



22 May 2009

**MARSTON'S PLC**

**INTERIM RESULTS FOR THE 26 WEEKS ENDED 4 APRIL 2009**

- Resilient performance in difficult trading environment
  - Turnover of £307.5m, 2.8% below last year (2008: £316.4m)
  - Operating margin of 21.3%, 1.6% below last year (2008: 22.9%)
  - Underlying operating profit of £65.4m, 9.9% below last year (2008: £72.6m)
- Continued growth in food sales in Marston's Inns & Taverns
- Operating margin in Marston's Pub Company unchanged
- 18% increase in volumes of own brewed ale
- Profit before tax and exceptional items down 20.9% to £27.7m (2008: £35.0m).
- Underlying\* basic earnings per share of 8.1p (2008: 10.0p).
  - Basic earnings per share of 4.9p (2008: 8.9p).
- Interim dividend unchanged at 4.80p (2008: 4.80p)

**Ralph Findlay, Chief Executive, commented:**

“Trading since 4 April has been in line with our expectations. We remain cautious because of the weak economy, but we are encouraged by the modest improvement in trading since mid-February. We remain well positioned to benefit from any sustained up-turn in the trading environment and to exploit opportunities presented by the changing demands of customers, including increased tourism in the UK. Costs remain firmly under control and cash generation strong.

In our managed house business, total like-for-like sales for the 13 weeks to 16 May were 1.0% above last year including food sales up by 5.6%. Trends in Marston's Pub Company and in Marston's Beer Company are consistent with those reported for the half-year.

We are confident of meeting our expectations for the year as a whole.”

\* The underlying results reflect the performance of the Group before exceptional items. The Directors consider that these figures provide a useful indication of the underlying performance of the Group.

**ENQUIRIES:**

**Marston's PLC**

Ralph Findlay, Chief Executive  
Andrew Andrea, Finance Director

**Hudson Sandler**

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To access interviews with Ralph Findlay and Andrew Andrea, which are available in video, audio and text, go to [www.cantos.com](http://www.cantos.com). High quality images for the media to access and download free of charge are available from Visual Media Online at [www.vismedia.co.uk](http://www.vismedia.co.uk)

## NOTES TO EDITORS

- Marston's is a leading independent brewer and pub operator.
- It has an estate of over 2,200 pubs and bars situated across England and Wales and is the UK's leading brewer of premium cask ales, including Marston's Pedigree and Jennings Cumberland Ale. The beer portfolio also includes Banks's, Brakspear, Hobgoblin, Mansfield and Ringwood beers.
- The estate comprises 1,718 tenanted or leased pubs, and 503 managed pubs including Marston's Tavern Table, Two for One and Pitcher & Piano.
- Marston's employs over 11,500 people throughout England and Wales.

## Chairman's Statement

Our performance has been resilient in the first half-year and we have made good progress in implementing the operating priorities described in the Chief Executive's Review. Although trading conditions are difficult, we have benefited from our vertically integrated business model; a substantially freehold pub estate with a focus on community pubs; outstanding value for money; fair, sustainable agreements with tenants and lessees; and a growing brewing business. We have a strong management team with experience of operating in testing market conditions.

The smoking ban, the economic environment and significant increases in taxation and legislation have accelerated consumer trends and contributed to a marked polarisation in the performance of pubs. There is clear evidence that pubs in strong locations with a clear customer focus continue to prosper, whilst weaker pubs with limited amenities and customer offers have experienced declines. Our focus on pub quality, which has long been at the heart of our strategy for pub investment and divestment, is therefore critical to longer term success. We also have a track record demonstrated over many years of providing significant operational support to our tenanted pub operators to improve their businesses and this has positioned them well to meet today's trading challenges.

We also have a leading market position in premium ale and strong local franchises based on the demand for our regional beers. We are the UK's largest brewer of premium cask ale and the Marston's, Jennings, Banks's, Ringwood and Wychwood breweries are thriving despite the weak performance of the UK beer market.

## Results

Turnover of £307.5 million was 2.8% below last year (2008: £316.4 million). Underlying operating margin before exceptional items was 1.6% below last year at 21.3% (2008: 22.9%). Adjusting for the timing of Easter, the underlying operating margin would be around 21.7%, in line with our plans and reflecting good cost management. Annualised cost increases of approximately £12 million were substantially offset through improved purchasing and overhead reductions.

Profit before taxation and exceptional items was £27.7 million, 20.9% below last year (2008: £35.0 million). Exceptional items of £12.0 million before taxation relate to changes in the fair value of certain interest rate swaps, which is a non-cash item. Profit after taxation and exceptional items was £13.2 million (2008: £24.4 million).

Basic earnings per share before exceptional items was 8.1 pence, 19.0% below last year (10.0 pence). Basic earnings per share after exceptional items was 4.9 pence (2008: 8.9 pence).

## Financing

Net debt as at 4 April 2009 was £1,296.9 million (2008: £1,269.7 million).

We announced on 13 January 2009 that we have extended £295 million of our existing £400 million bank facility from August 2010 to August 2013 providing funding for our longer term requirements.

Total capital expenditure was £31.7 million (2008: £63.3 million) reflecting reduced investment capital in new site development, although in the 53 weeks since 29 March 2008 we have invested £85.6 million. As previously announced, capital expenditure for the full year is expected to be around £50 million in 2009 compared to £117.2 million in 2008, consistent with our objective to reduce net debt in this financial year and progressively thereafter.

Proceeds of over £13 million were generated from the disposal of 32 smaller pubs and other properties, achieving book value overall.

## Dividend

The Board declares an unchanged interim dividend of 4.80 pence per share which will be paid on 30 June 2009 to those shareholders on the register at the close of business on 5 June 2009. This represents dividend cover, before exceptional items, of around 1.7 times for the half-year.

