Remuneration Policy

This part of the report sets out the Directors' Remuneration Policy which will be subject to a binding vote at the 2017 AGM and take effect from the close of the meeting. The policy is determined by the Company's Remuneration Committee ('the Committee').

The Directors' Remuneration Policy was first approved at the 2014 AGM, and that policy took effect from 5 October 2014. The new policy set out below will, subject to shareholder approval, apply from the close of the 2017 AGM.

No significant changes have been made to the policy approved at the 2014 AGM. However, certain minor amendments have been made to take account of developments since the 2014 AGM and to ensure the policy is appropriate for the Company going forwards. In summary, the changes made to the proposed policy as compared to the policy approved at the 2014 AGM are as set out below.

- Shareholding policy has been included which has been set at 200% of salary for the CEO and 100% of salary for other Directors.
- The maximum annual award which can be made under the LTIP has been increased from 125% to 150%. The actual award for 2017 will remain at 125%.
- LTIP awards for 2017 and future years will be subject to a holding period post-vesting. The performance period and holding period in total will be five years.
- The Committee may award dividend equivalents on vested shares following the end of the performance period up to the date of release (i.e. the date on which the award becomes exercisable).

Aims

The policy is designed to ensure that Executive Directors are provided with sufficient remuneration to motivate each individual with incentives that are aligned to strategy and encourage enhanced performance. The Committee believes that variable pay should only be earned for achievement against stretching targets and will continue to ensure that targets provide an appropriate balance between motivating and rewarding Executive Directors to deliver stretching but sustainable performance, without encouraging excessive risk taking.

Base Salary

Purpose and link to strategy	Core element of fixed remuneration, reflecting the size and scope of the role. Purpose is to recruit and retain Directors of the calibre required for the business.
Operation	Usually reviewed annually and fixed for 12 months commencing 1 October. Whilst Executive Directors are contractually entitled to an annual review of their salary, there is no entitlement to an increase as a result of this review. Salary levels are determined by the Committee taking into account a range of factors including: • role, experience and performance; • underlying Group performance; • alignment with workforce; • prevailing market conditions; and • external benchmarks for similar roles at comparable companies.
Opportunity	Salary increases are reviewed in the context of salary increases across the wider Group. The Committee considers any increase which is out of line with these very carefully and such increases may be awarded where there is a reason to do so taking into account relevant factors. These circumstances may include but are not limited to: • increase in scope and responsibility; • promotional increase to Executive Director; • development and performance in the role (including if a newly appointed Executive Director's salary is positioned below a market rate that it may be increased to a market rate over such period as the Committee considers appropriate); or • a salary falling significantly below market positioning.
Performance metrics	Not applicable, although the individual's contribution and overall performance is one of the considerations in determining the level of any salary increase.

Remuneration Policy continued

Benefits

Purpose and link to strategy	Ensures the overall package is competitive. Participation in the Save As You Earn scheme (SAYE) creates staff alignment with the Group and promotes a sense of ownership.
Operation	Executive Directors receive benefits in line with market practice which include a car allowance, private medical insurance and life assurance. The SAYE is an HMRC tax-qualifying monthly savings scheme facilitating the purchase of shares at a discount. Other benefits may be provided based on the role and individual circumstances. These may include, for example, relocation and travel allowances.
Opportunity	Set at a level which the Committee considers appropriate against the market and provides a sufficient level of benefit based on individual circumstances. SAYE contribution and operation of the SAYE scheme as permitted in accordance with the relevant tax legislation.
Performance metrics	Not applicable.

