



30 November 2007

## MARSTON'S PLC

### PRELIMINARY RESULTS FOR THE YEAR ENDED 29 SEPTEMBER 2007

#### **Highlights**

- Record underlying\* earnings per share up 10.1% to 26.2 pence (2006: 23.8 pence)  
- basic earnings per share of 27.9 pence (2006: 23.8 pence)
- Total dividend for the year up 20.0% to 12.83 pence per share (2006: 10.69 pence)
- Average profit per tenanted pub up 13.0%
- Managed like-for-like sales up 4.6%; food sales up 13.3%
- Robust trading since year end – managed like-for-like sales up 2.1%
- £120m returned to shareholders during the year
- Gain of £162 million (before tax) from revaluation of estate
- Successful refinancing since the year end

\* 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.

#### **Commenting, Ralph Findlay, Chief Executive, said**

'We remain cautious about consumer confidence, regulatory cost pressures and the short term impact of the smoking ban. We are, however, well positioned to continue to exploit current trends, including the continuing growth in casual dining. We regard our value for money offers and mid-market position as appropriate for the current economic climate.'

#### **ENQUIRIES:**

##### **Marston's PLC**

Ralph Findlay, Chief Executive  
Paul Inglett, Finance Director  
Tel: 020 7796 4133 on Friday 30 November 2007 only  
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##### **Hudson Sandler**

Andrew Hayes/Nick Lyon/  
James White  
Tel: 020 7796 4133

To access interviews with Ralph Findlay and Paul Inglett, 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)

## **Chairman's statement**

These results were achieved in a year of significant change. As a consequence of detailed planning, investment and a continuing emphasis on the quality of our pub estate, we were prepared and well positioned for the introduction of smoking bans in England and Wales.

On 8 January 2007, we changed the name of the Company to Marston's PLC. This has enabled us to adopt a more cohesive, integrated approach to the management of our pubs and beer brands and reflects the fact that in recent years we have become a national business.

The development of a national, high quality pub estate is one of our key strategic objectives. Acquisitions made during the year, including the Eldridge Pope estate of 153 pubs in the south of England, were consistent with this objective. This objective is also being achieved in our managed pub estate through becoming a leading developer of new build pubs.

The increasing quality of our pub estate is demonstrated by good like-for-like sales growth in our managed pubs, with particularly strong growth in food sales, and a significant increase in average profit per pub in our tenanted and leased estate.

In brewing, our increasing focus on national distribution of a range of premium cask ale brands is reflected in the fact that we are now the UK's largest brewer of premium cask ale, with a market share in this segment of over 20% by volume.

The trading performances of the Group and the individual trading divisions are contained within the Business review.

## **Results**

Turnover increased by 9.6% to £652.8 million (2006: £595.5 million). This includes the acquisitions of Sovereign Inns in January 2007 for £19.6 million, Eldridge Pope also in January 2007 for £156.5 million, and Ringwood Brewery in July 2007 for £17.8 million. Each of these acquisitions was funded through debt.

On 10 May 2007, 279 smaller tenancies were sold to aAim Group for £82.5 million.

Underlying profit before taxation was £98.0 million (2006: £101.5 million) and profit after exceptional items and before tax was £94.7 million (2006: £101.5 million).

Earnings before interest, tax, depreciation and amortisation (EBITDA) and before exceptional items increased by 7.6% to £205.9 million.

Underlying basic earnings per share increased by 10.1% to 26.2 pence per share (2006: 23.8 pence). Basic earnings per share including exceptional items were 27.9 pence per share (2006: 23.8 pence).

Comparative figures in relation to earnings per share and dividends have been adjusted to reflect the 4-for-1 share split effected on 9 January 2007.

On 25 May 2007 we announced an increase in the share buy-back programme from £100 million to £150 million to be achieved during the calendar year through market purchases. During the financial period to 29 September 2007 we purchased 28.1 million shares at a total cost of around £120 million.

Net debt at the year-end was £1,189.1 million, resulting in interest cover of 2.5 times (2006: 3.0 times).

## **Dividend**

The Board proposes a final dividend of 8.47 pence per share bringing the total dividend for the year to 12.83 pence per share (2006: 10.69 pence), an increase of 20.0% on the previous year. The Company has increased dividends by an average of over 12% per annum for a period of more than 30 years and continues to adopt a progressive dividend policy. The final dividend, if approved, will be paid on 31 January 2008 to those shareholders on the register at the close of business on 4 January 2008.

## **FTSE4Good**

In September 2007 Marston's PLC was added to the FTSE4Good Index, the leading global responsible investment index. This index reflects increasing attention to the management of environmental and social risks. The fact that we have met the corporate responsibility criteria for the index demonstrates the development of policies and management systems to manage these risks. These policies can be viewed on our corporate website at [www.marstons.co.uk](http://www.marstons.co.uk).

## **Employees**

Our success is due to the contributions made by our employees, whether they work in our pubs, breweries or in support functions. In particular, our good response to the challenges presented by the smoking ban and the poor summer weather reflects the tremendous loyalty and dedication of our staff.

## **Directors**

Peter Lipscomb has indicated his intention to retire from the Board at the Annual General Meeting on 25 January 2008. Peter was appointed as Deputy Chairman and non-executive director in 2000, and has made a significant contribution to the successful development of the Company. Robin Hodgson became the Senior Independent Director on 1 October 2007.

In October 2006 we were pleased to announce the appointment of Rosalind Cuschieri, Commercial Director of Warburtons Limited, as a non-executive director.

## **Outlook**

Although we remain cautious about consumer confidence, regulatory cost pressures and the short term impact of the smoking ban over the winter months, we are confident that our high quality estate, strong balance sheet, conservative financing and strong cash flow will enable us to continue to exploit opportunities for further profitable growth. The Board remains confident in the future growth prospects of the Group.