As previously stated, our dividend policy is to maintain a dividend cover of around two times over the medium term although the level of cover in any one year may vary having regard to the immediate trading environment and longer term considerations.

## **Valuation**

As a consequence of an impairment review we have reduced book values by £42.2 million. This adjustment is largely reflected in the Group Statement of Recognised Income and Expense.

## **Taxation and regulatory matters**

Pubs and breweries face significant pressures as a result of the regulatory and fiscal approach the Government has taken to this important part of the economy. Recent and proposed penal increases in taxation are extremely unwelcome, particularly so in the current economic climate. This is inconsistent with achieving sustainable tax revenues from the industry and fails to reflect the important role that pubs play in sustaining communities.

The Business and Enterprise Committee has requested that the relationship between operators of tenanted and leased pubs and licensees should be reviewed by the Competition Commission. Marston's has had a consistent approach over many years to sharing risks and rewards with licensees, and in setting sustainable, fair rents. We were the first in the industry to introduce an independent Rent Panel, and to ensure that all our agreements meet standards of plain English; we will continue to develop the model for the simple reason that our success depends upon that of our licensees.

The Government intends to introduce a mandatory code on alcohol retailing. Whilst we support legislation that contributes to the responsible retailing of alcohol wherever it is sold, we are concerned about the effectiveness of the proposals and the cost implications.

## **Prospects**

Marston's is a profitable and cash generative business with high quality assets and brands, and is well positioned to benefit from positive longer term trends in casual dining and demand for differentiated offers. We recognise the challenges that the sector faces, and our focus will continue to be on offering good service and exceptional value for money; promoting a sustainable and fair basis for our dealings with tenants and lessees; the development of an outstanding range of ale brands; the tight control of costs and cash management. As a result, we are well placed to trade through testing times and exploit the opportunities the market offers.

**David Thompson**  
Chairman

## Chief Executive's Review

These interim results illustrate the strength of our vertically integrated business model and the high quality of our pubs and beer brands. We are well positioned to continue to develop our offers to meet changing consumer demands and the challenges the sector currently faces. We have made good progress implementing the operating priorities set out last year, and have produced half-year results which demonstrate the appeal of our value for money market position.

Conditions for the industry have been challenging as the economic environment has worsened, affecting consumer confidence and contributing to the closure of thousands of pubs across the sector. These pubs are often located in weaker trading areas and are under-invested, with limited amenities. As a consequence, they have limited customer appeal. The pressures on these and all pubs have been exacerbated by high taxation and increasingly costly and unnecessary regulations.

It was in anticipation of these changes that we have placed a high priority on improving the average quality of the pub estate in recent years. Over the last five years we have achieved this by developing over 50 new build food-led managed houses throughout England and Wales; the acquisition of pub businesses which have extended our trading geography; and the disposal of around 400 lower-end tenanted pubs.

We have also improved the range of our ale portfolio with the acquisitions of Jennings Brewery in the Lake District (2005); Ringwood Brewery in the New Forest (2007); and the Wychwood Brewery in Oxfordshire (2008). As a consequence of these acquisitions we are the leading brewer in the growing cask premium ale sector (22.7% share) and in premium bottled ale in the off-trade (17.7% share). This investment in premium ale brands has complemented the improvement in pub quality; the wider geographical spread of our pub estates; and the increasing importance of food in our pubs.

For an estimated 65% of our customers, dining is the primary reason for visiting our managed pubs. The eating-out market has been in steady growth for several years, and has remained strong despite current economic conditions. Food sales now represent around 37% of total retail sales in our managed pubs having increased from around 23% in 2001 through a combination of strong organic growth, acquisitions, and new-build pubs. We anticipate that food sales will represent around 40% of retail sales in the next 2-3 years. We continue to attract customers by offering good value for money and high quality food offers in an attractive pub environment.

In our tenanted and leased estate our ability to attract good quality licensees has also contributed to our resilient performance. The majority of pubs in Marston's Pub Company continue to perform well, and we have continued to develop our range of commercial support and services provided. Where appropriate, support takes the form of rent alleviation or increased discounts. The cost of these measures remains broadly in line with last year.

Last year, with this backdrop of longer term development to meet established trends, we identified certain operational priorities for the Group in 2009 to reflect the more recent deterioration in the general economic environment and the need to manage the business as tightly as possible in difficult conditions. These operating priorities are designed to ensure resilience during the current trading environment and to maintain investment for the longer term. The key operating priorities are:

- 1. Optimising pricing and promotions.** There has been considerable growth in value offers in all segments of the market. We have extended offers such as '2 Meals for £10' throughout the week, and increased the range of promoted lines in managed houses. 'Value for money' is a core consumer proposition in Marston's Inns & Taverns' pubs. In Marston's Pub Company, we did not pass on supplier price increases to tenants and lessees for several months to improve their competitive position in the market; have kept prices of our own-brewed beers competitive; and reduced prices for wines, spirits and minerals.
- 2. A focus on innovation and current consumer trends.** We have introduced a variable rent agreement in Marston's Pub Company whereby rent is linked to achieved sales volumes. It is designed to be attractive to tenants in smaller wet-led pubs, and we are in discussions with over 70 prospective licensees. One attraction of the agreement is to reduce risk for new tenants.
- 3. A rigorous approach to pub standards.** We have continued to invest in similar levels of maintenance expenditure to previous years whilst at the same time reducing capital investment overall.

