THIS DOCUMENT AND THE ACCOMPANYING FORM OF PROXY OR FORM OF INSTRUCTION ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION.

If you are in any doubt about the contents of this Circular or the action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank, accountant, fund manager or other appropriate independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

If you sell or have sold or otherwise transferred all of your Ordinary Shares before 23 June 2020, please forward this Circular and the accompanying documentation as soon as possible to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee. If you sell or have sold or otherwise transferred only part of your holding of Ordinary Shares, you should retain this Circular and the accompanying documentation, and you should consult with the bank, stockbroker or other agent through whom the sale or transfer was effected. If you receive this Circular from another Shareholder, as a purchaser or transferee, please contact the Company's Registrar for a Form of Proxy.

Any person (including, without limitation, custodians, nominees and trustees) who may have a contractual or legal obligation or may otherwise intend to forward this Circular to any jurisdiction outside the United Kingdom should seek appropriate advice before taking any action. The distribution of this Circular and any accompanying documents into jurisdictions other than the United Kingdom may be restricted by law. Any person not in the United Kingdom into whose possession this Circular and any accompanying documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

MARSTON'S

MARSTON'S PLC

(Incorporated and registered in England and Wales with registered number 00031461)

Proposed arrangements with Carlsberg UK Holdings Limited

and

Notice of General Meeting

Please read the whole of this Circular. In particular, your attention is drawn to the letter from the Chairman of the Company, which is set out in Part I (*Letter from the Chairman of Marston's PLC*) of this Circular, which contains the recommendation of the Board that you vote in favour of the Resolution to be proposed at the General Meeting, and the risk factors set out in Part II (*Risk Factors*) of this Circular.

Notice of the General Meeting of the Company to be held at 9.00 a.m. on 25 June 2020 at Marston's House, Brewery Road, Wolverhampton, WV1 4JT is set out at the end of this Circular.

The actions to be taken in respect of the General Meeting are set out in Section 14 of Part I (*Letter from the Chairman of Marston's PLC*) of this document.

Given prevailing Government guidance in relation to COVID-19 and specifically the restrictions on large gatherings and unnecessary travel, the General Meeting will be convened with the minimum quorum of Shareholders (which will be facilitated by Marston's management) in order to conduct the business of the meeting. Therefore, instead of attending the General Meeting, we ask Shareholders to vote by proxy on the Resolution. In the interest of safety, Shareholders will not be admitted to the General Meeting.

We will continue to closely monitor the developing impact of COVID-19, including the latest Government guidance. Should it become necessary or appropriate to revise the current arrangements for the General Meeting, this will be notified to Shareholders on our website at www.marstons.co.uk and/or via RNS.

If you received this document in the post, the Form of Proxy will have accompanied it; if you downloaded this document from www.marstons.co.uk, the Form of Proxy can be found on that website also.

To be valid, your Form of Proxy should be completed, signed and returned in accordance with the instructions printed thereon, as soon as possible and, in any event, so as to reach the Company's registrars, Equiniti by no later than 9.00 a.m. on 23 June 2020.

The Form of Proxy and Form of Instruction may be submitted electronically by following the link to Marston's PLC at www.sharevote.co.uk using the Voting ID, Task ID and Shareholder Reference Number set out in the Form of Proxy and following the instructions provided or can be delivered by post or by hand to the Company's Registrar, Equiniti, at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA.

Further instructions relating to how you are able to vote are set out in the notes to the Notice of the General Meeting.

This document is a circular relating to the Transaction which has been prepared in accordance with the Listing Rules and approved by the Financial Conduct Authority.

No person has been authorised to give any information or make any representations other than those contained in this Circular and, if given or made, such information or representations must not be relied on as having been so authorised. The delivery of this Circular shall not, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this Circular or that the information in it is correct as of any subsequent time.

J.P. Morgan Securities plc, which conducts its UK investment banking business as J.P. Morgan Cazenove ("J.P. Morgan Cazenove"), and which is authorised in the United Kingdom by the Prudential Regulation Authority (the "PRA") and regulated by the PRA and the Financial Conduct Authority, is acting as financial adviser and sponsor exclusively for the Company and no one else in connection with the Transaction and will not regard any other person as its client in relation to the Transaction and will not be responsible to anyone other than the Company for providing the protections afforded to clients of J.P. Morgan Cazenove or its affiliates, nor for providing advice in relation to the Transaction or any other matter or arrangement referred to herein.

Apart from the responsibilities and liabilities, if any, which may be imposed on J.P. Morgan Cazenove by the FSMA or the regulatory regime established thereunder, or under the regulatory regime of any jurisdiction where the exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, J.P. Morgan Cazenove accepts no responsibility whatsoever for, or makes any representation or warranty, express or implied, as to the contents of this document, including its accuracy, completeness or verification or for any other statement made or purported to be made by it, or on its behalf, and nothing contained in this document is, or shall be, relied on as a promise or representation in this respect, whether as to the past or the future, in connection with the Company or the Transaction. J.P. Morgan Cazenove and its respective subsidiaries, branches and affiliates accordingly disclaim, to the fullest extent permitted by law, all and any duty, liability and responsibility whether arising in tort, contract or otherwise (save as referred to above) in respect of this document or any such statement or otherwise.

This Circular contains forward-looking statements relating to the Group, the Carlsberg Group and the Transaction.

Statements containing the words "intends", "believes", "anticipates", "may", "will", "estimates", "expects" and "outlook" and words of similar meaning are forward-looking. By their nature, all forward-looking statements are subject to assumptions, risks and uncertainties. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, there can be no assurance that these expectations will prove to have been correct and because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by those forward-looking statements. The preceding sentence does not qualify the statement in paragraph 10 of Part VII (*Additional Information*) of this Circular. Each forward-looking statement speaks only as of the date of the particular statement. The Company and J.P. Morgan Cazenove do not undertake any obligation publicly to update or revise any forward-looking statement as a result of new information, future events or other information, although such forward-looking statements will be publicly updated if required by the Financial Conduct Authority, the Listing Rules and the Disclosure Guidance and Transparency Rules, the rules of the London Stock Exchange or by applicable law (including, without limitation, the Market Abuse Regulation (EU) No 596/2014).

Capitalised terms have the meaning ascribed to them in Part VIII (*Definitions*) of this Circular.

Dated 8 June 2020

CONTENTS

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Posting of this Circular	8 June 2020
Latest time and date for receipt of Forms of Proxy from Shareholders	9.00 a.m. on 23 June 2020
Time and date of General Meeting	9.00 a.m. on 25 June 2020
Expected date of Completion	Q3 2020

NOTES

- References to times in this Circular are to London time.
- Future dates are indicative only and are subject to change by the Company, in which event details of the new times and dates will be notified to the FCA and, where appropriate, Shareholders.

PART I

LETTER FROM THE CHAIRMAN OF MARSTON'S PLC

Directors:	*Registered office:*
William Rucker	Marston's House
Ralph Findlay	Brewery Road
Andrew Andrea	Wolverhampton
Carolyn Bradley	WV1 4JT
Matthew Roberts	
Bridget Lea	
Octavia Morley	

8 June 2020

Dear Shareholders,

Joint Venture Arrangements with Carlsberg UK Holdings Limited ("Carlsberg")

1. Introduction

On 22 May 2020, the Company announced that it had entered into an agreement to contribute its brewing business ("**Marston's Brewing**"), valued at £580 million on a debt free/cash free basis, to a new UK brewing joint venture with Carlsberg (the "**Joint Venture**") in return for 40 per cent. of the equity in the Joint Venture and the cash completion payment described below. Under the agreement, Carlsberg will also contribute its UK brewing assets ("**Carlsberg UK**"), valued at £200 million on a debt free/cash free basis and fund the cash completion payment described below, in return for 60 per cent. of the equity in the Joint Venture.

On Completion, Marston's will become entitled to up to £273 million in the form of a cash completion payment, which is subject to adjustment in respect of customary working capital and debt free/cash free adjustments (the "**Completion Payment**"). Of the up to £273 million Completion Payment, £34 million will be deferred for 12 months from Completion with the amount payable contingent on the extent of the recovery of the share price performance of a pre-agreed basket of companies to pre-COVID-19 levels[1].

The cash proceeds will provide Marston's with significant liquidity to materially reduce debt in line with its stated strategy.

The Joint Venture will be supported by a long-term drinks supply and distribution agreement, pursuant to which the Joint Venture will exclusively supply and distribute drinks and provide related services to Marston's retained pub business.