Annual Bonus and Deferred Bonus Plan

Purpose and link to strategy	Rewards performance against annual targets which support the strategic direction of the Group. Compulsory deferral into shares aligns Executive Directors with shareholder interests and provides a retention element.
Operation	Performance measures and applicable targets are set annually and any payout is determined by the Committee after the period end, based on performance. The Committee has discretion to vary the bonus payout should any formulaic output not reflect the Committee's assessment of overall business performance. Any bonus earned in excess of 40% of the maximum award is usually payable in shares in the Company which will be deferred for a period of three years. Executive Directors can opt to defer a greater proportion if they wish. Deferral of any bonus earned is subject to a de minimis limit of £5,000. A malus provision gives the Committee the right to cancel unvested shares under the Deferred Bonus Plan if an act or omission of the participant contributes to a material misstatement of the Group's financial statements or results in material loss or reputational damage for the Company. A clawback provision allows the Committee to recover any cash bonus awarded (for up to two years) if certain events occur. These events include serious misconduct and a material misstatement of the Group's audited results. As with all Group bonuses, they remain discretionary and can be adjusted or removed at the Committee's discretion. In the case of Executive Directors this discretion lies with the Remuneration Committee. At its discretion, the Committee may award dividend equivalents to reflect dividends that would have been paid over the period from grant to vesting on vested shares under the Deferred Bonus Plan. These dividend equivalents may be paid in cash or in shares and may assume the reinvestment of dividends.
Opportunity	The usual maximum annual bonus opportunity is 100% of base salary.
Performance metrics	Performance measures are determined each year reflecting the business priorities that underpin Group strategy. At least 50% of the award will be based on financial performance measures aligned to the Group's financial key performance indicators, which may include Group profit and return on capital measures. The balance of the bonus opportunity will be based on financial measures and/or the delivery of strategic/individual objectives. **Financial measures** Payments range between 0% and 100% of base salary with up to 50% of the maximum opportunity for each measure payable for on-target performance. For achievement of the maximum performance level 100% of the maximum opportunity will vest. There is usually straight-line vesting between the threshold and target performance levels and between target and maximum performance levels. The Committee has the discretion to vary the vesting schedules by reducing the percentage that vests at each performance level but not by increasing the percentage that vests. **Non-financial measures** Any element of the bonus subject to a non-financial measure will vest between 0% and 100% based on the Committee's assessment of the extent to which the relevant measure has been achieved.

Long Term Incentive Plan (LTIP)

Purpose and link to strategy	Incentivises Executive Directors to deliver against the Group's strategy over the longer term. Long-term performance targets and share-based remuneration support the creation of sustainable shareholder value.
Operation	The Committee makes long term incentive awards under the 2014 LTIP which was approved by shareholders at the 2014 AGM. Under the 2014 LTIP, awards of conditional shares, restricted stock or nil cost options (or similar cash equivalent) can be made with vesting dependent on the achievement of performance conditions, normally over a three year performance period. Vested awards are normally subject to an additional holding period of two years before being released to participants. Awards may vest early on a change of control (or other relevant event) subject to satisfaction of the performance conditions and pro-rating for time to reflect the proportion of the performance period that has elapsed, although the Committee has discretion to increase the extent of vesting having due regard to performance over the period to vesting. As described on page 55, LTIP awards may also vest early in 'good leaver' circumstances. The Committee has the right to reduce any LTIP awards which have not yet vested (i.e. a malus provision) if an act or omission contributes to a material misstatement of the Group's financial statements or results in material loss or reputational damage for the Company. At any time on or after the vesting of an award and prior to the second anniversary of vesting, a clawback provision allows the Committee to reduce the number of shares subject to an award or cancel an un-exercised award or require a cash payment in respect of shares already delivered under an award if certain events occur. These events include serious misconduct and a material misstatement of the Group's audited results. The Committee may at its discretion structure awards as Approved Performance Share Plan (APSP) awards. APSP awards enable the participant and Company to benefit from HMRC approved option tax treatment in respect of part of the award, without increasing the pre-tax value delivered to participants. APSP awards may be structured either as an approved option for the part of the award up to the HMRC limit (currently £30,000) with an unapproved option for the balance and a 'linked award' to fund the exercise price of the approved option, or as an approved option and an LTIP award, with the vesting of the LTIP award scaled back to take account of any gain made on exercise of the approved option. At its discretion, the Committee may award dividend equivalents to reflect dividends that would have been paid on vested awards under the LTIP from the end of the performance period until the date of release (i.e. the date on which the awards become exercisable). These dividend equivalents may be paid in cash or in shares and may assume the reinvestment of dividends.
Opportunity	The normal maximum award size will be up to 150% of base salary in respect of any financial year. Awards for FY17 will be granted at the level of 125% of salary and it is currently intended that awards will continue to be made at this level. In exceptional circumstances the Committee reserves the right to award up to 200% of base salary in respect of any financial year. These limits do not include the value of shares subject to any approved option granted as part of an APSP award.
Performance metrics	The vesting of LTIP awards is subject to the satisfaction of performance targets set by the Committee. The performance measures are reviewed regularly to ensure they remain relevant but will be based on financial measures and/or share price growth related measures, including (but not exclusively): • free cash flow; • return on capital employed; and • relative total shareholder return. The relevant metrics and the respective weightings may vary each year based upon Group strategic priorities. For 2017, the performance measures and weightings will be: • 40% free cash flow; • 40% return on capital employed; and • 20% relative total shareholder return. For the achievement of threshold performance no more than 25% of each respective element of the award will vest. For the achievement of maximum performance 100% of each respective element will vest. There will usually be straight-line vesting between threshold and maximum performance. The Committee will regularly review the performance conditions and targets to ensure they are aligned to Marston's strategy and remain challenging and reflective of commercial expectations. The Committee has the discretion to vary the vesting schedules by reducing the percentage that vests at each performance level but not by increasing the percentage that vests.