4. **Improved management of our beer brand portfolio.** Having extended the distribution of our wide range of ales to all managed pubs, tenants and free trade customers we have seen strong volume growth in own-brewed beers overall, and a 1.6% growth in ale volume in our managed pubs. In the off-trade, our premium bottled ales also saw strong growth.
5. **Tightly controlled costs and continued delivery of excellent customer service.** We have substantially offset cost increases of around £12 million for the full year through improved purchasing and overhead reductions. For example, in 2008 we combined several support services across the Group to improve efficiency, reducing costs by around £4 million per year.
6. **Aim to reduce net debt.** We expect net debt to be below last year by the end of the current financial year, and aim to reduce debt progressively thereafter. Capital expenditure for the first half-year was £31.7 million (2008: £63.3 million), and is expected to be around £50 million for the year as a whole (2008: £117.2 million).
7. **Ensure customer and consumer knowledge is current and meaningful.** We will continue to conduct regular quantitative and qualitative analysis to test customer and consumer opinion.
8. **Maintain high ethical and environmental standards.** The Company is an active supporter of a number of industry bodies and will continue to actively promote the responsible retailing of alcohol. The Company is a member of the "FTSE4Good" Index and has been recognised by the Carbon Trust for work on environmental standards.

### Marston's Inns and Taverns

As at 4 April 2009 the estate comprised 503 pubs (2008: 553 pubs). Since 4 October 2008, 4 new pubs have been opened and 7 have been sold. In the second half of last year 47 smaller managed pubs were transferred to Marston's Pub Company. These changes reflect our continuing objective to develop and improve the average quality of the estate.

Turnover of £173.7 million was 5.5% below last year, principally due to the transfer of 47 pubs to Marston's Pub Company. Underlying operating margin was 14.0% (2008: 15.4%), whilst EBITDA operating margin was 1.0% below last year at 20.7% (2008: 21.7%). Operating profit of £24.3 million was 14.1% below last year (2008: £28.3 million).

Like-for-like sales for the 28 weeks to 18 April 2009 (including the Easter holiday in both years) were 1.8% below last year. The period to mid-February was relatively weak although, as the weather improved and promotional offers were extended, sales improved such that over the last 9 weeks to 18 April 2009 like-for-like sales increased by 3.2%.

Like-for-like wet sales for the same 28 week period to 18 April 2009 were 3.4% below last year. This was a good performance compared to the 9% decline in volumes reported for the UK beer market, and is a consequence of our continuing focus on price, range and quality within our drinks portfolio. Our performance was helped by the increased availability of our own ales across the estate which contributed to growth in own-brewed ales of 1.6% including growth of 5.6% in premium ale. The Marston's and Ringwood beers, Brakspear Oxford Gold, and Hobgoblin all saw strong growth.

Food sales now comprise 37% of total sales in the division (2008: 36%). Like-for-like food sales for the same 28 weeks were 1.3% ahead of last year, having seen significant growth over the previous three years. Sales of main courses increased by around 1% and of desserts by around 7%. Menu development has included the introduction of new value for money menus across the estate in December 2008, including a new range of desserts priced from £3.25.

Promotional activity has been extended as price competition in the pubs and restaurant market has intensified. Examples include more 'Two For One' offers, with main meals typically priced at £7.25 to £8.75; the extension of '2 Meals for £10' offers seven days a week; and Pitcher & Piano menus priced at £5 including a drink. This promotional activity, when offered in a well-invested pub environment with good service, provides a compelling and competitive customer offer.

Income from rooms increased by 4.9%, with higher occupancy and achieved room rates following our investment in around 800 rooms in over 50 pubs last year. 'Marston's Inns' offers a very high standard of accommodation in attractive pubs from £49.95 per night including breakfast.

The four new-build pubs opened in the first half-year were in Peterborough, Chapel-En-Le-Frith, Oldham, and Ashford, Kent. New site development has been curtailed consistent with our overall objective to reduce debt. Nevertheless, we continue to acquire sites for future development as this type of investment has produced consistently high returns, and is more precisely targeted both geographically and in terms of the customer offer. Over the last five years we have built over 50 new pubs – mainly food pubs.

## Marston's Pub Company

As at 4 April 2009 the tenanted and leased pub estate comprised 1,718 pubs (2008: 1,721 pubs). Since 4 October 2008, 25 pubs have been sold. In the second half of last year 47 smaller managed pubs were transferred from Marston's Inns and Taverns. These pubs have been let successfully.

Total turnover was £86.3 million, 6.9% below last year (2008: £92.7 million). Underlying operating margin remained unchanged at 46.7% (2008: 46.7%), whilst EBITDA operating margin increased by 0.1% to 52.6% (2008: 52.5%). Underlying operating profit of £40.3 million was 6.9% below last year (2008: £43.3 million).

Drinks sales have continued to decline in the tenanted sector as a consequence of the weak economy, price competition from other retailers including managed pubs and supermarkets, and the introduction of the smoking ban in 2007 which stimulated more licensees to develop their food offers. The Government's approach to taxation has also affected tenanted pubs disproportionately, as they are less able than other larger retailers to manage increased costs.

The impact of these pressures has been to accelerate established trends and contribute to increased polarisation in the performance of pubs in the sector. Good, well positioned pubs, which are run by dedicated licensees and let at fair rents, continue to trade well despite the difficult market. This is evident in the fact that the 80% or so of our tenanted and leased estate which is let on the basis of substantive agreements – not short term or tenancy at will agreements, or pubs operated by agencies – are generating profits in line with last year.

Pubs which do not meet these criteria are less likely to attract good tenants, and require close management attention and support. This year we expect to invest between £2 million to £3 million in tenant support. The support offered is wide-ranging and includes advice to help tenants grow their businesses, such as that provided at our regular 'trade fairs', and the opportunity to consider ways of cutting costs, for example by using suppliers to Marston's Inns and Taverns to enjoy economies of scale across a wide range of goods and services.

Where appropriate, we will offer support by alleviating rents payable for a definite period, and will consider whether higher discounts are required because of local price competition. This year we decided to withhold supplier price increases for several months to enable tenants and lessees to improve their competitive position, and have kept prices of our own-brewed beers competitive. We have also reduced prices for wines, spirits and minerals.