The Transaction constitutes a class 1 transaction under the Listing Rules. Accordingly, the Transaction is conditional on, amongst other things, receiving the approval of Shareholders. Such approval will be sought at a General Meeting of the Company to be held at 9.00 a.m. on 25 June 2020 at Marston's House, Brewery Road, Wolverhampton, WV1 4JT. Details of the General Meeting are set out in the Notice of General Meeting at the end of this Circular. As set out in the Company's announcement on 14 May 2020, the impact of COVID-19 on the Group's financial and trading performance is uncertain and will depend upon how the situation develops and over what timescale. If the Resolution is not approved, the Transaction will not proceed and, based on the Company's current financial resources, under the reasonable worst-case scenario, which assumes that pubs remain closed until 3 October 2020, and even assuming the Group agrees further covenant waivers described in paragraph 10 of Part VII (*Additional Information*), after mid-November 2020, the Group would not have available liquidity in the Unsecured Facilities and would have a shortfall of funding, due to the £70 million extension to the Revolving Credit Facility maturing at this point. The Group would also suffer this shortfall to the extent that Completion has not occurred by mid-November for any other reason. In that case, the Board would be required to seek alternative funding, which the Board is confident of achieving, or develop alternative plans for the Group's future. If these alternative strategies fail, the Board may have to initiate an

1 Basket includes A.G. BARR PLC, Britvic PLC, C&C Group PLC, Mitchells & Butlers PLC and Marston's.

insolvency process (be that administration or liquidation), which could result in Shareholders losing part or all of their investment in the Company. Further details are set out in paragraphs 3, 9 and 11 below.

The purpose of this document is to provide you with information on the Joint Venture and to explain why the Directors believe the Joint Venture is in the best interests of Shareholders as a whole. The Directors unanimously recommend that Shareholders vote in favour of the Resolution at the General Meeting, as the Directors intend to do in respect of their aggregate shareholdings in the Company representing approximately 0.28 per cent. of the total voting rights in the Company at the Latest Practicable Date.

Shareholders should read the whole of this document and not rely on the summarised information set out in this letter. Shareholders will find definitions for capitalised terms used in this letter and the rest of this document in Part VIII (*Definitions*) of this document.

2. Background to and Reasons for the Transaction

2.1 Background

Marston's Brewing

Marston's Brewing is a segment of the Group comprising six breweries and 11 depots and distribution centres across England and Wales, producing a wide portfolio of cask, keg and packaged beers. Key beer brands include Marston's Pedigree, Hobgoblin, Wainwright, Young's, Courage, Bank's and McEwan's. Marston's Brewing has been an important part of Marston's history for almost 200 years and has a strategy based around five strategic pillars that provide a framework for its forward-looking approach: beer and brands, customers and consumers, supply chain, service and people. Marston's distributes to c.11,000 customers directly.

Marston's beer brand portfolio has been enhanced significantly through acquisitions such as Wainwright (acquired in 2015), and Bombardier, Young's and Courage (acquired in 2017) which provided distribution opportunities in London and the south of England, as McEwan's did in Scotland. These acquisitions enhanced an already strong core brand range. Marston's brands have also expanded globally, with exports accounting for around 10 per cent. of Marston's own-brewed beer sales in 2019. Today, Marston's exports 19 brands to more than 50 countries, including its six key markets of Russia, Canada, France, Italy, Germany and the USA. Marston's also has a successful track record of developing brands under exclusive licence or distribution agreements, including Shipyard, Estrella Damm, Erdinger and Kaltenberg.

Marston's Brewing's revenue, underlying EBITDA and underlying operating profit for the financial year 2019 under IFRS were £498 million, £44 million (£44.6 million of adjusted EBITDA[2]) and £33 million, respectively. The £580 million valuation for Marston's Brewing stated in the first paragraph of this letter represents 13.0 times Marston's Brewing's adjusted EBITDA[3]. As at 28 September 2019, Marston's Brewing had gross assets of £353 million and net assets of £196 million[4].

Carlsberg UK

Carlsberg is a division of the Carlsberg Group, which is headquartered in Denmark. The Carlsberg Group is one of the global leaders in brewery operations with its brands available in over 150 countries globally and has a diversified portfolio of over 140 brands across core beer, craft and specialty beer and non-alcoholic beer. Carlsberg UK brews and sells premium quality beers, including Carlsberg Danish Pilsner, Carlsberg Expørt, Poretti and Tetley's, as well as holding the UK brand licence for San Miguel, Mahou and the Brooklyn Brewery craft beer portfolio, which includes Brooklyn Lager and Brooklyn Defender. Carlsberg UK operates a core brewery based in Northampton and a craft brewery in Hackney, London (London Fields).

In the year to 31 December 2019, Carlsberg UK reported revenue of £414 million, generated underlying EBITDA of £16 million (£21.1 million of adjusted EBITDA[5]) and underlying operating profit of £7 million. As at 31 December 2019, Carlsberg UK had gross assets of £496 million and net assets of £127 million[5].

2 Adjusted standalone run-rate EBITDA.

3 Adjusted standalone run-rate EBITDA.

4 Unaudited financial information.

5 Unaudited financial information. Carlsberg UK underlying EBITDA, underlying operating profit and gross/net asset have been prepared on a carve out basis.

Joint Venture

Marston's has been highly successful in growing its brewing business both organically and through acquisitions. This has been against the ongoing challenging structural changes in the beer market and the Board has carefully considered options to maximise growth in that context. For these reasons, the Board has, over time, considered various options which would allow it to realise both its strategic ambitions and the inherent value of the brewing business and discussions with Carlsberg UK began in late 2019. The Transaction will allow Marston's to retain an active and substantial investment in the new brewing Joint Venture whilst repositioning the Group with greater emphasis and focus on the pub and accommodation business. Despite the current COVID-19 pandemic, the Board believes that the Joint Venture will be a value accretive long-term partnership and that the Transaction should progress despite the short-term impact that COVID-19 will have on the Group.

The Board believes that the Joint Venture, which will trade as Carlsberg Marston's Brewing Company and be headquartered in Wolverhampton, will be one of the UK's leading brewing businesses, and the Board believes that its formation will create significant value for Shareholders, whilst being earnings enhancing for Marston's in the second year post Completion (and would have been earnings enhancing in the first year excluding exceptional costs incurred by the Joint Venture).

The Joint Venture will include a strong portfolio of brands that will benefit from Marston's and Carlsberg's combined brewing, marketing and distribution platforms.

As set out in Note 3 to Section A1 to the Pro Forma Financial Information included as Part V (*Unaudited Pro Forma Financial Information*) of this Circular, the Joint Venture has 12 month pro forma revenue of approximately £911.7 million. As set out in Part V, pro forma financial information addresses a hypothetical situation and such financial position or results may differ from the entity's actual financial position or results.

2.2 Key reasons for the Joint Venture

The Board believes that the Joint Venture will create an enhanced portfolio with the scale to better compete in the UK, whilst creating significant long-term value creation for Shareholders, and providing the Company with meaningful capital to materially reduce debt in line with its stated strategy.

Best in class brand portfolio creating a stronger, more competitive UK brewer

The Joint Venture will combine Marston's position as a leading provider of premium ale in the UK with one of the world's leading lager brands, Carlsberg, forming a combination of two highly complementary portfolios of trusted ale and lager brands. As a result, the Joint Venture will be able to become more relevant in offering market-leading lager and ale brands to its wide array of on-trade and off-trade customers and will be well placed to participate in the UK beer market.

The Joint Venture will be positioned to meet the diverse demands of UK consumers with a portfolio of international, national and regional beer brands, with Marston's, a leading brewer of premium cask and packaged ales, and the Carlsberg Group, famous for iconic lager and world beer brands. Marston's will provide a strong portfolio of premium cask and packaged ales, including Hobgoblin, Wainwright, Marston's Pedigree and 61 Deep. Marston's also operates a number of brands under licence or distribution agreements with global brand owners such as Estrella Damm, Erdinger, Shipyard and Kirin. Carlsberg UK brands include Carlsberg Danish Pilsner, Carlsberg Expørt, Poretti, Tetley's, Somersby cider and the London Fields Brewery craft portfolio, brewed in Hackney, London. It also holds the brand licences for San Miguel, Mahou and the Brooklyn Brewery craft beer portfolio in the UK.

Marston's strong local provenance and brand positioning combined with Carlsberg's scale and reach will create a compelling joint platform. The strength and range of the brand portfolio will provide more flexibility and resources for brand-building initiatives and increased levels of innovation in products and packaging. An important focus of the Joint Venture will be the further enhancement of the Carlsberg brand within the UK beer category.

Continued dedication to service excellence and customer experience

The Joint Venture will build on Marston's and Carlsberg UK's outstanding customer service offerings to develop a best in class customer experience. Combining this customer experience with a best in class brand portfolio is expected to drive future growth.

Greater scale with the ability to further invest in growth and drive product innovation

The Joint Venture will benefit from increased scale, particularly in the areas of distribution, operational and logistics capabilities and the capacity to invest in growth.