**David Thompson**  
Chairman

## **Business review**

### **Overview of results**

We have achieved these good results in a challenging environment, which included the introduction of a smoking ban in Wales on 2 April 2007 and in England on 1 July 2007. We completed, in advance of the ban, a well planned £20 million investment programme in over 90% of our pubs which have outside trading areas, contributing to the robust performance of our managed and tenanted pubs.

Additionally, around 150 pubs were significantly affected by flooding in June and July which either resulted in pub closure or prevented customers from visiting. The weather in May, June and July was unseasonably wet, particularly so in comparison to the previous year which benefited from good summer weather and the 2006 football World Cup.

Turnover increased by 9.6% to £652.8 million (2006: £595.5 million) including the acquisitions of Sovereign Inns, Eldridge Pope and Ringwood Brewery.

Underlying operating margin was 25.0% (2006: 25.6%). This good performance was achieved, despite significant cost and legislative pressures, by maximising synergies from acquisitions, transferring smaller managed pubs to tenancy and maintaining good cost control.

Profit before tax and exceptional items was £98.0 million (2006: £101.5 million) reflecting increased interest costs associated with the share buy-back programme described in the Chairman's statement. This was slightly below our original expectations due to the impact of higher interest rates, flood related repair costs and the poor summer weather.

Underlying basic earnings per share before exceptional items increased by 10.1% to 26.2 pence per share reflecting the benefit of a lower underlying tax charge of 21.0% (2006: 27.8%) as described in the Financial review.

### **Strategy and Objectives**

Marston's strategy is to exploit the existing skills we have in each area of our business and the vertically integrated business model to achieve superior return on capital. Our key objective is to create shareholder value but we also recognise that we have responsibilities to a range of stakeholders including local communities, suppliers, customers and employees.

The key operational and financial elements of our strategy are as follows:

1. Target growth through the development of a national, high quality pub estate
2. Develop greater food skills and extend our appeal to families, females and more mature customers
3. Recruit skilled tenants and lessees better able to compete in a developing market
4. Increase distribution of our ale brands
5. Create greater value for shareholders through vertical integration
6. Match freehold assets with long term fixed rate financing

An important feature of our pub estate is that 98% by value of our pubs are owned on a freehold or long leasehold basis, as we believe that this is the most effective way of ensuring that we have sufficient operational flexibility to maximise the trading potential of each outlet. This flexibility includes being able to invest appropriately in response to changes in customer preferences or to better utilise land and buildings to maximise trading potential. Over the long term, shareholders have also benefited from significant capital appreciation.

Our accounting policy is to revalue our properties on a regular basis so that the carrying value does not differ significantly from fair values at each balance sheet date.

In matching freehold assets with long term financing, we have set a target range for interest cover of between 2.25 to 2.75 times. Interest cover for the year just ended was 2.5 times, reflecting the return of £120 million to shareholders and acquisitions made during the year. We will continue to ensure that the balance sheet is efficiently financed having regard to the strong underlying cash flow of the business.

Recent developments in property financing such as Real Estate Investment Trusts (REITs) and structures which involve the disposal of property assets have focused attention on the underlying attractions of freehold pub estates. We do not currently believe that the potential benefits of these structures outweigh the implementation costs or their increased risk, but will nevertheless continue to review the situation as the market develops.

## **Divisional performance for the financial year ended 29 September 2007**

### **1. Marston's Inns & Taverns**

Total turnover increased by 11.2% to £367.8 million (2006: £330.7 million). Underlying operating profit increased by 5.0% to £66.7 million (2006: £63.5 million).

Like-for-like sales growth of 4.6% was achieved against a challenging background including the introduction of the smoking ban and poor summer weather which caused serious flooding in June and July 2007, materially affecting around 50 managed pubs.

This was nevertheless a good performance, helped significantly by like-for-like food sales growth of 13.3%. Marston's Inns & Taverns has captured market share of the casual dining market over a 5 year period and has increased food sales from 27% of retail turnover in 2003 to 34% in 2007. Including associated drinks sales, we estimate that 65% of total sales are now made to customers for whom dining is the primary reason for visiting the pub.

This growth in food sales has been achieved through consistent investment in upgrading pubs, menu development with a greater emphasis on local sourcing, healthy eating, and focused promotional activity targeted on families and a more mature customer base.

The development of a number of operating formats which are appropriate for different markets has also contributed to this strong performance. Our community food-led formats include Marston's Tavern Table and Marston's Two for One. These formats offer excellent value for money in modern, well invested pubs and in each case food sales are over 50% of total retail sales. Food sales are also important for our high street brands, Pitcher & Piano, Que Pasa and Bluu, with food sales representing between 15% and 30% of total sales in those outlets.

Like-for-like wet sales increased by 0.6% against strong comparatives which included the benefits of a good summer and the 2006 football World Cup. This growth is a consequence of the introduction of a range of initiatives including investment in glycol cooling within our managed pubs; enabling draught beers to be served consistently at a lower temperature, thus meeting increased consumer demand for colder beers. We also introduced a formal guest ale policy, helping to increase premium ale volumes by 9% and we regularly update and improve our wines and spirits offers, achieving volume growth of 9% in this category during the year.

Underlying operating margin was 18.1% (2006: 19.2%) reflecting the acquisition of Eldridge Pope and the timing of achieving associated cost savings. Price increases during the year were broadly inflationary, with cost increases from the 6% rise in the minimum wage in October 2006 and higher energy prices. These cost increases were offset by retail price increases and the removal of SkyTV from nearly 100 pubs.

The Eldridge Pope pub estate of 153 pubs, including 40 tenancies, has performed in line with expectations and the integration process is complete. Of 18 pubs earmarked for disposal at the date of acquisition, 12 have been or are in the process of being sold. Opportunities for the extension of branded high street bars were also identified. To date four Marston's unbranded pubs have been converted to Que Pasa, with further conversions planned in 2008.

Marston's Inns & Taverns' strategy of investment in new build pubs is the principal driver of organic growth in the division. We aim to open 20 new pubs per year, having achieved 19 openings in 2007. All new community pubs have Marston's branding and are located in areas of significant residential development. The majority have a food sales mix of 50-60%, and so we anticipate that the current food sales mix of 34% will rise to around 40% by 2010 provided the current rate of development is maintained.