The range of 'added-value' services provided by Marston's Pub Company is broad, encompassing the continuing development of on-line services to business-building initiatives such as the availability of a low cost 'web-builder' facility and targeted drinks promotions. These are only effective however when they are supported by:

1. **Recruitment of good licensees.** Marston's Pub Company seeks to differentiate itself in the market by operating in a transparent, open and fair way with all tenants and lessees, and by offering industry-leading agreements and support. We recently introduced a groundbreaking 'variable rent' agreement which is attractive for tenants of smaller, wet-led pubs and are in discussions with over 70 tenants who have expressed interest.
2. **Effective training for licensees and our own staff.** Marston's Pub Company offers a wide range of training modules. Our in-house programme 'Pedigree People' recently won the 'BII Training Programme of The Year' at the National Innkeeping Training Awards.
3. **Good communication.** Each Business Development Manager (BDM) is responsible for around 48 pubs, enabling our BDMs to give licensees more time and attention than other operators and to provide better quality advice as a result.
4. **Fair rents.** The average rent per tenanted and leased pub is around £26,000 per annum, which we believe compares favourably with market rents for similar quality outlets.

These factors, together with significant churn in the estate in recent years as we have improved the quality of the estate through disposals, acquisitions and transfers from Marston's Inns and Taverns, contributed to a resilient performance in a difficult market. After adjusting for the timing of Easter (to include the trading effect in both periods) underlying profit is estimated to be 6.2% below last year.

There are opportunities for further development in the business. The estate is well invested, and in recent years that investment has been targeted to ensure that, where appropriate, food sales and room income are maximised. Around one third of the pubs in the estate are 'food-led', whilst over 80% of the total have a meaningful food offer. Over 200 pubs offer accommodation in around 1,300 rooms, with more pubs advertising through an accommodation website specifically for our tenants: [www.bedsattheinn.co.uk](http://www.bedsattheinn.co.uk).

In managing the business we will continue to aim to strike a balance between long-term sustainability and shorter term market trends with the objective of making Marston's Pub Company the pre-eminent tenanted and leased operator in the market.

### **Marston's Beer Company**

Turnover increased by 19.0% to £47.5 million (2008: £39.9 million) including the acquisition of Wychwood Brewery in April 2008. Underlying operating margin was 14.9% (2008: 17.5%) reflecting the increased proportion of lower margin sales to supermarkets and pub companies, and increases in both utility and raw material costs. Underlying operating profit increased by 1.4% to £7.1 million (2008: £7.0 million).

Marston's Beer Company significantly out-performed the UK beer market in the first half-year, reflecting the increasing popularity of regional cask ales in our pubs, a robust free trade performance, and a strong second quarter in the off-trade. Own-brewed ale volumes increased by 18% and premium ale, which is now 53% of our ale portfolio, increased by 39% following the acquisition of Wychwood Brewery in April 2008. Standard ale volumes were 6% below last year.

In the on-trade, we have benefited from the increased distribution of our wide range of ales to our own managed and tenanted pubs. We also performed strongly in the independent free trade and in pub companies, with contribution ahead of last year in both sectors of the market. This performance demonstrates the success of our strategy to focus on a range of well known regional brands and on premium ale. Beers from the breweries of Ringwood, Marston's and Jennings, and those brewed at the Wychwood Brewery in Oxfordshire – Brakspear Oxford Gold and Hobgoblin - have proved particularly popular.

Our share of the on-trade premium cask ale category increased by 1.5% to 22.7% (2008: 21.2%).

In the off-trade the performance of the acquired brands has continued to be strong, and we have been very encouraged by the early performance of Marston's Pedigree since its re-launch in February 2009 with a redesigned label and increased strength (5% abv, up from 4.5%).

Our share of the premium bottled ale category is 17.7%, having increased significantly in 2008 following the acquisition of Wychwood brewery.

We have recently extended our sponsorship of the England and Wales Cricket Board as 'the Official Beer of England' for a further four years. A significant element of our marketing activity is designed to support our position as 'the best local brewer', supporting regional events such as the Henley Royal Regatta; Oxfringe (the Oxford Fringe); the New Forest Show; the Keswick Jazz Festival and many others. Together with local promotional campaigns with radio and press, this activity plays an important part in reinforcing our strategy to build the best regional ale business in the market.

### **Current Trading**

Trading since 4 April has been in line with our expectations. We remain cautious because of the weak economy, but we are encouraged by the modest improvement in trading since mid-February. We remain well positioned to benefit from any sustained up-turn in the trading environment and to exploit opportunities presented by the changing demands of customers, including increased tourism in the UK. Costs remain firmly under control and cash generation strong.

In our managed house business, total like-for like-sales for the 13 weeks to 16 May were 1.0% above last year including food sales up by 5.6%. Trends in Marston's Pub Company and in Marston's Beer Company are consistent with those reported for the half-year.



We are confident of meeting our expectations for the year as a whole.

**Ralph Findlay**  
Chief Executive

## Financial Review

	Revenue		Underlying operating profit (see note 2)		Margin	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 %	2008 %
Marston's Inns and Taverns	173.7	183.8	24.3	28.3	14.0	15.4
Marston's Pub Company	86.3	92.7	40.3	43.3	46.7	46.7
Marston's Beer Company	47.5	39.9	7.1	7.0	14.9	17.5
Marston's Group Services	-	-	(6.3)	(6.0)	(2.0)	(1.9)
	<b>307.5</b>	<b>316.4</b>	<b>65.4</b>	<b>72.6</b>	<b>21.3</b>	<b>22.9</b>

## Overview

These interim results reflect a resilient performance in what continues to be a challenging trading environment.