- *Increased distribution scale*: The Joint Venture combines the complementary distribution capabilities of the respective businesses with Marston's strength in on-trade and Carlsberg UK's presence in both off-trade and on-trade. Marston's currently operates its own national distribution network to supply and distribute to c.11,000 customers directly, in addition to its own pub estate, including supermarkets, local shops and other pub and leisure businesses including independent free trade, other pub companies, the off-trade and export. Carlsberg UK lager brands have significant distribution across off-trade including grocers, discounters and impulse, convenience and independent on-trade as well as on-trade chains. Marston's believes that there is an opportunity to benefit from the combined distribution network, with the Joint Venture providing increased scale and operating efficiencies.

- *Increased brewing capacity and efficiency across its brewery and logistics network*: Marston's and Carlsberg have both made significant investments in improving their brewing efficiencies over recent years. Carlsberg UK has invested £30 million in production over the last three years; whilst Marston's completed a new canning line in 2018 opening up more sales opportunities in addition to bottling. The Joint Venture will benefit from both Joint Venture partners' strong brewing heritage and logistics capability, brewing and packaging facilities, logistics capabilities and marketing expertise. By leveraging the combined brewery network and complementary strengths of the two businesses, the Joint Venture will be able to leverage and further improve production and financial efficiencies.

Significant value creation through synergies and productivity improvements

The Directors, having reviewed and analysed the potential benefits of the Transaction, based on their experience of operating in the sector and taking into account the factors the Group can influence, believe that the Joint Venture is expected to result in identified provisional annual cost synergies of around £24 million from the end of the third full financial year of combined operations onwards. This synergy amount is based on the aggregate operating cost base of the Joint Venture of £882.0 million, as set out in Part V (*Unaudited Pro Forma Financial Information*) Section A1 Note 3. The Marston's Group will benefit from its 40 per cent. share of these post-tax synergies achieved by the Joint Venture. Marston's expects these synergies to be phased in over three years, with around £8 million being realised at the end of the first full financial year of combined operations and additional incremental synergies of £6 million and £10 million being realised in each of the second and third full financial years of combined operations respectively – resulting in an aggregate annual total of around £24 million going forward.

The principal sources of the quantified provisional cost synergies are as follows:

- *Reduction in overhead costs* – from consolidation of duplicate spend in sales and marketing and central functions;

- *Brewery and logistics efficiencies* – through combining logistics and distribution activities, best practices and production efficiencies; and

- *Procurement savings* – including product substitution and best-price matching and volume leverage to raw materials, packaging and 3rd party products.

One-time cash outlays required to achieve these synergies are expected to amount to around £32 million, predominantly in the first full financial year following completion of the Transaction.

Additionally, the Joint Venture is expected to generate material additional annual revenue synergies through stronger distribution and an improved product mix.

The quantified cost synergies are contingent on Completion of the Transaction and the Board believes the financial benefits will accrue as a direct result of the Transaction and could not be achieved independently. The estimated synergies reflect both the beneficial elements and the relevant costs. The estimated synergies are also provisional and subject to further investigation and analysis. No proposals or plans relating to the employees of the proposed Joint Venture can be or have been decided upon, adopted or implemented.

Realises value, and provides greater financial flexibility

The Transaction ascribes a valuation of £580 million to Marston's Brewing (on a debt free/cash free basis), representing 13 times adjusted 2019 EBITDA of Marston's Brewing[6]. The Transaction terms allow Marston's to realise a significant portion of this value through the up to £273 million Completion Payment, that will be paid to Marston's by Carlsberg UK in respect of Marston's contribution of Marston's Brewing, following which Marston's will own 40 per cent. of the ordinary shares and voting rights of the Joint Venture. The Completion Payment will allow Marston's to deliver on its debt reduction target whilst providing financial flexibility. Entry into the Drinks Supply and Distribution Agreement will maintain continuity of supply of Marston's leading portfolio of craft ale and lager brands to its own pubs. The valuation of £580 million (on a debt free/cash free basis) compares favourably to the market capitalisation of the entire Group of £225 million as at 20 May 2020, the latest practicable date prior to the initial announcement of the Transaction. The Transaction is expected to be broadly net operational cashflow neutral taking in to account Marston's share of Joint Venture dividends.[7] Further information on the use of proceeds and financial impact of the Transaction is set out below.

3. Importance of vote

As outlined in Paragraph 2 of this Part I (*Letter from the Chairman of Marston's PLC*) the Transaction ascribes a valuation to Marston's Brewing representing 13 times adjusted 2019 EBITDA of Marston's Brewing[8] and the Completion Payment will allow Marston's to deliver on its debt reduction target whilst providing financial flexibility. The Board believes that the Joint Venture will be a value accretive long-term partnership.

As set out in the Company's announcement on 14 May 2020, the impact of COVID-19 on the Group's financial and trading performance is uncertain and will depend upon how the situation develops and over what timescale. If the Resolution is not approved, the Transaction will not proceed, and based on the Company's current financial resources, under the reasonable worst-case scenario, which assumes that the Group's pubs remain closed until 3 October 2020, and even assuming the Group agrees further covenant waivers described in paragraph 10 of Part VII (*Additional Information*), after mid-November 2020 the Group would have a shortfall of funding from the Unsecured Facilities, due to the £70 million extension to the Revolving Credit Facility maturing at this point. Accordingly, it is very important that Shareholders vote in favour so that the Transaction can proceed. The Group would also suffer this shortfall to the extent that the Resolution was approved but that Completion has not occurred by mid-November for any other reason. In that case, the Board would seek to extend further the £70 million to a point beyond the revised Completion date, which the Board would be confident of achieving. If the Resolution is not approved, under the reasonable worst-case scenario, the Board would be required to seek alternative funding or consider alternative plans for the Group's future. The alternative funding options available to the Board if the Resolution was not approved would involve a sale and leaseback of unencumbered pubs and/or an equity capital raise. Given its ability to raise finance in the past and the level of unencumbered assets within the Group, the Board are confident that these alternative strategies would be successful.

However it should be noted that even in the event the Transaction does proceed, as set out in paragraph 10 of Part VII (*Additional Information*), based on the reasonable worst-case scenario, which assumes that the Group's pubs remain closed until 3 October 2020, the Retained Group would breach both the Net Debt Covenant and the Interest Cover Covenant under the Unsecured Facilities as at 3 October 2020 and would breach the Securitisation Debt Service Covenant under the Securitisation as at 3 January 2021. The Directors have a reasonable expectation that, given recent waivers achieved, the Group can secure the necessary financial covenant modifications or waivers (pursuant to the Unsecured Facilities and the Securitisation) so as to avoid a financial covenant breach during the Working Capital Period.

However in the event of a breach of the financial covenant under the Securitisation and, following which, a majority of 75% or more of the bondholders of the Securitisation elect to put the Securitisation in default, the bondholders could direct that all amounts of the Securitisation debt outstanding become immediately due and payable. In circumstances where waivers are not achieved for the Securitisation,

6 Adjusted standalone run-rate EBITDA of £44.6 million for Marston's Brewing.

7 Not taking into account the use of proceeds and reduction of debt.

8 Adjusted standalone run-rate EBITDA of £44.6 million for Marston's Brewing.

the Retained Group would engage with its creditors with a view to restructuring or refinancing the Securitisation. A breach of one or more financial covenants under the Unsecured Facilities would cause an event of default under the terms of the Unsecured Facilities which would allow the requisite majority of lenders to, amongst other things, demand that all amounts outstanding under the Unsecured Facilities become immediately due and payable. As at the 3 October 2020 test date and, in the absence of waivers, the amounts expected to be outstanding under the Unsecured Facilities, under the reasonable worst-case would be, approximately £380 million. In these circumstances the Retained Group would be required to seek alternative funding which the Board is confident of achieving, via a sale and leaseback of unencumbered pubs, an equity capital raise or new credit facilities.

In the event that the alternative strategies referred to above fail, the Board may have to initiate an insolvency process which could result in Shareholders losing part or all of their investment in the Company.

4. Principal Terms of the Transaction

A detailed description of the terms of the Transaction Agreements is set out in Part VI (*Summary of the Principal Terms of the Transaction*) of this Circular. The principal terms of the Transaction Agreements are summarised in brief below.