An important element of our emphasis on high levels of customer service in our pubs is training. Marston's Inns & Taverns runs a full range of structured induction and development programmes for staff and licensees, and benefits from a dedicated in-house training centre.

## **2. Marston's Pub Company**

Total turnover increased by 12.4% to £200.9 million (2006: £178.8 million). Underlying operating profit increased by 13.1% to £90.8 million.

These results were achieved against a challenging background including the introduction of the smoking ban and poor summer weather, with around 100 tenanted pubs seriously affected by flooding.

Operating margin increased by 0.3% to 45.2% (2006: 44.9%). Average EBITDA per pub increased by around 13% to approximately £65,000 per pub demonstrating the improving quality of the estate. This increase reflects underlying growth of around 3% and the effect of the disposal of 279 pubs to aAim Group in May 2007.

Income is made up of rent charged to tenants or lessees, the margin made on supplying a range of drinks products - principally beer, stouts, cider, wines and spirits - and our share of gaming machine income.

Of our 1,722 tenanted or leased pubs, over 50% are leased on long term agreements with five year rent review periods. The remainder are let on shorter term agreements with typically three year rent review periods. The underlying rate of rental increases, including the effect of rent reviews was approximately 3%.

During the year income from gaming machines fell by 2.4%, influenced in the second half-year by the introduction of the smoking ban. The experience of pub operators in Scotland was that the smoking ban had a disproportionate effect on gaming machine income and this decline was therefore expected. The majority of our agreements are on the basis of a 50% share of machine income after rent payable on gaming machines.

Other than the disposal of 279 pubs in May 2007 changes to the estate included the acquisition of 33 freehold pubs trading as Sovereign Inns in January 2007 and 40 tenanted pubs within the Eldridge Pope estate. Additionally, 27 pubs were acquired during the remainder of the year including seven acquired with Ringwood Brewery and four from The Rutland Pub Company. The Hourglass in Devizes, was opened in August 2007 and is Marston's Pub Company's first new build tenanted pub.

In addition to the recruitment of good tenants and lessees the quality of pubs in the estate is a key factor behind our strong performance. We invested £48.5 million, including 118 major refurbishment schemes, much of that investment being targeted at providing tenants with more opportunities to develop or extend their food offers. Across Marston's Pub Company around 80% of our pubs have a meaningful food offer.

Marston's Pub Company has supported tenants in a number of ways during this challenging year. Tenants and lessees of the 100 pubs severely affected by flooding experienced significant disruption, although insurance cover for flood damage and loss of business has offset these losses substantially.

We also supported tenants by investing in pub gardens, patios and shelters ahead of the introduction of the smoking ban, with around £10 million invested in around 1,400 schemes.

## **3. Marston's Beer Company**

Total turnover was £84.1 million (2006: £86.0 million). Underlying operating profit was £17.4 million (2006: £18.0 million).

There are two specific areas where we have lost business. Firstly, as a consequence of the acquisition of Pyramid Inns by Admiral Taverns in 2006, Marston's Beer Company is no longer the principal supplier to the former Pyramid pubs. Secondly, we have reduced the level of trade we have with third party wholesalers to protect margins and improve control over assets, principally containers. These events will continue to impact upon turnover until March 2008, although the profit impact is minimal.

Our own core brands performed strongly and ahead of the market, with volumes up by over 6% overall. The UK ale market declined by around 5% last year, consistent with long established trends which we expect to continue. Against this trend, our premium ale brands have continued to show strong growth, with Marston's Pedigree up by nearly 6% and Jennings Cumberland Ale up by 30%. Ringwood Brewery, acquired in July 2007, also performed well. Our own brands market share of the premium cask ale market is now over 20%.

This strong volume performance is linked not only to acquisitions made during the year, in particular Eldridge Pope, but also to our association with cricket. Becoming the 'Official Beer of England', and the subsequent sponsorship of Sky's coverage of international cricket events, has significantly raised the profile of Marston's beer brands.

We have also benefited from our continued focus on good quality regional cask ales with positive imagery, particularly the Jennings beers. The recent acquisition of Ringwood Brewery and the completion of new three year supply agreements for Fosters, Carling and Carlsberg, offers customers more choice than ever before.

Operating margin decreased by 0.2% to 20.7% reflecting increased investment in marketing, particularly in Marston's Pedigree, and higher energy costs.

Cost increases expected during 2008 include a significant increase in the price of malted barley, which will result in a cost increase of approximately £1 million per annum. This increase will be partly offset by the beneficial terms of the new lager contracts which have been renegotiated recently.

### **Current Trading**

Trading overall in the 8 weeks to 24 November 2007 has been in line with expectations. Like-for-like sales in Marston's Inns and Taverns were 2.1% ahead of last year, including like-for-like growth in food sales of 9.1%. This growth was achieved against strong comparatives last year with reported like-for-like sales growth of 9.1% for the same period last year. Trading in Marston's Pub Company and Marston's Beer Company has been satisfactory.

Since the introduction of the smoking ban trends which were previously in evidence ban have continued. Investments made in external trading areas, ahead of the introduction of the smoking ban, and the continuing development of our food offers have contributed to our performance in the new financial year.

We remain cautious about consumer confidence, regulatory cost pressures and the short term impact of the smoking ban. We are, however, well positioned to continue to exploit current trends, including the continuing growth in casual dining. We regard our value for money offers and mid-market position as appropriate for the current economic climate.

In summary, each trading division has made good progress and is adapting well to the changing market.