Revenue has fallen by 2.8% to £307.5 million reflecting the difficult trading climate, although the decline has been mitigated in part by the impact of the acquisition of Wychwood Brewery on 2 April 2008. Operating profit was £65.4 million, down 9.9% on the prior period, largely as a result of lower revenue and the reduced operating margin.

Net finance costs before exceptional items have remained stable, reflecting the fixed interest rates on the majority of the Group's borrowings.

Underlying basic earnings per share was 8.1 pence, down 19.0% on the prior period, and basic earnings per share (after exceptional items) was 4.9 pence (2008: 8.9 pence).

## Margin

The underlying operating margin of the Group reduced by 1.6% to 21.3% reflecting higher raw material and energy costs, the increasing importance of food in our managed pub estate, and a significant change in the sales mix within Marston's Beer Company towards the off-trade as a consequence of the Refresh acquisition.

It should be noted that the Easter weekend fell in the first half of last year, and in the second half of the current financial year. We estimate that the effect of this is to reduce turnover in this first half-year by approximately £3.5 million, and operating profit by around £2.0 million.

## Dividend

The Board declares an unchanged interim dividend of 4.80 pence per share, representing a cash outflow of £13.0 million.

## Cash flow

The business continues to be highly cash generative with EBITDA (earnings before interest, tax, depreciation and amortisation) of £87.7 million and net cash inflow from operating activities of £53.5 million in the period.

## Capital expenditure

Capital expenditure for the first half-year was £31.7 million (2008: £63.3 million), and is expected to be around £50 million for the year as a whole (2008: £117.2 million). The reduction is largely attributable to a decrease in investment and new build development expenditure. However, the level of maintenance spend is broadly unchanged versus last year, and we expect similar levels of capital expenditure to be maintained in the future to ensure that pub quality is not compromised.

## Estate valuation

The Group's pub estate is regularly revalued to ensure that book values do not differ significantly from market values. As a consequence of an impairment review, predominantly of tenanted pubs on non-substantive agreements, we have reduced book values by £42.2 million. This adjustment is largely reflected in the Group Statement of Recognised Income and Expense.

## **Disposals**

We continue to improve the quality of our estate through the disposal of smaller tenancies and leasehold sites which we believe will not be financially viable in the longer term. Proceeds of over £13 million were received from the disposal of 32 smaller pubs and other properties during the period, achieving book values overall.

## **Debt financing**

On 13 January 2009 the Group signed an agreement with a syndicate of relationship banks to extend its bank facility to August 2013, with a broadly similar level of operational flexibility as exists under the current arrangements. The amount of the facility will reduce from the current £400 million to £295 million by August 2010, in line with the Group's requirements.

The new bank facility, together with the Group's long-term securitisation of approximately £1.1 billion and strong cash flow, provides a secure long term debt profile.

The amount drawn down under the current bank facility as at 4 April 2009 was £265 million.

Net debt at 4 April 2009 was £1,296.9 million, compared to £1,268.1 million at 4 October 2008. The nature of the Group's cash flow is such that net debt increases in the first half-year, driven by the payment of pension contributions, the final dividend and the timing of capital expenditure.

At the half-year, 90% of gross debt is effectively at fixed rates of interest, with a blended cost of debt of approximately 6.3%. The slight increase in the cost of debt is attributable to revised margins arising on the refinancing of the bank facility.

It continues to be our intention to reduce net debt over time through tight cost control and cash management, together with the continuation of our disposal programme.

## **Exceptional items**

An exceptional finance cost of £12.0 million reflects a non-cash charge for the movement in fair value of certain interest rate swaps. This is partially offset by a £3.4 million related deferred tax credit. Although all of the Group's interest rate swaps are held to match existing floating rate borrowings of the Group, certain swaps do not meet the strict accounting definition to qualify for hedge accounting. This results in fair value movements on those swaps being taken to the income statement as an exceptional item.

## **Taxation**

The underlying rate of taxation (before exceptional items) has reduced from 22.0% in 2008 to 21.3% in 2009. This reduction is primarily driven by the resolution of tax issues in respect of prior years.

## **Pensions**

Following the triennial valuation, we are currently working with the Trustee to agree the valuation and the terms of future deficit funding. At the half-year on an IAS 19 basis, excluding the positive impact of the £10 million of additional contributions to the Marston's PLC Pension and Life Assurance Scheme, the deficit was broadly unchanged from the September 2008 position.

## **Principal risks and uncertainties**

The Business and Enterprise Committee has requested that the relationship between operators of tenanted and leased pubs and licensees should be reviewed by the Competition Commission. All other principal risks and uncertainties for the Group have not materially changed from those set out in the Business Review of the 2008 Annual Report. These can be summarised as:

- Risk of not adapting to meet changes in consumer behaviour, social demographics and/or legislation
- Political risk of changes to the tie agreement
- Economic risk
- Risks due to seasonal factors, including adverse weather
- Acquisition opportunity risk

- Risk to brand reputation
- Information technology risk
- Pension fund risk
- Funding risk
- Counterparty risk

**Andrew Andrea**  
Finance Director

**Date**

## GROUP INCOME STATEMENT (UNAUDITED)

for the 26 weeks ended 4 April 2009

	Note	26 weeks to 4 April 2009			26 weeks to 29 March 2008			53 weeks to 4 October 2008
		Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m	Total £m
<b>Revenue</b>	2	<b>307.5</b>	-	<b>307.5</b>	316.4	-	316.4	666.1
Operating expenses		(242.1)	-	(242.1)	(243.8)	-	(243.8)	(509.2)
<b>Operating profit</b>	2	<b>65.4</b>	-	<b>65.4</b>	72.6	-	72.6	156.9
Finance costs	4	(38.5)	-	(38.5)	(38.8)	-	(38.8)	(80.6)
Finance income	4	0.8	-	0.8	1.2	-	1.2	4.1
Movement in fair value of interest rate swaps	3, 4	-	(12.0)	(12.0)	-	(4.0)	(4.0)	(4.2)
Net finance costs	4	(37.7)	(12.0)	(49.7)	(37.6)	(4.0)	(41.6)	(80.7)
<b>Profit before taxation</b>		<b>27.7</b>	<b>(12.0)</b>	<b>15.7</b>	35.0	(4.0)	31.0	76.2
Taxation	5	(5.9)	3.4	(2.5)	(7.7)	1.1	(6.6)	(14.4)
<b>Profit for the period attributable to equity shareholders</b>		<b>21.8</b>	<b>(8.6)</b>	<b>13.2</b>	27.3	(2.9)	24.4	61.8

All results relate to continuing operations.