4.1 Disposal

As preliminary steps to the Disposal:

- Marston's and Marston's Trading Limited will contribute (or procure the contribution of) Marston's Brewing, valued at £580 million on a debt free/cash free basis, into a wholly owned direct subsidiary of Marston's Trading Limited, Marston's NewCo (the "**Separation**"); and
- Carlsberg will restructure and contribute its UK brewing assets, valued at £200 million on a debt free/cash free basis, to the Joint Venture (the "**Carlsberg Reorganisation**");

The Disposal will be governed by the Master Agreement, the terms of which are described further in paragraph 1 of Part VI (*Summary of the Principal Terms of the Transaction*) of this Circular. The Master Agreement includes the following terms:

- On Completion, the Joint Venture will acquire Marston's NewCo for up to £580 million, out of which Marston's Trading Limited will subscribe for 40 per cent. of the ordinary shares and voting rights in the Joint Venture. Following completion of the steps just described, Marston's Trading Limited is expected to receive gross proceeds of up to £273 million in cash from the Joint Venture as the balance in the form of a Completion Payment (which is subject to customary working capital and debt free/cash free adjustments and includes the deferred contingent payment set out below);
- Of the up to £273 million Completion Payment, £34 million will be deferred 12 months from Completion with the amount payable being contingent on the extent of the share price recovery of the following pre-agreed companies to pre-COVID-19 levels: A.G. BARR PLC; Britvic PLC; C&C Group PLC; Mitchells & Butlers PLC; and Marston's. The price recovery of each of the five companies will determine the extent to which one fifth of the £34 million Contingent Payment, or £6.8 million, will be payable;
- The deferred contingent payment in respect of each company will be calculated on a linear basis based on the extent to which the 3-month VWAP (volume-weighted average price) of that company recovers (or not) between the date of Completion and the date that is 12-months after Completion. The recovery of each Company will be benchmarked against the share price performance between 2 March 2020 and 15 May 2020. If the recovery of that company is equal to or exceeds the benchmark reduction, then the full amount of the deferred contingent payment in respect of that company will be payable. If any of the companies shall have been delisted following an acquisition or have been in an offer period under the Takeover Code at any time since 15 May 2020, that company shall be removed from the composite and the weighting of each of the remaining companies increased;
- On Completion, Carlsberg will own 60 per cent. of the ordinary shares and voting rights in the Joint Venture;

- Completion of the Transaction is subject to, and can only occur upon satisfaction or waiver of, the following conditions:

  i. completion of the Separation;

  ii. completion of the Carlsberg Reorganisation;

  iii. the approval of the Resolution by Shareholders at the General Meeting;

  iv. clearance of the Transaction by the relevant Competition Authorities; and

  v. no breach of certain key warranties given by each of Marston's Trading Limited and Carlsberg having occurred between 22 May 2020 and Completion and subsisting as at immediately prior to Completion;

- If the Shareholders do not approve the Resolution at the General Meeting, then Marston's must compensate Carlsberg for its reasonably incurred transaction costs subject to a cap of 1 per cent. of the market capitalisation of the Company at the close of trading on 21 May 2020; and

- If the Conditions are not satisfied or (if permitted) waived on or before 31 July 2021, then the Master Agreement shall terminate.

4.2 Joint Venture

The Joint Venture will be governed by the Shareholders' Agreement which includes the following terms:

- Day-to-day management of the Joint Venture will be delegated by the Joint Venture Board to the executive management team subject to appropriate reserved matters for the Board;

- Marston's will have two representatives on the Joint Venture Board and Carlsberg will have three representatives. Ralph Findlay, CEO of Marston's, will serve as Non-executive Chairman of the Joint Venture. Tomasz Blawat, Managing Director of Carlsberg UK, will be the CEO of the Joint Venture. Richard Westwood, Managing Director of Marston's Brewing, will be appointed Chief Operating Officer, Integration;

- Business plans will be agreed between Marston's and Carlsberg on a five-yearly basis. The business plan for the initial five years from Completion has been agreed between Marston's and Carlsberg;

- Marston's will benefit from reserved matter rights consistent with its shareholding in the Joint Venture, including: approval rights over issuance of new equity; changes to the dividend policy; and borrowings and other debt-like items in excess of the target leverage;

- Customary escalation mechanisms in the event of deadlock involving escalation to senior representatives of the shareholders. If the matter is not resolved following escalation then it will not proceed, subject to the exit rights set out below;

- A leverage policy whereby leverage will not exceed 2 times LTM pre-exceptional EBITDA, except for in limited circumstances (including to support a dividend to Marston's where there has been expenditure outside the business plan and such expenditure would reasonably be expected to result directly in the Joint Venture not being able to pay the Minimum Dividend to Marston's);

- A dividend policy of dividends being paid under the business plan at an anticipated minimum of 90% of free cash flow to equity (subject to applicable law and the ability of the directors of the Joint Venture to adjust the dividend in the ordinary course and in accordance with their directors' duties);

- If the Joint Venture wishes to incur additional expenditure outside the business plan which Marston's has not consented to and such additional expenditure is within the control of the Joint Venture and would reasonably be expected to result directly in the Joint Venture not being able to pay a minimum annual dividend amount of £20 million (the "**Minimum Dividend**"), the Joint Venture may incur additional borrowings above the threshold of the leverage policy (up to a maximum of 3 times LTM pre-exceptional EBITDA) solely for the purposes of ensuring that Marston's will receive the Minimum Dividend;

- Carlsberg has the ability to require Marston's to sell its entire interest in the Joint Venture to Carlsberg at a fixed multiple of 8.3 times to 9.0 times LTM pre-exceptional EBITDA in the event of change of control, insolvency of Marston's or of Marston's Pubs Parent Limited's group, material breach of the Drinks Supply and Distribution Agreement, a sale of more than half of Marston's existing pub estate (a "Major Disposal") or default of Marston's;
- Marston's has the ability to require Carlsberg to purchase its entire interest in the Joint Venture at a fixed multiple of 8.3 times to 9.0 times LTM pre-exceptional EBITDA in the event of change of control or material breach of Carlsberg, and to require Carlsberg to sell its entire interest in the Joint Venture to Marston's at the same valuation in the event of insolvency of Carlsberg;
- In the event that a new business plan cannot be agreed between the parties from year 10 onwards, then Marston's can notify Carlsberg of its desire to exit. If a price cannot be agreed for Carlsberg to acquire Marston's share in the Joint Venture, then Marston's will have the right to sell its stake to a third party and/or initiate an initial public offering of the Joint Venture within specified time periods. This ability to exit is subject to a Carlsberg call option over Marston's share in the Joint Venture at a fixed multiple of 8.3 to 9.0 times LTM pre-exceptional EBITDA within a specified exercise period;
- The option exit multiple for the purposes of the above will be 8.3 times to 9.0 times LTM pre-exceptional EBITDA (subject to adjustments for net debt and target working capital), and the exact multiple will depend on the extent to which the requirements for the contingent deferred payment were satisfied following Completion. In the event of insolvency of Marston's or of Marston's Pubs Parent Limited's group, a material breach of the Drinks Supply and Distribution Agreement or a Major Disposal, a £50 million discount will be applied to the foregoing price;
- Approval of the other party is required for any other share transfers to third parties; and
- Carlsberg is required to fund all contributions due to the Carlsberg Defined Benefit Pension Scheme and Carlsberg Breweries is providing a back-stop indemnity to the Retained Group and the Joint Venture Group against any amount required to be paid to the Carlsberg Defined Benefit Pension Scheme.

4.3 Key Supporting Agreements

- On Completion, Marston's and JVCo will enter into the Drinks Supply and Distribution Agreement, pursuant to which JVCo will (subject to certain limited exceptions) be the sole wet supplier and distributor of beer, cider, wines, spirits and other beverages and provide related services to the Retained Group;
- On Completion, Marston's and JVCo will enter into the Marston's Licence Agreement pursuant to which JVCo shall license to Marston's from Completion certain trade marks that will be owned by JVCo immediately following Completion (including trade marks relating to the "Marston's" name);
- On Completion, JVCo and Carlsberg Breweries will enter into the Joint Venture Licence Agreement pursuant to which trade marks and related brewing know-how owned by JVCo will be licensed to Carlsberg Breweries;
- On Completion, Marston's will enter into the Marston's Transitional Services Agreement with Marston's NewCo, pursuant to which: (i) Marston's NewCo shall provide certain services to Marston's on a transitional basis from Completion; and (ii) Marston's shall provide certain services to Marston's NewCo on a transitional basis from Completion;
- On Completion, JVCo and Carlsberg Breweries will enter into the Carlsberg Services Agreement, pursuant to which Carlsberg shall provide certain services to the Joint Venture Group on a long-term basis from Completion;
- On Completion, JVCo and Carlsberg Breweries will enter into the Transitional Operating Model Agreement, pursuant to which: (i) Carlsberg shall procure, and assist the Company to transition on to, a separate SAP ERP software environment and provide certain services to JVCo and the Joint Venture Group on a transitional basis from Completion in order to support such transition; and (ii) following such separation Carlsberg Breweries and JVCo shall procure that the relevant members of their respective Groups enter into an agreement for the sale and purchase of certain

inventory, by-products and returnables required by the Joint Venture Group from the Carlsberg Group; and

- The existing licence agreement under which relevant members of the Carlsberg Group license to Carlsberg UK Limited the rights to use in the United Kingdom certain global Carlsberg Group trade marks (including “Carlsberg”, “Tetley’s” and “Tuborg”) and related brewing know-how, will continue following Completion on its existing terms (subject to certain controls and protections under the Shareholders’ Agreement).