## Financial review

	Turnover		Underlying operating profit (note 2)		Margin	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 %	2006 %
Marston's Inns and Taverns	367.8	330.7	66.7	63.5	18.1	19.2
Marston's Pub Company	200.9	178.8	90.8	80.3	45.2	44.9
Marston's Beer Company	84.1	86.0	17.4	18.0	20.7	20.9
Marston's Group Services	-	-	(11.7)	(9.5)	(1.8)	(1.6)
<b>Group</b>	<b>652.8</b>	<b>595.5</b>	<b>163.2</b>	<b>152.3</b>	<b>25.0</b>	<b>25.6</b>

Group turnover increased by 9.6% to £652.8 million, as a result of strong like-for-like sales and the benefit of acquisitions. Underlying operating profit increased by 7.2% to £163.2 million and underlying basic earnings per share increased by 10.1% to 26.2 pence per share.

Operating profit after exceptional items was £160.7 million, up 5.5% on the prior year, and underlying basic earnings per share (after exceptional items) was 27.9 pence per share, up 17.2% on the prior year.

### Dividend

The proposed final dividend of 8.47 pence per share gives a total dividend for the year of 12.83 pence per share, an increase of 20% on the prior year. Dividend cover at the year-end is 2.0 times (2006: 2.2 times).

### Acquisitions

Eldridge Pope was acquired on 25 January 2007 for £156.5 million, comprising consideration of £84.5 million for the equity and net debt acquired of £72.0 million. The Eldridge Pope properties were valued independently at £129.6 million. Goodwill arising on the acquisition was £58.3 million (note 11a).

In the current financial year the Eldridge Pope acquisition has been broadly profit neutral, and we forecast that it will be earnings enhancing thereafter. The integration has been completed successfully and the Group is currently realising synergies of £4.6 million per annum, as anticipated.

Sovereign Inns was acquired on 16 January 2007 for £19.6 million, comprising consideration of £14.3 million for the equity and net debt acquired of £5.3 million. The Sovereign Inns properties were independently valued at £19.1 million. Goodwill arising on the acquisition was £4.8 million (note 11b).

The Ringwood Brewery, including seven freehold pubs, was acquired on 12 July 2007 for £17.8 million, comprising consideration of £19.9 million for the equity and net cash acquired of £2.1 million. The acquired properties were independently valued at £9.9 million. Goodwill arising on the acquisition was £6.3 million (note 11c).

### Disposals

As part of our overall strategy to continually improve the quality of our estate, on 10 May 2007 we sold 279 tenanted pubs to Piccadilly Licensed Properties Limited, a company owned and controlled by aAim Group, for a cash consideration of £82.5 million. The pubs had an asset value of £81.1 million and generated annual EBITDA of £7.5 million.

### Capital expenditure

As well as improving the overall quality of our estate through the aggressive churning of our portfolio, we continue to invest significant amounts of capital expenditure to ensure we maintain a pub estate of the highest quality. Total capital expenditure for the Group was £146.3 million and included £48.5 million spent in Marston's Pub Company and £37.4 million spent in Marston's Inns and Taverns, in addition to £46.0 million spent on purchasing new pubs and new site developments.

## **Share buy-backs**

During the year the Group purchased 28.1 million Marston's shares at a total cost of around £120 million. As planned, we expect to complete the remainder of the previously announced commitment to £150 million of share buy-backs in this calendar year.

## **Financing**

Net debt increased to £1,189.1 million at 29 September 2007, compared to £893.7 million at 30 September 2006. This increase is principally as a result of the three acquisitions and the ongoing share buy-backs referred to above.

For the year ended 29 September 2007 the ratio of net debt to EBITDA was 5.8 times and interest cover 2.5 times.

Net finance costs before exceptional items have increased by £14.4 million compared to the prior year, primarily as a result of the increased net debt but also as a consequence of higher short term interest rates during the year.

Since the year-end we have taken advantage of more attractive long term interest rates to fix the cost of all of our bank debt using interest rate swaps.

## **Post balance sheet event – debt refinancing**

We announced on 19 November 2007 the terms of a £330 million tap of our securitisation backed by the transfer of 437 freehold and long leasehold tenanted pubs from the non-securitised estate to the securitised estate. The transaction completed on 22 November 2007. The net funds raised were used to repay existing bank facilities. Our strong credit profile and the high quality of our pub estate ensured we achieved a very competitive cost of financing and also increased the financial and operational flexibility of the Group. At the same time, we maintained £400 million of the existing bank facilities, resulting in available bank facility headroom of £250 million at 22 November 2007.

Following this refinancing, all of our borrowings are at effectively fixed rates of interest with a blended cost of debt of approximately 6.1%.

## **Treasury, risk and internal controls**

The Group regularly reviews its forecast short term and medium term cash flows, and excess cash is either placed on short term deposit or invested in deposits which are refundable on demand.

All of the Group's borrowings are now fixed through a combination of fixed rate securitised debt and interest rate swaps. The financial risks faced by the Group are managed in accordance with Board approved policies and are subject to regular internal review.

The banking and securitisation covenants are reviewed throughout the year as part of the internal reporting process with a focus on ensuring appropriate headroom is available. Every six months the financial position of the Group in respect of the securitisation covenants is reported externally to financial institutions and made available on the Group's website ([www.marstons.co.uk](http://www.marstons.co.uk)). Operational compliance with all securitised covenants is managed and regularly reviewed by the treasury, risk and internal audit function.

We have an ongoing programme to identify key operational and financial risks across the Group and, where possible, to mitigate the potential impact of those risks. This programme is managed by the treasury, risk and internal audit function.

## **Pensions**

The Eldridge Pope Pension Scheme was merged with the Marston's PLC Pension and Life Assurance Scheme on 7 September 2007. An additional contribution of £11.3 million has been made to the Marston's PLC Scheme since the year-end as a consequence of the different funding levels of the schemes at the time of merger. The previously disclosed schedule of top-up contributions of £7.2 million per annum, intended to eliminate the Marston's PLC Scheme funding deficit by 2014, will increase to £10 million per annum as a result of an agreement with the pension trustees in relation to the refinancing announced on 19 November 2007 and the merger of The Eldridge Pope Pension Scheme.

The deficit on our final salary pension scheme reduced to £38.6 million before tax (2006: £53.1 million), and £27.8 million after tax (2006: £37.2 million).