### Earnings per share:

Basic earnings per share	6		<b>4.9p</b>		8.9p	22.7p
Basic earnings per share before exceptional items	6		<b>8.1p</b>		10.0p	25.6p
Diluted earnings per share	6		<b>4.8p</b>		8.8p	22.5p
Diluted earnings per share before exceptional items	6		<b>8.0p</b>		9.9p	25.3p

## GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE (UNAUDITED)

for the 26 weeks ended 4 April 2009

	26 weeks to 4 April 2009 £m	26 weeks to 29 March 2008 £m	53 weeks to 4 October 2008 £m
Profit for the period	<b>13.2</b>	24.4	61.8
(Expense)/income recognised directly in equity:			
Cash flow hedges	<b>(41.3)</b>	(21.9)	(38.3)
Actuarial losses on retirement benefits	-	-	(16.8)
Reversal of past revaluation surplus	<b>(42.0)</b>	(0.3)	(4.3)
Tax on items taken directly to equity	<b>10.8</b>	9.1	20.8
Net losses not recognised in the income statement	<b>(72.5)</b>	(13.1)	(38.6)
Total recognised (expense)/income for the period	<b>(59.3)</b>	11.3	23.2

## GROUP CASH FLOW STATEMENT (UNAUDITED)

for the 26 weeks ended 4 April 2009

	Note	26 weeks to 4 April 2009 £m	26 weeks to 29 March 2008 £m	53 weeks to 4 October 2008 £m
<b>Operating activities</b>				
Operating profit		65.4	72.6	156.9
Depreciation and amortisation		22.3	22.0	43.0
<b>EBITDA*</b>		<b>87.7</b>	<b>94.6</b>	<b>199.9</b>
Working capital and non-cash movements (including outflows on integration of acquisitions)		(19.6)	(4.8)	(0.2)
Difference between defined benefit pension contributions paid and amounts charged		(10.5)	(15.7)	(16.4)
Income tax paid		(4.1)	(7.3)	(10.9)
<b>Net cash inflow from operating activities</b>		<b>53.5</b>	<b>66.8</b>	<b>172.4</b>
<b>Investing activities</b>				
Interest received		1.1	1.1	2.3
Sale of property, plant and equipment and assets held for sale		13.5	4.2	21.5
Purchase of property, plant and equipment and intangible assets		(31.7)	(63.3)	(117.2)
Movement in other non-current assets		1.3	(0.4)	0.1
Acquisition of subsidiaries, net of cash acquired	8	(5.3)	(1.4)	(9.0)
<b>Net cash outflow from investing activities</b>		<b>(21.1)</b>	<b>(59.8)</b>	<b>(102.3)</b>
<b>Financing activities</b>				
Equity dividends paid		(22.9)	(22.8)	(35.8)
Proceeds of ordinary share capital issued		-	0.1	0.4
Purchase of own shares for cancellation		-	(29.2)	(29.2)
Interest paid		(36.5)	(34.5)	(78.6)
Arrangement costs of new bank facilities and issue costs paid on securitised debt		(5.0)	(7.9)	(7.9)
Proceeds from issue of securitised debt		-	330.0	330.0
Repayment of securitised debt		(8.8)	(7.2)	(15.9)
Advance of bank loans		31.0	-	-
Repayment of bank loans		-	(230.6)	(212.3)
Repayment of loan notes and loan stock		(1.4)	(0.7)	(1.5)
Capital element of finance leases repaid		(0.1)	(0.1)	(0.1)
<b>Net cash outflow from financing activities</b>		<b>(43.7)</b>	<b>(2.9)</b>	<b>(50.9)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	9	<b>(11.3)</b>	<b>4.1</b>	<b>19.2</b>
<b>Reconciliation of net cash flow to movement in net debt</b>				
<b>(Decrease)/increase in cash and cash equivalents in the period</b>	9	<b>(11.3)</b>	<b>4.1</b>	<b>19.2</b>
Cash inflow from increase in debt		(20.7)	(91.4)	(100.2)
Change in debt resulting from cash flows	9	(32.0)	(87.3)	(81.0)
Net debt acquired with subsidiaries	9	(0.3)	-	(3.1)
Non-cash movements and deferred issue costs	9	3.5	6.7	5.1
<b>Movement in net debt in the period</b>		<b>(28.8)</b>	<b>(80.6)</b>	<b>(79.0)</b>
<b>Net debt at beginning of the period</b>	9	<b>(1,268.1)</b>	<b>(1,189.1)</b>	<b>(1,189.1)</b>
<b>Net debt at end of the period</b>	9	<b>(1,296.9)</b>	<b>(1,269.7)</b>	<b>(1,268.1)</b>