Further information on each of these key supporting agreements can be found in paragraph 3 of Part VI (*Summary of the Principal Terms of the Transaction*) of this Circular.

5. Financial effects of the Transaction

5.1 Explanation of Completion Cashflows

On Completion, the Joint Venture will acquire Marston’s NewCo for up to £580 million, out of which Marston’s Trading Limited will subscribe for 40 per cent. of the ordinary shares and voting rights in the Joint Venture. Following completion of the steps just described, Marston’s Trading Limited is expected to receive gross proceeds of up to £273 million in cash from the Joint Venture as the balance in the form of a Completion Payment, which is subject to customary working capital and debt free/cash free adjustments and includes £5 million of additional cash consideration and the deferred contingent payment set out below.

Of the up to £273 million Completion Payment, £34 million will be deferred 12 months from Completion with the amount payable being contingent on the extent of the share price recovery of a pre-agreed basket of companies to pre-COVID-19 levels (A.G. BARR PLC, Britvic PLC, C&C Group PLC, Mitchells & Butlers PLC and Marston’s).

5.2 Summary of the financial effects of the Transaction

Financial information

Your attention is drawn to Part III (*Financial Information relating to Marston’s Brewing*) and Part IV (*Financial Information relating to Carlsberg UK*) of this Circular, which contain historical financial information relating to Marston’s Brewing and Carlsberg UK, respectively, which is summarised in the table below.

	Marston’s Brewing[1] *Year ended 28 September 2019*	*Carlsberg UK*[2] *Year ended 31 December 2019*
Revenue (£m)	498	414
Underlying EBITDA (£m)[3]	44	16
Underlying Operating Profit (£m)	33	7
Gross Assets (£m)	353	496
Net Assets (£m)	196	127

1 *As reported under IFRS.*

2 *In order to illustrate the underlying performance of Carlsberg UK, presentation has been made of performance measures excluding those items which it is considered would distort the comparability of Carlsberg UK’s results. These non-underlying items comprise exceptional items and other adjusting items. Exceptional items are defined as those items that, by virtue of their nature, size or expected frequency, warrant separate additional disclosure in the historical financial information in order to fully understand the underlying performance of Carlsberg UK.*

3 *Non-statutory measure. In respect of Marston’s Brewing, this is sourced from Note 1 to Section 2 of Part III (Financial Information relating to Marston’s Brewing). In respect of Carlsberg UK, this is sourced from the Combined Cash Flow Statement for 2019 in Part IV (Financial Information relating to Carlsberg UK).*

The Joint Venture will be created on a cash and debt free basis and, accordingly, will have a strong balance sheet and cash flows. Cash distributions to the shareholders of the Joint Venture and cash flow injections from the shareholders of the Joint Venture will be undertaken pro rata to the shareholders’ economic interests, subject to the dividend policy outlined in more detail under “Dividend policy” in paragraph 2 of Part VI (*Summary of the Principal Terms of the Transaction*) of this Circular. Marston’s and Carlsberg will be able to utilise the cash flows and distributions to support leverage outside the Joint Venture.

Financial effects on Marston's

Your attention is drawn to Part V (*Unaudited Pro Forma Financial Information*) of this Circular, which contains the unaudited pro forma income statement and the unaudited pro forma net assets statement of the Group.

The Transaction is expected to be earnings enhancing in its second financial year post Completion and would have been earnings enhancing in its first financial year excluding exceptional costs incurred by the Joint Venture. The Joint Venture is expected to deliver the synergies described in paragraph 2.2 of this Part I (*Letter from the Chairman of Marston's PLC*).

None of the statements contained in this paragraph 5 is intended as a profit forecast nor should it be interpreted as such.

6. Use of Proceeds

Marston's expects to receive a total amount of up to £273 million of gross cash proceeds, subject to customary working capital and debt free/cash free adjustments and the deferred contingent payment referred to above, from the Transaction in the form of the Completion Payment.

Marston's will use 100% of the net proceeds from the Completion Payment to reduce debt consistent with its strategic focus on debt reduction. The debt paid down will be the Revolving Credit Facility within the Group.

As set out in Note 6 to paragraph 1 of Section A of Part V (*Unaudited Pro Forma Financial Information*), the pro forma underlying EBITDA of the Retained Group for the year ended 28 September 2019 is £188.7 million and as set out in Note 4 to the Unaudited Net Assets statement the pro forma net debt of Marston's is £1,164.5 million. As set out in Part V (*Unaudited Pro Forma Financial Information*), pro forma financial information addresses a hypothetical situation and such financial position or results may differ from the entity's actual financial position or results.

7. Management and employees

Ralph Findlay, CEO of Marston's, will serve as Non-executive Chairman of the Joint Venture. Tomasz Blawat, Managing Director of Carlsberg UK, will be the CEO of the Joint Venture. Richard Westwood, current Managing Director of Marston's Brewing, will be appointed Chief Operating Officer, Integration.

Both Marston's and Carlsberg attach great importance to the skills, experience and industry knowledge of their employees. However, the outcome of any future review and legally required employee consultation processes, may result in certain employees not having a role within the Joint Venture, although no decisions have yet been made and no proposals are in existence.

8. Marston's following the Transaction and future strategy

Marston's is one of the UK's leading pub retailers, operating approximately 1,400 pubs in the UK through its pubs and bars operations.

Following the Transaction, Marston's will remain a vertically integrated business with a substantial interest in an attractive brewing business. However, Marston's will have greater financial flexibility and will be able to focus on and invest in its high quality, well managed pub and accommodation business.

Marston's will continue with its strategy articulated in 2019 which is to deliver sustainable growth and maximise return on capital. The Marston's management team remains focused on operating a high quality pub and rooms business offering great places to drink, eat and stay. The Marston's management team will make focused capital investment on the estate (which is predominately freehold) to deliver strong returns. Excluding the Transaction, the Group is targeting debt reduction of £0.2 billion by 2023.

9. Current trading and prospects

As set out in the Company's announcement on 18 March 2020, in the 24 weeks to 14 March 2020, like-for-like sales in the Group's pubs were 1 per cent. below last year. In Marston's Brewing, beer volumes were in line with expectations.

Since then, the Group's current trading and outlook has been heavily impacted by the COVID-19 pandemic and associated policy responses of the UK Government. As set out in the Company's announcement on 14 May 2020, the impact of COVID-19 on the Group's financial and trading performance is uncertain and will depend upon how the situation develops and over what timescale. Following the UK Government's mandatory closure of pubs and restaurants, other than those required to support essential workers and services combatting the pandemic, with the exception of one hotel which is being used by the NHS, all of the Group's pubs, bars, restaurants and hotels closed their doors on 20 March 2020. There can be no certainty as to when or to what extent the applicable UK Government measures will be lifted or whether they will be reintroduced after they have been lifted.

In these exceptional circumstances, the Board remains unable to quantify the impact on the Group's financial and trading performance. Notwithstanding a strong off-trade market for beer sales in Marston's Brewing, the Group's financial performance and financial position has deteriorated since 28 September 2019. The COVID-19 pandemic is expected to result in a material reduction in revenue for the financial period ending 3 October 2020.

As announced, the Group has taken decisive action in an attempt to mitigate the impact of the COVID-19 pandemic, including:

- Significantly reducing capital expenditure for the foreseeable future;
- Reducing overheads and other variable costs;
- Extension of the Revolving Credit Facility by £70 million until mid-November 2020;
- Achieving a waiver of a 30-day suspension of business and operations covenant under the terms of the Securitisation;
- Achieving a waiver of the Securitisation Debt Service Covenants under the Securitisation;
- Achieving amendments to covenants under the Unsecured Facilities for October 2020 and March 2021;
- Placing a significant number of employees on a temporary furlough;
- Adopting Government support measures such as deferral of tax payments and rent and rates relief; and
- Taking the dividend decisions detailed in paragraph 10 (*Dividends and dividend policy*) below.

The Group has accessible cash balances and cash available to draw under the Revolving Credit Facility totalling approximately £123 million as at the date of publishing this Circular. In addition, if the Transaction proceeds, the Directors expect to receive a total amount of up to £273 million of gross cash proceeds, subject to customary working capital and debt free/cash free adjustments and the deferred contingent payment referred to above, which will be used to reduce the Group's debt.

Your attention is drawn to paragraph 10 of Part VII (*Additional Information*), which sets out a qualified working capital statement in respect of the Retained Group (which assumes the Transaction will complete), as required by the Listing Rules and which provides further detail on the expected breach of financial covenants.

10. Dividends and dividend policy

In an announcement on 18 March 2020, the Board stated that it would be unlikely to recommend an interim dividend in May 2020. In the announcement of 14 May 2020 the Board stated it would be prudent to plan for no dividends for financial year 2020. The Board confirms there will be no interim or final dividend in respect of the period ended 3 October 2020.

The Board will keep future dividend policy under review.