## **Estate revaluation**

During this financial year around 2,000 pubs have been revalued principally as a consequence of the refinancing referred to above. This has resulted in a net gain of £162 million (an after tax gain of £117 million after accounting for the associated deferred tax) which is equivalent to an average increase of approximately 12% compared to book values. The majority of these pubs were last revalued in 2005. This uplift in valuations demonstrates the continued benefit we accrue from the ownership of a predominantly freehold estate.

## **Share split**

The Group completed a 4-for-1 share split on 9 January 2007. Historic earnings per share have been restated to reflect the split (note 7).

## **Taxation**

The underlying rate of taxation (before exceptional items) has reduced to 21.0% from 27.8% in 2006. This is due principally to a deferred tax credit in respect of properties, mainly due to indexation allowances and the favourable agreement of certain prior year tax issues.

The benefit of the basic rate of corporation tax falling from 30% to 28%, and changes to the capital allowances regime have resulted in a reduction in the deferred tax provision of £7.2 million. This has been accounted for as a one-off exceptional item which, together with £1.0 million of tax relief on exceptional costs, has resulted in an exceptional tax credit of £8.2 million.

## **Exceptional items**

There is a net exceptional credit of £4.9 million after tax, comprising the £8.2 million tax credit referred to above, offset by £3.3 million of costs in relation to the acquisition of Eldridge Pope.

## GROUP INCOME STATEMENT

for the 52 weeks ended 29 September 2007

	2007			2006		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
<b>Revenue</b>	<b>652.8</b>	<b>-</b>	<b>652.8</b>	595.5	-	595.5
Operating expenses	(489.6)	(2.5)	(492.1)	(443.2)	-	(443.2)
<b>Operating profit</b>	<b>163.2</b>	<b>(2.5)</b>	<b>160.7</b>	152.3	-	152.3
Finance costs	(68.0)	(0.8)	(68.8)	(52.1)	-	(52.1)
Finance income	2.8	-	2.8	1.3	-	1.3
Net finance costs	(65.2)	(0.8)	(66.0)	(50.8)	-	(50.8)
<b>Profit before taxation</b>	<b>98.0</b>	<b>(3.3)</b>	<b>94.7</b>	101.5	-	101.5
Taxation	(20.6)	8.2	(12.4)	(28.2)	-	(28.2)
<b>Profit for the period attributable to equity shareholders</b>	<b>77.4</b>	<b>4.9</b>	<b>82.3</b>	73.3	-	73.3

All results relate to continuing operations.

<b>Earnings per share:</b>		As restated
Basic earnings per share	<b>27.9p</b>	23.8p
Basic earnings per share before exceptional items	<b>26.2p</b>	23.8p
Diluted earnings per share	<b>27.6p</b>	23.5p
Diluted earnings per share before exceptional items	<b>26.0p</b>	23.5p

A final dividend of 8.47p (2006: 7.06p) per ordinary share has been proposed and will be paid on 31 January 2008.

## GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the 52 weeks ended 29 September 2007

	2007 £m	2006 £m
Profit for the period	<b>82.3</b>	73.3
Income/(expense) recognised directly in equity		
Cash flow hedges	<b>15.6</b>	0.3
Actuarial gains/(losses) on retirement benefits	<b>27.4</b>	(18.0)
Unrealised surplus/(deficit) on revaluation of properties	<b>164.9</b>	(3.7)
Tax on items taken directly to equity	<b>(42.4)</b>	10.3
Net gains/(losses) not recognised in the income statement	<b>165.5</b>	(11.1)
<b>Total recognised income for the period</b>	<b>247.8</b>	62.2

## GROUP CASH FLOW STATEMENT

for the 52 weeks ended 29 September 2007

	2007	2006
	£m	£m
<b>Operating activities</b>		
Operating profit	160.7	152.3
Depreciation and amortisation	42.7	39.1
<b>EBITDA*</b>	<b>203.4</b>	191.4
Working capital and non-cash movements (including outflows upon integration of acquisitions)	(30.1)	13.1
Difference between defined benefit pension contributions paid and amounts charged	(7.7)	(10.5)
Income tax paid	(9.6)	(4.0)
<b>Net cash inflow from operating activities</b>	<b>156.0</b>	190.0
<b>Investing activities</b>		
Interest received	1.9	1.6
Sale of property, plant and equipment	102.0	36.8
Investment in plant and equipment for existing business	(100.3)	(71.0)
Purchase of new pubs/site developments	(46.0)	(28.1)
Movement in non-current assets	(1.7)	(2.0)
Acquisition of subsidiaries, net of cash acquired	(113.9)	(22.4)
Repayment of debt of subsidiaries upon acquisition	(57.9)	(13.7)
Movement in available-for-sale investments	31.8	(31.8)
<b>Net cash outflow from investing activities</b>	<b>(184.1)</b>	(130.6)
<b>Financing activities</b>		
Equity dividends paid	(34.1)	(31.0)
Issue of shares	1.1	2.6
Sale of own shares by share trust	-	0.9
Purchase of treasury shares	(115.5)	(14.8)
Purchase of own shares for Long Term Incentive Plan	(0.6)	(6.6)
Purchase of own shares for cancellation	(5.3)	-
Interest paid	(57.7)	(47.5)
Arrangement costs of new bank facilities and issue costs paid on securitised debt	(1.1)	(0.7)
Repayment of securitised debt	(11.4)	(10.1)
Advance of loans	443.6	43.0
Repayment of loans	(155.0)	(14.2)
Settlement of debentures	(18.9)	-
Repayment of loan notes and loan stock	(2.2)	(0.8)
Capital element of finance leases repaid	(0.1)	(0.1)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>42.8</b>	(79.3)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>14.7</b>	(19.9)
<b>Reconciliation of net cash flow to movement in net debt</b>		
<b>Increase/(decrease) in cash and cash equivalents in the period</b>	<b>14.7</b>	(19.9)
(Decrease)/increase in available-for-sale investments	(31.8)	31.8
Cash inflow from increase in debt	(256.0)	(17.8)
Change in debt resulting from cash flows	(273.1)	(5.9)
Net debt acquired with subsidiaries	(22.1)	(14.2)
Non-cash movements	(0.2)	(1.8)
<b>Movement in net debt in the period</b>	<b>(295.4)</b>	(21.9)
<b>Net debt at beginning of the period</b>	<b>(893.7)</b>	(871.8)
<b>Net debt at end of the period</b>	<b>(1,189.1)</b>	(893.7)