Remuneration Policy continued

Retirement benefits

Purpose and link to strategy	Provides market competitive post-employment (or cash equivalent) benefits.
Operation	Executive Directors are eligible to participate in the defined contribution pension scheme (or such other pension plan as may be deemed appropriate) and, if a member before closure of the scheme, the defined benefit scheme. The defined benefit scheme was closed to new entrants from 29 September 1997. Executive Directors who are members of the closed scheme can continue to receive benefits in accordance with the terms of this scheme. In appropriate circumstances, Executive Directors may take a salary supplement instead of contributions into a pension plan.
Opportunity	Ralph Findlay, who was previously a member of the defined benefit scheme has opted to no longer accrue future benefits and instead receives 25% of base salary as a salary supplement in lieu of pension contributions. All the other Executive Directors (including any new appointments) may receive contributions of up to 20% of base salary under the defined contribution pension scheme, an equivalent cash allowance or a combination of the two (up to 20% of base salary). Active members of the defined benefit pension scheme continued to accrue benefits under this scheme until 30 September 2014.
Performance metrics	Not applicable.

Non-executive Director fees

Purpose and link to strategy	Non-executive Director fees are set at a level that reflects market conditions and is sufficient to attract individuals with appropriate knowledge and experience.
Operation	Fees are usually reviewed every two years and amended to reflect market positioning and any change in responsibilities. The Committee recommends the remuneration of the Chairman to the Board. Fees paid to Non-executive Directors are determined and approved by the Board as a whole. The Non-executive Directors do not participate in the annual bonus plan or any of the Group's share incentive plans. Non-executive Directors may be eligible to receive benefits such as the use of secretarial support, travel costs or other benefits that may be appropriate.
Opportunity	Fees are based on the level of fees paid to Non-executive Directors serving on Boards of similar-sized UK-listed companies and the time commitment and contribution expected for the role. Non-executive Directors receive a basic fee and an additional fee for further duties (for example chairmanship of a Committee or Senior Independent Director responsibilities).
Performance metrics	Not applicable.

The Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed:

(i) before the Policy came into effect (and, in the case of the terms of a payment agreed on or after 5 October 2014, were in line with the policy approved at the 2014 AGM); or

(ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

For these purposes the term payments includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

Explanation of performance metrics chosen

Performance measures are selected that are aligned to the Group's strategy. Stretching performance targets are set each year for the annual bonus and long term incentive awards. In setting these performance targets the Committee will take into account a number of different reference points which may include the Group's business plans and strategy and the market environment. Where relative total shareholder return is used there will be no payment for performance below median (compared to the comparator group).

The annual bonus performance targets reflect key financial objectives of the Group and reward for delivery against these.

The LTIP performance targets reflect the Group's strategic objectives and therefore the financial and strategic decisions which ultimately determine the success of the Group. The LTIP performance measures are based on financial measures and/or share price growth related measures, including (but not exclusively):

- Cash Return On Cash Capital Employed – this is a key driver of shareholder value and reflects Marston's investment/disposal plans and the balance sheet.
- Free Cash Flow – this reflects the operating cash flow of the business after tax and interest which is available to return to shareholders as dividends; to reinvest to increase returns; or to pay down debt.
- Relative Total Shareholder Return – aligns management's objectives with those of shareholders and is a broad measure of the extent to which Group strategy is considered appropriate by the market as well as the extent to which it is being well implemented.