11. Working Capital

Pursuant to the Listing Rules, the Company is required to make a statement that the Retained Group will have sufficient working capital for its present requirements, which is for at least the next 12 months from the date of this Circular ("**Working Capital Period**") or, if not, how it proposes to provide for the additional working capital needed. Your attention is drawn to the qualified working capital statement set out in paragraph 10 of Part VII (*Additional Information*) of this document.

12. Risk Factors

For a description of the risks and uncertainties which Shareholders should take into account when considering whether to vote in favour of the Transaction, please refer to Part II (*Risk Factors*) of this Circular.

13. General Meeting

A General Meeting is being convened at 9.00 a.m. on 25 June 2020 at Marston's House, Brewery Road, Wolverhampton, WV1 4JT for the purpose of seeking Shareholder approval for the Resolution. The Resolution will be proposed as an ordinary resolution requiring a majority of votes cast to be in favour. It proposes that the Transaction be approved and that the Directors be authorised to implement it. The Transaction will not become effective unless the Resolution is passed.

The Resolution will be decided on a poll. The Board believes a poll is more representative of Shareholders' voting intentions because Shareholders' votes are counted according to the number of shares held and all votes tendered are taken into account. The results of the General Meeting will be published on the Company's website (**www.marstons.co.uk**) and will be released to the London Stock Exchange as soon as practicable following the closing of the General Meeting.

14. Action to be taken

Given prevailing Government guidance in relation to COVID-19 and specifically the restrictions on large gatherings and unnecessary travel, the General Meeting will be convened with the minimum quorum of shareholders (which will be facilitated by Marston's management) in order to conduct the business of the meeting. Therefore, instead of attending the General Meeting, we urge shareholders to vote by proxy on the Resolution as early as possible. The Board strongly recommends that shareholders appoint the Chairman of the General Meeting as their proxy. In the interests of safety, any: (i) proxy who is not the Chairman of the General Meeting; or (ii) shareholder attending the General Meeting in person, will be denied access to the General Meeting.

We will continue to closely monitor the developing impact of COVID-19, including the latest Government guidance. Should it become necessary or appropriate to revise the current arrangements for the General Meeting, this will be notified to shareholders on our website at www.marstons.co.uk and/or via RNS.

If you received this document in the post, the Form of Proxy will have accompanied it; if you downloaded this document from **www.marstons.co.uk**, the Form of Proxy can be found on that website also. To be valid, your Form of Proxy should be completed, signed and returned in accordance with the instructions printed thereon, as soon as possible and, in any event, so as to reach the Company's registrars, Equiniti, by no later than 9.00 a.m. on 23 June 2020.

Alternatively, the Form of Proxy may be submitted electronically by logging onto **www.sharevote.co.uk**. Further details of the procedure are set out in the Notice of General Meeting at the end of this Circular. CREST members may also choose to use the CREST electronic proxy appointment service in accordance with the procedures set out in the Notice of General Meeting at the end of this Circular.

15. Further information and financial advice

Shareholders are advised to read the whole of this Circular and not merely rely on the summarised information set out in this letter.

J.P. Morgan Cazenove has provided financial advice to the Board in regard to the Transaction. In providing financial advice to the Board, J.P. Morgan Cazenove has relied upon the Board´s commercial assessment of the Transaction.

16. Recommendation to Shareholders

The Board considers the Transaction to be in the best interests of the Company and Shareholders as a whole.

The Board unanimously recommends that Shareholders vote in favour of the Resolution, as the Directors intend to do in respect of their own beneficial holdings insofar as they are able to control or direct the exercise of the voting rights attaching to the relevant Ordinary Shares.

Yours faithfully,

William Rucker
Chairman

PART II

RISK FACTORS

Prior to making any decision to vote in favour of the Resolution at the General Meeting, Shareholders should carefully consider, together with all other information contained in this Circular, the specific factors and risks described below.

The Company considers these to be the known material risk factors relating to the Transaction for Shareholders to consider. There may be other risks of which the Board is not aware or which it believes to be immaterial which may, in the future, be connected to the Transaction and have a material and adverse effect on the business, financial condition, results of operations or future prospects of the Group.

The risks described below are only those which relate to, or which will otherwise be impacted by, the Transaction. Note that the risk factors are set out in order of materiality within each section.

1. Risks relating to the Transaction not coming into effect

Pursuant to the Master Agreement, Completion of the Transaction is conditional upon the satisfaction (or waiver, where applicable) of, the following conditions:

(A) completion of the Separation;

(B) completion of the Carlsberg Reorganisation;

(C) the approval of the Resolution by Shareholders at the General Meeting;

(D) clearance of the Transaction by the relevant Competition Authorities; and

(E) no breach of certain key warranties given by each of Marston's Trading Limited and Carlsberg having occurred between 22 May 2020 and Completion and subsisting as at immediately prior to Completion,

in each case, by no later than 31 July 2021.

There can be no assurance that all conditions will be satisfied (or waived, if applicable) and, accordingly, that Completion will take place. If the Transaction does not complete in accordance with the terms of the Master Agreement, any of the risks and uncertainties set out in this Section 1 of this Part II (*Risk Factors*) may adversely affect the Group's business and results.

1.1 Inability to realise shareholder value

The Board believes that the Transaction is in the best interests of the Group and of Shareholders as a whole, and that it currently provides the best opportunity to realise an attractive and certain value for Marston's Brewing. If, therefore, the Conditions are not satisfied or waived (as applicable) and the Transaction does not complete, the Company will not receive the cash proceeds from the Disposal and will forgo the other anticipated benefits of the other Transaction as described in the letter from the Chairman in Part I (*Letter from the Chairman of Marston's PLC*) of this Circular.

In particular, the Board intends to use 100 per cent. of the net proceeds of the Transaction to reduce the debt outstanding under the Group's Revolving Credit Facility. If the Resolution is not approved, the Transaction will not proceed, and based on the Company's current financial resources, under the reasonable worst-case scenario, which assumes that the Group's pubs remain closed until 3 October 2020, and even assuming the Group agrees further covenant waivers described in paragraph 10 of Part VII (*Additional Information*), after mid-November 2020, the Group would have a shortfall of funding from the Unsecured Facilities, due to the £70 million extension to the Revolving Credit Facility maturing at this point. Accordingly, it is very important that Shareholders vote in favour so that the Transaction can proceed. The Group would also suffer this shortfall to the extent that the Resolution was approved but that Completion has not occurred by mid-November for any other reason. In that case, the Board would seek to extend further the £70 million to a point beyond the revised Completion date, which the Board would be confident of achieving. If the Resolution is not approved, under the reasonable worst-case, the Board would be required to seek alternative funding or consider alternative plans for the Group's future. The alternative funding options available to the Board if the Resolution was not approved would involve a sale and leaseback of unencumbered pubs and/or an equity capital raise. Given its ability to raise finance in the past and the level of unencumbered assets within the Group, the Board are confident that these alternative strategies would be successful.

1.2 Potentially disruptive effect on the Group

If the Transaction does not come into effect, this may lead to management and employee distraction due to perceived uncertainty as regards the future of Marston's Brewing. Both the Group and the Carlsberg Group have committed significant time and resources to the Transaction, resulting in a reduced focus on their independent businesses. As a result, other business opportunities may be missed or insufficiently executed which may not be rectifiable if the Transaction does not come into effect. In addition, the media could portray the non-completion of the Transaction as a strategic failure of the Group which could erode confidence among investors and stakeholders.

The failure to implement the Transaction may therefore have an adverse effect on the performance of Marston's Brewing and its value to the Group, and may also adversely affect the Company's share price.

1.3 Payment of cost cover amounts if the Resolution is not passed by the Shareholders at the General Meeting

If the Resolution is not passed by the Shareholders at the General Meeting (or any adjournment or postponement thereof) on or before 31 July 2020, and immediately prior to such date, all of the other Conditions have been satisfied or remain capable of satisfaction, the Company would be required to reimburse Carlsberg for the Carlsberg Group's costs reasonably incurred in connection with the Transaction subject to a cap of 1 per cent. of the market capitalisation of the Company at the close of trading on 21 May 2020.

2. Risks relating to the Transaction

2.1 Realisation of perceived benefits of the Transaction

The Board believes that the creation of the Joint Venture and the entry by the Group into the Transaction are in the best interests of the Group and its Shareholders, and are justified by the benefits that the Board expects the Transaction will bring to the Group and its Shareholders. The Board believes that the valuation for the Disposal is justified in part by the synergies it is expected to deliver. However, these expected benefits may not be achieved, or may take longer than expected to realise, and other assumptions upon which the Board had determined the terms of the Transaction may prove to be incorrect. In addition, while the Shareholders' Agreement provides for Marston's to receive the Minimum Dividend (in circumstances where the JVCo incurs expenditure which is not within the overall range of costs, capital and cash outflow estimates included in the relevant business plan), this is subject to applicable law and the ability of the directors to adjust payments to shareholders in accordance with their duties and other ordinary course considerations in respect of the JVCo's future cash and working capital requirements and the terms of any financing arrangements affecting JVCo. To the extent that the anticipated benefits of the Transaction and/or expected ongoing return from the Joint Venture are not achieved, or take longer than expected to achieve, the results of the operations and the financial condition of the Group may suffer, which may adversely affect the Company's share price.