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

## GROUP BALANCE SHEET (UNAUDITED)

as at 4 April 2009

	Note	4 April 2009 £m	29 March 2008 £m	4 October 2008 £m
<b>Assets</b>				
<b>Non-current assets</b>				
Goodwill		224.2	219.1	223.9
Other intangible assets		23.7	9.4	23.7
Property, plant and equipment	7	1,925.8	1,961.7	1,975.9
Deferred tax assets		61.5	44.2	47.7
Other non-current assets		23.4	25.2	24.7
		<b>2,258.6</b>	<b>2,259.6</b>	<b>2,295.9</b>
<b>Current assets</b>				
Inventories		17.7	16.9	19.0
Assets held for sale		20.6	14.6	15.9
Trade and other receivables		81.5	70.9	75.0
Derivative financial instruments		-	0.8	-
Cash and cash equivalents	9	71.5	49.0	60.1
		<b>191.3</b>	<b>152.2</b>	<b>170.0</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Borrowings	9	(51.0)	(32.9)	(29.2)
Derivative financial instruments		(16.2)	(4.0)	(4.2)
Trade and other payables		(111.5)	(117.4)	(133.5)
Current tax liabilities		(24.4)	(21.0)	(21.5)
		<b>(203.1)</b>	<b>(175.3)</b>	<b>(188.4)</b>
<b>Non-current liabilities</b>				
Borrowings	9	(1,321.7)	(1,285.8)	(1,299.0)
Derivative financial instruments		(78.9)	(21.9)	(37.6)
Pension commitments		(27.8)	(22.9)	(37.9)
Deferred tax liabilities		(188.0)	(189.7)	(189.5)
Other non-current liabilities		(0.6)	(0.5)	(0.6)
Provisions for other liabilities and charges		(5.3)	(7.5)	(6.0)
		<b>(1,622.3)</b>	<b>(1,528.3)</b>	<b>(1,570.6)</b>
<b>Net assets</b>				
		<b>624.5</b>	<b>708.2</b>	<b>706.9</b>
<b>Shareholders' equity</b>				
Equity share capital		22.3	22.3	22.3
Share premium account		188.9	188.6	188.9
Merger reserve		41.5	41.5	41.5
Revaluation reserve		391.3	440.0	436.1
Capital redemption reserve		6.8	6.8	6.8
Hedging reserve		(56.8)	(15.2)	(27.1)
Own shares		(130.9)	(135.3)	(134.5)
Foreign exchange reserve		0.2	0.2	0.2
Retained earnings		161.2	159.3	172.7
<b>Total equity</b>	10	<b>624.5</b>	<b>708.2</b>	<b>706.9</b>

## NOTES

### 1 Basis of preparation of interim financial information

This interim financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting' and the accounting policies set out in the accounts for the 53 weeks ended 4 October 2008.

The financial information for the 53 weeks ended 4 October 2008 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 237 (2) or (3) of the Companies Act 1985.

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 4 April 2009 and the comparatives to 29 March 2008 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 3 October 2009.

### 2 Segmental analysis

4 April 2009						
	Marston's Inns and Taverns £m	Marston's Pub Company £m	Marston's Beer Company £m	Marston's Group Services £m	Unallocated £m	Group £m
Revenue	173.7	86.3	47.5	-	-	307.5
Operating profit before exceptional items	24.3	40.3	7.1	(6.3)	-	65.4
Exceptional items	-	-	-	-	-	-
Operating profit	24.3	40.3	7.1	(6.3)	-	65.4
Net assets	920.5	1,096.2	161.7	16.8	(1,570.7)	624.5

29 March 2008						
	Marston's Inns and Taverns £m	Marston's Pub Company £m	Marston's Beer Company £m	Marston's Group Services £m	Unallocated £m	Group £m
Revenue	183.8	92.7	39.9	-	-	316.4
Operating profit before exceptional items	28.3	43.3	7.0	(6.0)	-	72.6
Exceptional items	-	-	-	-	-	-
Operating profit	28.3	43.3	7.0	(6.0)	-	72.6
Net assets	957.5	1,089.3	124.5	21.1	(1,484.2)	708.2

Unallocated comprises net debt, tax, derivatives and pension commitments.

### 3 Exceptional items

	4 April 2009 £m	29 March 2008 £m
<b>Non-operating items</b>		
Movement in fair value of interest rate swaps	12.0	4.0
	12.0	4.0

The interest rate swaps are revalued to fair value at each balance sheet date and the movement is recognised in the income statement unless hedge accounting is applied. The movement of £12.0 million (2008: £4.0 million) in the fair value of interest rate swaps, where hedge accounting has not been applied, is shown as an exceptional item. In addition to this, £41.3 million (2008: £21.9 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 in cash flow hedges.

The deferred tax credit relating to the above exceptional items amounts to £3.4 million (2008: £1.1 million).



## NOTES

### 4 Finance costs and income

	4 April 2009 £m	29 March 2008 £m
<b>Finance costs</b>		
Bank interest and similar charges payable	5.7	9.2
Securitised debt interest payable	30.2	27.6
Other interest payable	0.6	0.6
Amortisation of issue costs on securitised debt	1.3	1.2
Amortisation of issue costs on bank loan	0.2	0.2
Net finance cost in respect of retirement benefits	0.5	-
	<b>38.5</b>	<b>38.8</b>
<b>Exceptional finance costs</b>		
Movement in fair value of interest rate swaps	12.0	4.0
<b>Total finance costs</b>	<b>50.5</b>	<b>42.8</b>
<b>Finance income</b>		
Deposit and other interest receivable	(0.8)	(0.6)
Net finance income in respect of retirement benefits	-	(0.6)
<b>Total finance income</b>	<b>(0.8)</b>	<b>(1.2)</b>
<b>Net finance costs</b>	<b>49.7</b>	<b>41.6</b>

### 5 Taxation

The taxation charge for the 26 weeks ended 4 April 2009 has been calculated by applying an estimate of the effective tax rate before exceptional items for the 52 weeks ending 3 October 2009 (approximately 21%).