The Committee retains the discretion to adjust or set different performance measures or targets if events occur (such as a change in strategy, a material acquisition and/or a divestment of a Group business or a change in prevailing market conditions) which cause the Committee to determine that the measures are no longer appropriate and that amendment is required so that they achieve their original purpose.

Awards and options may be adjusted in the event of a variation of share capital in accordance with the rules of the LTIP, DBP and SAYE.

Illustration of application of Remuneration Policy

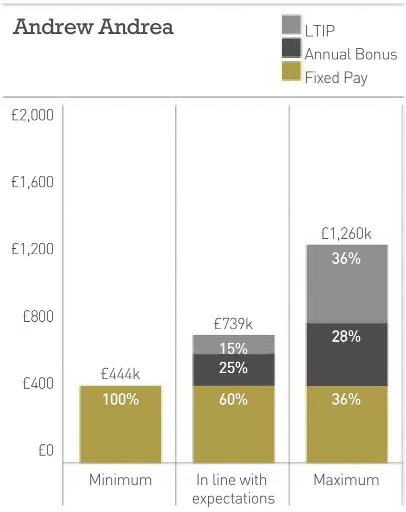
The charts on the following page show the relative split of remuneration between fixed pay (base salary, benefits and pension) and variable pay (annual bonus, deferred bonus plan (DBP) and LTIP) for each Executive Director on the basis of minimum remuneration, remuneration receivable for performance in line with the Company's expectations and maximum remuneration.

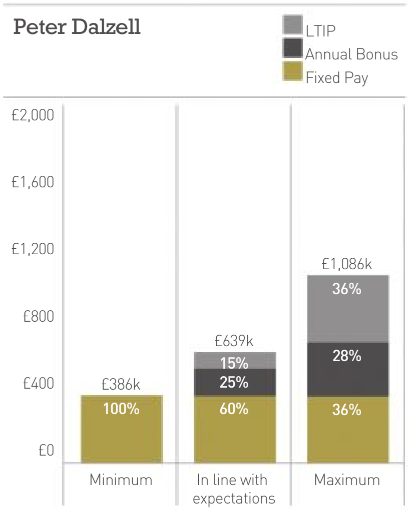
In illustrating the potential reward the following assumptions have been made:

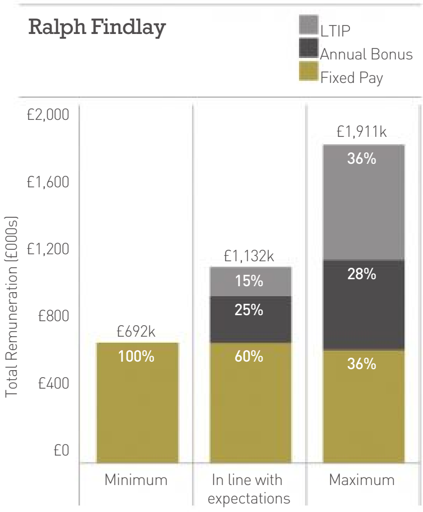
	Fixed pay	**Annual bonus and DBP**	**LTIP**
Minimum performance	Fixed elements of remuneration are base salary, benefits and pension Base salary is the latest known salary (i.e. the salary effective from 1 October 2016) and the value for benefits has been assumed to be equivalent to that included in the single figure calculation on page 58	No bonus	No LTIP vesting
Performance in line with expectations		50% of salary delivered for achieving target performance	25% of maximum award vesting (i.e. 31.25% of salary) for achieving threshold performance across all performance measures
Maximum performance		100% of salary awarded for delivering at or above the highest performance in respect of the annual bonus measures	100% of award vesting (125% of salary) delivered for achieving the most stretching level of performance measures attached to the LTIP awards

Awards under the LTIP and deferred shares vesting under the DBP are included at face value with no share price movement included and ignoring any dividend equivalents that may be awarded.

Remuneration Policy continued







Notes: No percentage split for Minimum bar chart as always 100%

Differences in policy from the wider employee population

The Company aims to provide a remuneration package that is market competitive, complies with any statutory requirements and is applied fairly and equitably across the wider employee population. Where remuneration is not determined by statutory regulation, the Company operates the same core principles as it does for Executive Directors namely;

- we remunerate people in a manner that allows for stability of the business and the opportunity for sustainable long-term growth.
- we seek to remunerate fairly and consistently for each role with due regard to the marketplace, internal consistency and the Group's ability to pay.