Further, in order to achieve the expected benefits of the Transaction, the Joint Venture is expected to incur significant initial expenditure on re-organisation costs. There is a risk that these re-organisation costs will be greater than estimated in the Joint Venture's opening business plan. Integration of the Marston's Brewery and Carlsberg UK processes could be more complex than originally envisaged resulting in more integration costs than anticipated.

2.2 Customer perception of the Joint Venture

The Joint Venture will inherit various brands from the Group and the Carlsberg Group. There can be no assurance that existing customers of these brands will continue to purchase these brands following Completion and such customers may instead purchase products from competitors of the Joint Venture.

This may include, for example, customers that perceive that the levels of quality and service will not be maintained by the Joint Venture. National off-trade customers and smaller off-trade customers may be concerned that the establishment of the Joint Venture could jeopardise the commercial terms and benefits that they had previously enjoyed from the Group or from the Carlsberg Group. Further, the Joint Venture may find development of new brands difficult if customers perceive new brands as divorced or further distanced from the original brands which attracted their loyalty. Competitors to the Joint Venture could exploit these concerns and seek to gain market share from the Joint Venture.

The brands that will be inherited by the Joint Venture have been nurtured by the Group and the Carlsberg Group, respectively, to foster and enhance loyalty. As a result, the Board does not expect that loss of customers following Completion will amount to a significant long-term problem for the Joint Venture. If, however, that belief turns out to be incorrect, the net loss of customers arising could have an adverse impact on the Group and its prospects.

2.3 Loss of key suppliers and licences

Existing suppliers of Marston's Brewing or Carlsberg UK may feel that it is not in their commercial interests to continue to supply the Joint Venture. Alternatively, they may see the formation of the Joint Venture as an opportunity to re-negotiate trade terms. Either of these risks could have an adverse impact on the trading of the Joint Venture and on the Group and its prospects. Further, existing suppliers of Marston's Brewing and Carlsberg UK may be a competitor of the other Joint Venture partner. The formation of the Joint Venture could require such suppliers to form a relationship, albeit indirectly, with a direct competitor or a party whose operations are mutually exclusive to their own commercial strategy in the UK or globally. This could lead to unattractive trading terms being offered by that supplier, or ultimately the loss of that supplier.

Similarly, licensors of Marston's Brewing or Carlsberg UK may feel that it is not in their commercial interests to continue to provide a licence to the Joint Venture. Alternatively, licensors could offer the Joint Venture less favourable terms than those currently offered to Marston's Brewing or Carlsberg UK.

The loss of key suppliers and key licences could impact upon the range and the quality that the Joint Venture can offer to its customers. This, in turn, could impact upon the ability of the Joint Venture to compete, particularly if suppliers look to form new relationships, or further develop existing relationships, with competitors.

2.4 Loss of key employees

Key employees of Marston's Brewing or Carlsberg UK may refuse to transfer to the Joint Venture for a variety of reasons, which could include the future career prospects, perceived uncertainty or the formation of the Joint Venture otherwise prompting them to seek a change in employer or career. Further, there is a risk that, following the creation of the Joint Venture, key employees do not continue to achieve at the same level that they did previously or become disengaged.

The departure of certain members of staff of the Joint Venture or a drop in performance levels of such members of staff may have an effect on the ability of the Joint Venture to adapt and innovate to meet future commercial challenges.

2.5 Risks for the Group relating to the Separation and Carlsberg Reorganisation

There is a risk that it is more difficult than envisaged to separate the income generating activities, resources, control processes and general governance of Marston's Brewing and Carlsberg UK from the Group and the Carlsberg Group, respectively. There will be a transitional period from Completion during which the Group and Carlsberg Group will provide certain transitional services to assist the Joint Venture in separating its processes. Nonetheless, the Joint Venture will be a new business enterprise, on a larger scale than the existing UK brewing operations of Carlsberg and Marston's, and there is an inherent risk that Separation and/or the Carlsberg Reorganisation are more difficult than expected.

Further, members of the Group and the Carlsberg Group are each party to a number of contracts with third parties that provide or may provide the counterparty with a right to terminate as a result of the change of control of, or assignment by, the Group or Carlsberg Group contracting party. If such contracts are terminated as a consequence of the Separation and/or the Carlsberg Reorganisation or the counterparties do not grant consents/waivers on favourable terms, this could have an adverse effect on the Group's and/or the Joint Venture's business, financial condition and/or results of operations.

2.6 Warranties and indemnities in the Master Agreement

The Master Agreement contains certain customary warranties and indemnities from members of the Group in favour of the Joint Venture and (where applicable) members of the Carlsberg Group. If any of these warranties proves to have been untrue, or if circumstances arise in which the Company is required to indemnify the Joint Venture and/or members of the Carlsberg Group, the Group could incur losses, which may have an adverse effect on the cash flow and financial condition of the Group.

In particular, Marston's Trading Limited has agreed to indemnify the Joint Venture or (where applicable) members of the Carlsberg Group for any losses suffered or incurred as a result of, or in connection with:

- a failure to implement the Separation in accordance with the relevant terms;
- any claim by an employee of the Marston's Group that they have been underpaid holiday pay;
- any breach by Marston's Brewing of certain laws and regulations relating to trade loans and anti-bribery and corruption;
- any security interests granted to Marston's Brewing pursuant to its trade loan agreements being unenforceable as a result of transferring the security interest pursuant to the Separation; and
- any third party claims or regulatory action in respect of the presence of asbestos at certain of Marston's Brewing's breweries.

2.7 Carlsberg Defined Benefit Pension Scheme included in the Joint Venture Perimeter

Carlsberg's UK defined benefit pension scheme, the Carlsberg UK Limited Pension Scheme (the "**Carlsberg Defined Benefit Pension Scheme**"), will be included within the Joint Venture Perimeter.

The most recent full actuarial valuation of the Scheme was carried out as at 6 April 2016. An annual update was performed at 6 April 2018. The full actuarial valuation of the Scheme as at 6 April 2019 is currently underway. As at 6 April 2018 the Carlsberg Defined Benefit Pension Scheme had assets with an estimated market value of £597.4 million and liabilities with an estimated value of £720.3 million (valued using ongoing technical provisions basis assumptions agreed with the scheme's trustee as part of the valuation). These scheme asset and liability values compare with a pro forma Joint Venture net asset value of £780.3 million.

Under the UK pension scheme funding regime, two Carlsberg entities being contributed to the Joint Venture, Carlsberg UK Limited and Carlsberg Supply Company UK Limited, have primary liability for funding the Carlsberg Defined Benefit Pension Scheme.

The inclusion of the Carlsberg Defined Benefit Pension Scheme in the Joint Venture Perimeter also means that all companies within the Joint Venture Perimeter and all companies in the Retained Group would, technically, be within scope of certain powers of the UK Pensions Regulator should the Pensions Regulator exercise these powers in relation to the Carlsberg Defined Benefit Pension Scheme.

The Shareholders' Agreement provides for Carlsberg to fund all contributions due to and costs associated with the Carlsberg Defined Benefit Pension Scheme and Carlsberg Breweries to give a back-stop indemnity to the Retained Group and the Joint Venture Group against any amount required to be paid to the Carlsberg Defined Benefit Pension Scheme.

The Board is satisfied that these hold harmless arrangements are appropriate in the context of the Transaction. However, the Retained Group and the Joint Venture Group are taking a credit risk on Carlsberg and Carlsberg Breweries. If either of these entities defaulted on its obligations, this could expose the Joint Venture Group and the Retained Group to material liabilities.

3. Risks relating to the Retained Group

3.1 Risks for the Retained Group in relation to its participation in the Joint Venture alongside Carlsberg

The Retained Group will be dependent for a proportion of its EBITDA and operating profit on returns from the Joint Venture, which will have a majority of directors appointed by Carlsberg and a majority of its shares owned by Carlsberg. On a pro forma basis, and as set out in Part V (*Unaudited Pro Forma Financial Information*), Marston's pro forma share of net profit from the Joint Venture is £10.9 million which represents 6 per cent. of the Retained Group's pro forma underlying EBITDA of £188.7 million and which represents 3 per cent. of the Retained Group's pro forma operating profit of £432.1 million. Under the terms of the Shareholders' Agreement, the Company will hold shares representing 40 per cent. of the Joint Venture's total issued share capital and will be entitled to appoint two directors, including the first Chairman, to the board of directors of the Joint Venture (the "**Joint Venture Board**"). The remaining three directors, and all subsequent Chairmen, will be appointed by Carlsberg, who will hold the remaining 60 per cent. of the Joint Venture's total issued share capital. Subject to the reserved matters listed in the Shareholders' Agreement, Carlsberg will have a controlling vote in relation to matters where only a simple majority of the Joint Venture's shareholders or the Joint Venture Board is required. As such, Marston's may be unable to prevent the Joint Venture from engaging in activities or pursuing strategic objects that may conflict with the Retained Group's interests or overall strategic objective. Subject to the dividend arrangements that have been agreed in the Shareholders' Agreement, Marston's will have limited control over the cash flow from the Joint Venture to the Retained Group.