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

**GROUP BALANCE SHEET**  
as at 29 September 2007

	<u>2007</u>	<u>2006</u>
	£m	£m
<b>Assets</b>		
<b>Non-current assets</b>		
Intangible assets	9.7	5.5
Goodwill	217.8	148.3
Property, plant and equipment	1,934.3	1,584.0
Deferred tax assets	40.4	48.9
Other non-current assets	24.8	23.1
	<b>2,227.0</b>	<b>1,809.8</b>
<b>Current assets</b>		
Inventories	16.7	12.8
Assets held for sale	7.2	26.2
Trade and other receivables	69.4	50.6
Derivative financial instruments	2.4	-
Financial assets: available-for-sale investments	-	31.8
Cash and cash equivalents	42.4	39.8
	<b>138.1</b>	<b>161.2</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Borrowings	(97.9)	(38.6)
Derivative financial instruments	-	(0.5)
Trade and other payables	(119.3)	(108.1)
Current tax liabilities	(21.5)	(11.2)
	<b>(238.7)</b>	<b>(158.4)</b>
<b>Non-current liabilities</b>		
Borrowings	(1,133.6)	(926.7)
Derivative financial instruments	(1.6)	(14.3)
Pension commitments	(38.6)	(53.1)
Deferred tax liabilities	(195.2)	(162.6)
Other non-current liabilities	(0.4)	(0.7)
Provisions	(8.5)	(2.0)
	<b>(1,377.9)</b>	<b>(1,159.4)</b>
<b>Net assets</b>		
	<b>748.5</b>	<b>653.2</b>
<b>Shareholders' equity</b>		
Equity share capital	23.0	23.0
Share premium account	188.5	187.5
Merger reserve	41.5	41.5
Revaluation reserve	438.4	311.2
Capital redemption reserve	6.1	6.0
Hedging reserve	0.5	(10.4)
Own shares	(135.3)	(21.5)
Retained earnings	185.8	115.9
<b>Total equity</b>	<b>748.5</b>	<b>653.2</b>

## NOTES

### 1 Accounting policies

#### Basis of preparation

The financial information for the period ended 29 September 2007 has been extracted from the audited financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC) interpretations adopted by the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings and derivative financial instruments.

### 2 Segmental reporting

#### Primary reporting format – business segments

For primary segment reporting purposes, the Group is considered to have four distinguishable business segments, being Marston's Inns and Taverns (formerly Pathfinder Pubs), Marston's Pub Company (formerly The Union Pub Company), Marston's Beer Company (formerly WDB Brands) and Marston's Group Services (formerly Central).

	29 September 2007					
	Marston's Inns and Taverns £m	Marston's Pub Company £m	Marston's Beer Company £m	Marston's Group Services £m	Unallocated £m	Total £m
Revenue	367.8	200.9	84.1	-	-	652.8
Operating profit before exceptional items	66.7	90.8	17.4	(11.7)	-	163.2
Exceptional items	(0.6)	(0.4)	(0.5)	(1.0)	-	(2.5)
Operating profit after exceptional items	66.1	90.4	16.9	(12.7)	-	160.7
Net assets	943.0	1,074.0	120.6	14.1	(1,403.2)	748.5

	30 September 2006					
	Marston's Inns and Taverns £m	Marston's Pub Company £m	Marston's Beer Company £m	Marston's Group Services £m	Unallocated £m	Total £m
Revenue	330.7	178.8	86.0	-	-	595.5
Operating profit before exceptional items	63.5	80.3	18.0	(9.5)	-	152.3
Exceptional items	-	-	-	-	-	-
Operating profit after exceptional items	63.5	80.3	18.0	(9.5)	-	152.3
Net assets	680.6	905.3	102.5	51.3	(1,086.5)	653.2

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

### 3 Exceptional items

	2007 £m	2006 £m
<b>Operating items</b>		
Costs of reorganisation of newly acquired subsidiaries	2.5	-
<b>Non-operating items</b>		
Write-off of unamortised finance costs following arrangement of new bank facilities	0.8	-
	<b>3.3</b>	-

The funding of the acquisition of Eldridge Pope (note 11) during the period necessitated a renegotiation of the Group's borrowing facilities.

The current tax credit relating to the above exceptional items amounts to £1.0m (2006: £nil). In addition, £7.2m has been credited as exceptional in relation to the change in tax rate and abolition of balancing charges.

## 4 Finance costs and income

	2007	2006
	£m	£m
<b>Finance costs</b>		
Bank interest payable	20.4	7.5
Securitised debt interest payable	41.9	42.5
Other interest payable	1.7	0.6
Amortisation of issue costs on securitised debt	1.0	0.9
Amortisation of issue costs on bank loan	0.3	0.2
Net finance expense in respect of retirement benefits	2.7	0.4
Exceptional finance costs (note 3)	0.8	-
	<b>68.8</b>	<b>52.1</b>
<b>Finance income</b>		
Deposit and other interest receivable	(2.8)	(1.3)
<b>Net finance costs</b>	<b>66.0</b>	<b>50.8</b>

## 5 Taxation

	2007	2006
	£m	£m
<b>Income statement</b>		
Current tax		
Current period	20.9	22.9
Adjustment in respect of prior periods	-	(0.5)
	<b>20.9</b>	<b>22.4</b>
Deferred tax		
Current period	(0.7)	6.1
Adjustment in respect of prior periods	(0.6)	(0.3)
Exceptional credit in respect of the change in tax rate and abolition of balancing charges	(7.2)	-
	<b>(8.5)</b>	<b>5.8</b>
<b>Taxation charge reported in the income statement</b>	<b>12.4</b>	<b>28.2</b>

£1.0m of the current tax credit relates to the tax on exceptional items (note 3).