With the exception of our pub managers and field-based sales and operations teams, all bonus arrangements within the Group normally have the same structure and payout mechanism as those for Executive Directors.

Participation in the DBP and LTIP is extended to the senior management team at the discretion of the Board and, in line with the policy for Executive Directors, share ownership is encouraged and LTIP participants are expected to build and maintain a minimum level of shareholding. We also encourage long term employee engagement through the offer of SAYE to all employees of the Group who meet a minimum service requirement.

Recruitment Remuneration Policy

Executive Directors

When hiring a new Executive Director, the Committee will typically seek to use the Policy detailed in the table above to determine the Executive Director's ongoing remuneration package. In determining appropriate remuneration, the Committee will take into consideration all relevant factors (including the quantum and nature of remuneration) to ensure the arrangements are in the best interests of Marston's and its shareholders.
To facilitate the hiring of candidates of the appropriate calibre required to implement the Group's strategy, the Committee also retains the discretion to include any other remuneration component or award which is outside the Policy, however, this discretion is subject to the limits and principles referred to below.

- Base salary will be set at a level appropriate to the role and experience of the Executive Director being appointed. This may include agreement on future increases up to a market rate, in line with experience and/or responsibilities and subject to good performance, where it is considered appropriate.
- Pension and benefits will be provided in line with the Policy.
- The Committee will not offer non-performance related incentives (for example a 'guaranteed sign on bonus').
- The circumstances in which other elements may be offered include:
  - an interim appointment being made to fill an Executive Director role on a short-term basis;
  - if exceptional circumstances require that the Chairman or a Non-executive Director takes on an executive function on a short-term basis.
  - if an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long-term incentive award for that year as there would not be sufficient time to assess performance. Subject to the limit on variable remuneration, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis.
- The Committee may also alter the performance measures, performance period and vesting period and holding period of the annual bonus, DBP or LTIP, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in the following year's Directors' Remuneration Report.

The Committee may make an award to 'buy-out' incentive arrangements forfeited on leaving a previous employer. In doing so the Committee will take account of relevant factors including the form of award, any performance conditions attached to these awards and the time over which they would have vested. The Committee would seek to incorporate buy-out awards in line with the Company's remuneration framework as far as is practical. The Committee may consider other components for structuring the buy-out, including cash or share awards, restricted stock awards and share options where there is a commercial rationale for doing so.

Appropriate costs and support will be covered if the recruitment requires relocation of the individual.

All recruitment awards will normally be liable to forfeiture or 'clawback' on early departure. For Executive Directors, early departure is defined as being within the first two years of employment.

The maximum level of variable remuneration which may be granted (excluding buy-out arrangements) is 300% of salary. The Committee will ensure that such awards are linked to the achievement of appropriate and challenging performance measures and will be forfeited if performance or continued employment conditions are not met.

Non-executive Directors

Fees payable to a newly-appointed Chairman or Non-executive Director will be in line with the fee policy in place at the time of appointment.

Service contracts and policy on payment for loss of office

Executive Directors' contracts are on a rolling 12 month basis and are subject to 12 months' notice when terminated by the Company and six months' notice when terminated by the Director. The Committee may, in exceptional circumstances, in order to attract and retain suitable executives, offer service contracts with up to an initial 24 month notice period which then reduces to 12 months at the end of this initial period.

The current Non-executive Directors, including the Chairman, do not have a service contract and their appointments, whilst for a term of three years, may be terminated without compensation at any time. All Non-executive Directors have letters of appointment and their appointment and subsequent re-appointment is subject to annual approval by shareholders.

The principles on which the determination of payments of loss of office will be approached are summarised below:

Provision	Treatment upon loss of office
Payment in lieu of notice	Payments to Executive Directors upon termination of their contracts will be equal to base salary plus the value of core benefits for the duration of the notional notice period. They will also be entitled to pension contributions for the duration of the notional notice period or the requisite cash allowance equivalent.
Annual bonus	This will be at the discretion of the Committee on an individual basis and the decision whether or not to award a bonus in full or in part will be dependent upon a number of factors including the circumstances of their departure and their contribution to the business during the bonus period in question. Any bonus amounts paid (as estimated by the Committee) will typically be pro-rated for time in service to termination and will, subject to performance, be paid at the usual time, although the Committee retains discretion to pay the bonus award earlier in appropriate circumstances. Any bonus earned for the year of departure and the preceding year may be paid wholly in cash, with no deferral.
Deferred bonus	Any deferred award under the deferred bonus plan will be determined based on the leaver provisions contained within the deferred bonus plan rules. For participants leaving before the first anniversary of the date of grant deferred awards will lapse unless the participant is considered a 'good leaver'. For a good leaver the deferred award will vest in full. 'Good leavers' are participants who leave as a result of redundancy, death, ill-health, injury or disability, the sale of his employer out of the Group or any other reason at the discretion of the Committee. For a participant leaving after the first anniversary of the date of grant the award will vest in full unless employment is terminated for reasons of misconduct (in which case the award will lapse).
2014 LTIP	Any award under the 2014 LTIP would be determined based on the leaver provisions contained within the 2014 LTIP plan rules. For 'good leavers' unvested LTIP awards will usually be released at the ordinary release date (i.e. following the end of the holding period), although the Committee retains discretion to release awards earlier (for example following the end of the performance period or at the date of cessation) in appropriate circumstances. The vesting of awards is, subject to the performance conditions and, unless the Committee determines otherwise, pro-rating for time to reflect the proportion of the performance period that has elapsed. 'Good leavers' are participants who leave as a result of death, ill-health, injury or disability, the sale of their employer out of the Group or any other reason at the discretion of the Committee. In other circumstances, unvested LTIP awards will lapse upon the cessation of employment. If a participant leaves for any reason (other than summary dismissal) after an award has vested but before it has been released (for example, during a holding period), the award will ordinarily continue to the normal release date when it will be released to the extent it vested. The Committee retains discretion to release awards at the date of cessation in appropriate circumstances.

Remuneration Policy continued

Provision	Treatment upon loss of office
Change of control	Upon a change of control incentive awards will usually vest and be subject to performance conditions and pro-rating for time, to reflect the proportion of the performance period that has elapsed. The Committee retains the discretion to waive pro-rating for time.
Mitigation	Ralph Findlay's service contract is formed under a model which was approved by the Committee in 2001 and there is no reduction in payments for mitigation or for early payment as the Committee has taken the view that as a long-standing employee of the Group, full compensation would be merited in the event of unilateral termination of his employment by the Group. Andrew Andrea and Peter Dalzell's service contracts were formed under a new model approved in 2009 and provide that, subject to formal notice being given by either party, any payment during the notice period will be reduced by any amount earned in that period from alternative employment as a result of being released to work for another employer prior to the conclusion of their notice period.
Other payments	Payments may be made in the event of a loss of office under the SAYE scheme (which is governed by its rules and the applicable tax legislation and does not provide for discretionary treatment). In appropriate circumstances, payments may also be made in respect of accrued holiday pay, outplacement and legal fees and other relevant benefits.

Statement of consideration of employment conditions elsewhere in the Group

Salary, benefits and performance related rewards provided to employees are taken into account when setting policy for Executive Directors' remuneration. Although employees are not actively consulted on Directors' remuneration the Group has regular contact with union bodies on matters of pay and remuneration for employees covered by collective bargaining or consultation arrangements.

In October of each year a paper is submitted to the Committee by the Group People Director summarising the outcome of any annual reviews made to the wider workforce (including head office and supply chain employees but excluding pub based staff as the majority of these employees have their remuneration rate set by statute rather than the market). This paper is taken into account when setting Executive Directors' remuneration effective from the start of October for the following 12 months. In addition, and where relevant, a similar paper is submitted in October covering the decisions taken by the Executive Committee relating to bonus payments for employees within the wider workforce. This is taken into consideration by the Committee when approving bonus awards for Executive Directors.

Statement of consideration of shareholder views

The Committee is committed to open and transparent dialogue with shareholders and welcomes feedback on Executive and Non-executive Directors' remuneration.

Shareholding guidelines

In order to further align the interests of executive Directors with those of shareholders, the Committee applies shareholding guidelines. These guidelines provide that the Chief Executive is required to hold shares with a value equal to two times' salary and other executive Directors are required to hold shares with a value equal to one time's salary. To achieve these holdings Directors are required to retain any vested shares from the LTIP, net of tax, until the guidelines are satisfied. Shares subject to vested LTIP awards which are in a holding period count towards this guideline (on a net of assumed tax basis).