a result of curtailed investment by house-builders limiting the availability of new sites. As a consequence of this and continued disposals of smaller tenanted pubs we intend to reduce net debt in this financial year.

The financing structure of the Group is based principally on long term secured debt, which is virtually all at fixed rates of interest. We have no financing requirements until August 2010, when our bank facility is due to be renewed. The available headroom under this facility was approximately £160 million as at 4 October 2008.

Real Estate Investment Trust (REIT)

HM Revenue & Customs have agreed in principle that Marston's could convert to REIT status whilst retaining all existing property interests and business operations. We continue to review the potential for realising greater shareholder value by restructuring as a REIT but, as previously highlighted, conversion would involve material costs and risks which need to be weighed against potential tax benefits. Continued operational flexibility is a key consideration. We will update shareholders as and when appropriate.

Outlook

Pubs are subject to comprehensive regulation and are supervised by trained staff committed to the responsible retailing of alcohol. However, recently introduced legislation and increases in taxation have increased the commercial pressures on pub operators and their tenants and have contributed to an increasing alcohol price differential between pubs and the off-trade. In particular, this has disadvantaged many tenants in comparison to larger retailers.

Costs relating to employment, food, energy and brewing raw materials are expected to increase by around £12 million next year, in addition to higher duty. We aim to offset a significant proportion of these increases through better purchasing terms and other efficiency measures including a cost reduction of at least £4 million per year following the recently completed reorganisation of head office support functions. As these increases mainly affect our managed pubs we estimate that like-for-like sales growth of approximately 3% is required to achieve a similar level of operating profit in Marston's Inns and Taverns this year.

Commenting, Ralph Findlay, Chief Executive, said:

'We have a management team with experience of operating in testing market conditions. Although we remain cautious about the immediate trading outlook we believe we are relatively well positioned for the current environment, with a focus on value for money in our managed pubs; a tenanted and leased business operated with a view to sustainability and shared risk and reward; and a great range of premium cask ales.'

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