## 6 Ordinary dividends on equity shares

	2007	2006
	£m	£m
<b>Paid in the period</b>		
Final dividend for 2006 of 7.06p per share (2005: 6.42p)	21.5	19.8
Interim dividend for 2007 of 4.36p per share (2006: 3.63p)	12.6	11.2
	<b>34.1</b>	<b>31.0</b>

A final dividend for 2007 of 8.47p per share amounting to £23.6m has been proposed for approval at the annual general meeting, but has not been reflected in the financial statements. This dividend will be paid on 31 January 2008 to those shareholders on the register at close of business on 4 January 2008. A 4-for-1 share split was completed on 9 January 2007.

## 7 Earnings per ordinary share

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 Employee Share Ownership Plan and the Long Term Incentive Plan.

Diluted earnings per share is calculated by adjusting the basic earnings per share to assume the notional exercise of the weighted average number of ordinary share options outstanding during the period. The effect of the dilutive options is to increase the weighted average number of shares by 2.5 million (2006: 3.1 million).

Underlying earnings per share figures are presented to exclude the effect of exceptional items.

	2007			2006		
	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	82.3	295.2	27.9	73.3	308.5	23.8
Diluted earnings per share	82.3	297.7	27.6	73.3	311.6	23.5
Underlying earnings per share figures:						
Basic earnings per share before exceptional items	77.4	295.2	26.2	73.3	308.5	23.8
Diluted earnings per share before exceptional items	77.4	297.7	26.0	73.3	311.6	23.5

Historic earnings per share and the weighted average number of shares have been restated to reflect the 4-for-1 share split that was completed on 9 January 2007.

## 8 Working capital and non-cash movements

	2007 £m	2006 £m
Income from non-current assets	(0.5)	(0.4)
(Increase)/decrease in inventories	(1.4)	1.0
(Increase)/decrease in trade and other receivables	(11.7)	1.4
(Decrease)/increase in trade and other payables	(16.0)	11.4
Profit on disposal of property, plant and equipment	(4.7)	(5.1)
Impairment of properties	2.8	3.8
Share based payments	1.4	1.0
<b>Working capital and non-cash movements</b>	<b>(30.1)</b>	<b>13.1</b>

## 9 Analysis of net debt

	2007 £m	Cash flow £m	Non-cash flow £m	Acquisitions £m	2006 £m
<b>Cash and cash equivalents</b>					
Cash at bank and in hand	42.4	2.6	-	-	39.8
Bank overdraft	(7.1)	12.1	-	-	(19.2)
	<b>35.3</b>	<b>14.7</b>	<b>-</b>	<b>-</b>	<b>20.6</b>
<b>Financial assets</b>					
Available-for-sale investments	-	(31.8)	-	-	31.8
	<b>-</b>	<b>(31.8)</b>	<b>-</b>	<b>-</b>	<b>31.8</b>
<b>Debt due within one year</b>					
Loan notes	(9.2)	2.0	-	(2.1)	(9.1)
Bank loans	(70.3)	(70.6)	0.1	-	0.2
Securitised debt	(11.2)	11.4	(12.2)	-	(10.4)
Finance leases	(0.1)	0.1	(0.1)	-	(0.1)
	<b>(90.8)</b>	<b>(57.1)</b>	<b>(12.2)</b>	<b>(2.1)</b>	<b>(19.4)</b>
<b>Debt due after one year</b>					
Bank loans	(372.5)	(218.0)	(0.2)	-	(154.3)
Securitised debt	(760.9)	-	11.2	-	(772.1)
Finance leases	(0.1)	-	0.1	-	(0.2)
Loan stock	-	0.2	-	(0.2)	-
Debentures	-	18.9	0.9	(19.8)	-
Preference shares	(0.1)	-	-	-	(0.1)
	<b>(1,133.6)</b>	<b>(198.9)</b>	<b>12.0</b>	<b>(20.0)</b>	<b>(926.7)</b>
	<b>(1,189.1)</b>	<b>(273.1)</b>	<b>(0.2)</b>	<b>(22.1)</b>	<b>(893.7)</b>

Included within cash at bank and in hand is an amount of £3.9m (2006: £3.9m) relating to a letter of credit with Royal Sun Alliance, which is considered to be restricted cash.

Available-for-sale investments represent the Group's holding in a short-term investment fund from which cash can be withdrawn on demand and without penalty and therefore it has been classified within net debt.

Bank loans due within one year include unamortised issue costs expected to be charged to the income statement within 12 months of the balance sheet date.

## 10 Movements in total equity

	2007 £m	2006 £m
<b>Total equity at beginning of the period</b>	<b>653.2</b>	<b>640.2</b>
Total recognised income and expense for the period	247.8	62.2
Dividends paid	(34.1)	(31.0)
Proceeds of ordinary share capital issued	1.1	2.6
Purchase/cancellation of own shares	(121.4)	(21.4)
Sale of own shares	-	0.9
Share based payments	1.4	1.0
Tax in relation to share based payments	0.5	0.7
Equity minority interests	-	(2.0)
<b>Net movement in total equity</b>	<b>95.3</b>	<b>13.0</b>
<b>Total equity at end of the period</b>	<b>748.5</b>	<b>653.2</b>

## 11 Acquisitions

### (a) Eldridge Pope

On 25 January 2007, the Group acquired 100% of Nouveaustar Limited ('Eldridge Pope') and its wholly owned subsidiaries. The acquisition has been accounted for under acquisition accounting principles and is therefore included in the consolidated balance sheet as at 29 September 2007.