	4 April 2009 £m	29 March 2008 £m
Current tax	7.0	6.8
Deferred tax	(4.5)	(0.2)
	<b>2.5</b>	<b>6.6</b>

The tax charge includes a deferred tax credit of £3.4 million (2008: £1.1 million), relating to the tax on exceptional items (note 3).

### 6 Earnings per ordinary share

	4 April 2009			29 March 2008		
	Earnings £m	Weighted average number of shares m	Per share amount p	Earnings £m	Weighted average number of shares m	Per share amount p
Basic earnings per share	13.2	270.3	4.9	24.4	273.6	8.9
Diluted earnings per share	13.2	272.3	4.8	24.4	276.4	8.8
<b>Underlying earnings per share figures</b>						
Basic earnings per share before exceptional items	21.8	270.3	8.1	27.3	273.6	10.0
Diluted earnings per share before exceptional items	21.8	272.3	8.0	27.3	276.4	9.9

Basic earnings per share is 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 provide a useful indicator of performance.

## NOTES

### 7 Property, plant and equipment

	£m
Net book amount at 5 October 2008	1,975.9
Additions	30.5
Net transfers to assets held for sale and disposals	(17.3)
Depreciation, impairment and other movements	(63.3)
<b>Net book amount at 4 April 2009</b>	<b>1,925.8</b>

	£m
Net book amount at 30 September 2007	1,934.3
Additions	63.7
Net transfers to assets held for sale and disposals	(13.7)
Depreciation, impairment and other movements	(22.6)
Net book amount at 29 March 2008	1,961.7

Depreciation, impairment and other movements includes impairments of £42.2 million (2008: £0.3 million). The impairments predominantly relate to tenanted pubs let on non-substantive agreements and certain managed high street pubs. Of the total impairment, £42.0 million (2008: £0.3 million) reflects the reversal of previous upwards valuations, and £0.2 million (2008: £nil) has been taken to the income statement.

### 8 Prior period acquisitions

On 1 February 2008, the Group acquired the free trade business of Hall & Woodhouse. The provisional fair values stated in the accounts for the 53 weeks ended 4 October 2008 are now confirmed, with no adjustments made to those previously published.

On 2 April 2008, the Group acquired Refresh. A reduction to the fair value of net assets acquired of £0.3 million has been identified during the period to 4 April 2009 and recorded as a fair value adjustment. The balance sheet has not been restated as the adjustment is not considered to be significant. All fair value adjustments have now been finalised.

Deferred consideration of £5.6 million in respect of the acquisition of Refresh was settled on 6 October 2008, comprising £5.3 million of cash and £0.3 million of loan notes.

### 9 Analysis of net debt

	4 April 2009 £m	Cash flow £m	Non-cash movements and deferred issue costs £m	Acquisitions £m	4 October 2008 £m
<b>Cash and cash equivalents</b>					
Cash at bank and in hand	71.5	11.4	-	-	60.1
Bank overdraft	(28.3)	(22.7)	-	-	(5.6)
	43.2	(11.3)	-	-	54.5
<b>Trade and other receivables</b>					
Prepaid issue costs	4.3	-	4.3	-	-
	4.3	-	4.3	-	-
<b>Debt due within one year</b>					
Loan notes	(7.0)	1.4	-	(0.3)	(8.1)
Bank loans	0.5	-	0.3	-	0.2
Securitised debt	(16.2)	8.8	(9.4)	-	(15.6)
Finance leases	-	0.1	-	-	(0.1)
	(22.7)	10.3	(9.1)	(0.3)	(23.6)
<b>Debt due after one year</b>					
Bank loans	(264.5)	(31.0)	0.2	-	(233.7)
Securitised debt	(1,057.1)	-	8.1	-	(1,065.2)
Preference shares	(0.1)	-	-	-	(0.1)
	(1,321.7)	(31.0)	8.3	-	(1,299.0)
	(1,296.9)	(32.0)	3.5	(0.3)	(1,268.1)

Included within cash at bank and in hand is an amount of £3.9 million (at 4 October 2008: £3.9 million), which relates to a letter of credit with Royal Sun Alliance and is 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.

Prepaid issue costs are in respect of the extension to the Group's bank facility that was concluded during the period.

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.

## NOTES

### 10 Movements in total equity

	4 April 2009 £m	29 March 2008 £m	4 October 2008 £m
<b>Total equity at beginning of the period</b>	<b>706.9</b>	748.5	748.5
Total recognised (expense)/income for the period	(59.3)	11.3	23.2
Dividends paid	(22.9)	(22.8)	(35.8)
Proceeds of ordinary share capital issued	-	0.1	0.4
Cancellation of own shares	-	(29.2)	(29.2)
Foreign exchange differences	-	0.2	0.2
Other movements in equity	(0.2)	0.1	(0.4)
<b>Net movement in total equity</b>	<b>(82.4)</b>	(40.3)	(41.6)
<b>Total equity at end of the period</b>	<b>624.5</b>	708.2	706.9

### 11 Material transactions

Additional contributions of £10.0 million (26 weeks ended 29 March 2008: £15.4 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 29 March 2008: none).

### 12 Capital commitments

Capital expenditure authorised and committed at the period-end but not provided for in this interim financial information was £5.1 million (at 4 October 2008: £9.1 million).

### 13 Contingent liabilities

There have been no material changes to contingent liabilities since 4 October 2008.

### 14 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.

### 15 Events after the balance sheet date

An interim dividend of £13.0 million, being 4.80p (2008: 4.80p) per ordinary share, has been proposed and will be paid on 30 June 2009 to those shareholders on the register at the close of business on 5 June 2009. This interim financial information does not reflect this dividend payable.

### 16 Interim report

The interim report was approved by the Board on 22 May 2009.

### 17 Copies

Copies of this report have been sent to shareholders and are available to the public on request from: The Company Secretary, Marston's PLC, Marston's House, Brewery Road, Wolverhampton, WV1 4JT.