	Book value	Fair value adjustments		Provisional fair value
		Revaluations	Other	
	£m	£m	£m	£m
Property, plant and equipment	107.4	28.8	-	136.2
Intangible assets: lease premiums	-	1.1	-	1.1
Intangible assets: negative goodwill	(0.4)	-	0.4	-
Inventories	2.1	-	-	2.1
Trade and other receivables	5.6	-	(0.1)	5.5
Cash and cash equivalents	3.6	-	-	3.6
Bank overdraft	(1.2)	-	-	(1.2)
Trade and other payables	(19.7)	-	-	(19.7)
Borrowings	(69.5)	-	(4.9)	(74.4)
Pension commitments	(13.0)	-	(5.0)	(18.0)
Derivative financial instruments	-	-	0.2	0.2
Provisions	-	(7.7)	-	(7.7)
Deferred tax	1.5	(8.0)	5.0	(1.5)
<b>Net assets acquired</b>	<b>16.4</b>	<b>14.2</b>	<b>(4.4)</b>	<b>26.2</b>
<b>Cash consideration (including acquisition fees)</b>				<b>84.5</b>
<b>Goodwill arising on consolidation</b>				<b>58.3</b>

The attributed fair values are provisional.

The revaluation adjustment reflects the valuation of the acquired estate as at 25 January 2007. The valuation was carried out by independent chartered surveyors Colliers CRE on an open market value basis. Valuations reflecting onerous leases have been included in provisions. Deferred tax on property revaluations has been recognised on acquisition.

The other fair value adjustments reflect the elimination of negative goodwill, the fair values of the debentures, derivative financial instruments and defined benefit pension scheme commitments at the date of acquisition, and the associated deferred tax.

The net cash outflow in respect of the acquisition of Eldridge Pope was:

	£m
<b>Acquisition of equity</b>	
Cash	84.5
Net cash held by subsidiary	(2.4)
	82.1
<b>Acquisition of debt</b>	
Immediate repayment of subsidiary's debt	52.3
Net cash outflow in respect of the acquisition	134.4

The purchase agreement for Eldridge Pope required the immediate repayment of certain borrowings, which were included in its balance sheet at the date of acquisition. The debt repayments have therefore been classified as part of the overall consideration for the acquisition of Eldridge Pope.

### (b) Sovereign Inns

On 16 January 2007, the Group acquired 100% of Sovereign Inns Limited ('Sovereign Inns'). The acquisition has been accounted for under acquisition accounting principles and is therefore included in the consolidated balance sheet as at 29 September 2007.

	£m
Book value of net assets acquired	3.7
Fair value adjustments	5.8
Goodwill	4.8
Consideration satisfied by cash	14.3

The attributed fair values are provisional. Fair value adjustments were made to the value of the acquired estate of £9.6m and deferred tax thereon of £(3.8)m. The valuation of the estate was carried out by independent chartered surveyors Brownill Vickers & Platts on an open market value basis.

The net cash outflow in respect of the acquisition of Sovereign Inns was:

	£m
<b>Acquisition of equity</b>	
Cash	14.3
Net cash held by subsidiary	(0.3)
	14.0
<b>Acquisition of debt</b>	
Immediate repayment of subsidiary's debt	5.6
Net cash outflow in respect of the acquisition	19.6

The purchase agreement for Sovereign Inns required the immediate repayment of certain borrowings, which were included in its balance sheet at the date of acquisition. The debt repayments have therefore been classified as part of the overall consideration for the acquisition of Sovereign Inns.

### (c) Ringwood Brewery

On 12 July 2007, the Group acquired 100% of Ringwood Brewery Limited ('Ringwood Brewery'). The acquisition has been accounted for under acquisition accounting principles and is therefore included in the consolidated balance sheet as at 29 September 2007.

	£m
Book value of net assets acquired	7.4
Fair value adjustments	6.2
Goodwill	6.3
Consideration satisfied by cash	19.9

The attributed fair values are provisional. Fair value adjustments were made to the value of the Ringwood brand of £2.9m, the acquired estate of £4.0m and deferred tax thereon of £(0.7)m. The valuation of the brewery was carried out by independent chartered surveyors Donaldsons on an open market value basis. The valuation of the pub estate was carried out by independent chartered surveyors Christie + Co on an open market value basis.

The net cash outflow in respect of the acquisition of Ringwood Brewery was:

	£m
<b>Acquisition of equity</b>	
Cash	19.9
Net cash held by subsidiary	(2.1)
Net cash outflow in respect of the acquisition	17.8

### (d) Prior period acquisitions

On 17 March 2006, the Group acquired Celtic Inns Holdings Limited. The fair value adjustments stated in the financial statements for the period ended 30 September 2006 are now confirmed with no adjustments made to those previously published.

On 6 July 2006, the Group acquired Bluu Limited. An additional £0.1m of acquired liabilities have been identified during the period to 29 September 2007 and recorded as a fair value adjustment.

## 12 Events after the balance sheet date

On 22 November 2007, £330.0m of secured loan notes were issued in connection with the securitisation of an additional 437 of the Group's freehold and long leasehold tenanted pubs. The loan notes are secured on the properties and their future income streams. On the same date, £313.0m of existing bank loans were repaid from the funds raised.

#### Notes:

- a. The contents of this preliminary announcement, which do not constitute statutory accounts as defined in Section 240 of the Companies Act 1985, have been extracted from the audited statutory accounts of the Group for the 52 weeks ended 29 September 2007, which will be filed with the Registrar of Companies in due course. The statutory accounts for the 52 weeks ended 30 September 2006 have been delivered to the Registrar of Companies. The independent auditors' report on these accounts are unqualified and do not contain any statements under Section 237(2) or (3) of the Companies Act 1985.
- b. Subject to approval of the shareholders at the annual general meeting, the proposed dividend of 8.47 pence per share will be paid on 31 January 2008 to shareholders on the register at the close of business on 4 January 2008.
- c. The annual report for the year ended 29 September 2007 will be posted to all shareholders in the week commencing 16 December 2007. Copies will be obtainable from Hudson Sandler Limited (020 7796 4133) or from The Company Secretary, Marston's PLC, Marston's House, Brewery Road, Wolverhampton, WV1 4JT.