Carlsberg may have economic or business interests or goals that are inconsistent with those of the Retained Group, or may experience financial, operational or other difficulties, either of which may adversely affect the success of the Joint Venture and the Retained Group's ability to realise returns from the Joint Venture. There is a risk that, in the future, a conflict of interest develops between the Retained Group and the Carlsberg Group. Damage could be caused to the Joint Venture operations and/or to the Retained Group were Carlsberg to use its influence on and control over the Joint Venture to disrupt the operation of the Retained Group's business activities, or to hamper the commercial opportunities which the Retained Group could otherwise take advantage of.

The reputation of the Retained Group may also be affected by any material damage to the business reputation of Carlsberg, which is not within the control of the Retained Group. In addition, potential customers of the Joint Venture who compete with other members of the Carlsberg Group may consider that, because of this competition, a trading relationship with the Joint Venture is not in their best interest.

3.2 The Retained Group's operations will be less diversified and more susceptible to specific risks

For the financial year ended 28 September 2019, Marston's Brewing generated £498 million of revenues and £33 million of underlying operating profit, which respectively represented approximately 42 per cent. of the Group's revenues and approximately 18 per cent. of its underlying operating profit (prior to group services costs, non-underlying operating items and net finance costs) for the period.

Following the Disposal, the Retained Group's business will be less diversified, and its overall financial performance will have greater dependence on the retained pub business. Risks impacting the pub sector more generally or specific issues arising in the retained pub and accommodation business will accordingly have a proportionately greater adverse impact on the financial condition of the Retained Group, and have the potential to create a greater risk of share price volatility following the Disposal.

3.3 Risks for the Retained Group relating to COVID-19

In December 2019, an outbreak of a new strain of coronavirus, COVID-19, was identified in Wuhan, China, and has since spread globally, including in the UK, where the Group's operations are located. Advice on social distancing, bans on public gatherings and the mandatory closure of all pubs and restaurants in the UK from 21 March 2020 have had a significant negative impact on the sales of the restaurants and pubs operated by the Group. The COVID-19 pandemic has had and will continue to have an indirect effect on Marston's Brewing and Carlsberg UK, primarily by disruption of their supply to on-trade customers. As a result, while there can be no certainty as to the extent and duration of the disruption caused by the pandemic, the Directors expect a significant reduction in the Group's revenue for the period ended 3 October 2020. In order to mitigate the effect of the pandemic, the Group have taken decisive action to preserve cash, including the decision not to pay an interim or final dividend for the current financial year.

Following the Disposal, the Retained Group's business will have increased exposure to the retained pubs business and therefore also an increased exposure to the significant disruption suffered by on-trade businesses by the COVID-19 pandemic. Until pubs are allowed to reopen, the Retained Group will continue to suffer severe loss of revenue. Even after the COVID-19 pandemic has passed, the Retained Group will have increased exposure to any changes in consumer behaviour and preferences arising from the prolonged period of public health concern and any continuing precautionary measures adopted by the UK Government or by individuals. Going forward, the Retained Group will also have increased exposure to any future disruption to the pub and restaurant industry, were similar measures brought in to fight against any future or recurring public health concerns.

3.4 Risks for the Retained Group relating to licensing of key brand assets

The Retained Group's brands (including "Marston's") are a key asset to its business and maintaining their value and reputation is important to the success of the Retained Group. As the Retained Group's brands will be transferred to the Joint Venture, the Retained Group will not be able to exercise direct control over the Joint Venture's use of key trade marks such as "Marston's". If the Joint Venture's use of any of the Retained Group's brands adversely affects the reputation of those brands, the results of the Retained Group's operations and its profitability could be adversely affected. Conversely, and in addition, if the Retained Group's use of any of the brands that the Joint Venture licenses to the Retained Group, was to adversely affect the reputation of such brands, the results and profitability of the Joint Venture could be similarly compromised.

3.5 Risks for the Retained Group in relation to its ability to exit the Joint Venture

The expectation is that the Joint Venture will be a continuing arrangement to which both Marston's and Carlsberg are committed for the long term. However, circumstances may arise whereby the Retained Group is required to exit the Joint Venture against its wishes, or the Retained Group wishes to initiate an exit on its own behalf.

Carlsberg has the ability to exercise a call option to acquire Marston's share of the Joint Venture in certain specific circumstances, including change of control, insolvency of Marston's or of Marston's Pubs Parent Limited's group, material breach of the Drinks Supply and Distribution Agreement, a sale of more than half of Marston's existing pub estate or default of Marston's. Such call option will be at a fixed valuation of 8.3 to 9.0 times multiple of LTM pre-exceptional EBITDA (subject to adjustments for net debt and target working capital), which depending on market conditions at the time could represent a discount to fair market value, which could adversely affect the financial condition of the Retained Group and adversely affect the Company's share price.

Conversely, Marston's has the ability to exercise a put option to require Carlsberg to acquire Marston's share of the Joint Venture in the event of a change of control or default of Carlsberg. Such put option will be at the same fixed valuation as Carlsberg's call option, which as per the above depending on market conditions at the time could represent a discount to fair market value, and so potentially could limit Marston's ability to exercise the put option in circumstances where it wishes to, based on the identity of the party acquiring Carlsberg.

In addition, Marston's has the ability to exercise a call option to acquire Carlsberg's share of the Joint Venture in the event of Carlsberg's insolvency, at the same fixed valuation as the above options. Depending on market conditions at the time this could represent a premium to fair market value, and so potentially could limit Marston's ability to exercise the call option in circumstances where it wishes to, following the insolvency of Carlsberg.

In the event that Carlsberg and Marston's are unable to agree a new business plan from year 10 onwards and Carlsberg does not exercise its call option, then Marston's is able to initiate an exit procedure, either by selling its share of the Joint Venture to a third party, or via an initial public offering. There can be no guarantee that such a sale or initial public offering process would be successful or would enable Marston's to realise appropriate value for its share of the Joint Venture, either of which could adversely affect the financial condition of the Retained Group and adversely affect the Company's share price.

PART III

FINANCIAL INFORMATION RELATING TO MARSTON'S BREWING

1. Nature of Financial Information

The following historical financial information relating to Marston's Brewing has been extracted without material adjustment from the consolidation schedules that underlie the audited consolidated financial information of the Group for the 52 weeks ended 30 September 2017, 29 September 2018 and 28 September 2019.

The historical financial information represents the current composition of Marston's Brewing.

The financial information in this Part III (*Financial Information relating to Marston's Brewing*) does not constitute statutory accounts within the meaning of section 434 of the Companies Act. The consolidated statutory accounts for the Group in respect of the 52 weeks ended 30 September 2017, 29 September 2018 and 28 September 2019 have been delivered to the Registrar of Companies. The auditor's reports in respect of those statutory accounts were unqualified and did not contain statements under section 498(2) or (3) of the Companies Act.

The financial information in this Part III (*Financial Information relating to Marston's Brewing*) has been prepared using the IFRS accounting policies used to prepare the consolidated financial statements of the Group for the 52 weeks ended 28 September 2019.

2. Income Statements of Marston's Brewing for the 52 weeks ended 30 September 2017, 29 September 2018 and 28 September 2019

all figures in £ millions	*52 weeks ended 30 September 2017*	*52 weeks ended 29 September 2018*	*52 weeks ended 28 September 2019*
Revenue	**355.2**	**481.9**	**497.6**
Operating expenses	(334.3)	(457.3)	(472.1)
Operating profit	**20.9**	**24.6**	**25.5**
Finance costs	(0.2)	(0.7)	(0.9)
Finance income	–	–	–
Interest rate swap movements	–	–	–
Net finance cost	(0.2)	(0.7)	(0.9)
Profit/(loss) before taxation	**20.7**	**23.9**	**24.6**
Taxation	(4.0)	(4.5)	(4.7)
Profit/(loss) for the period attributable to equity shareholders	**16.7**	**19.4**	**19.9**

1. *A reconciliation to the Marston's Brewing underlying EBITDA for the 52 weeks ended 30 September 2017, 29 September 2018 and 28 September 2019*

all figures in £ millions	*52 weeks ended 30 September 2017*	*52 weeks ended 29 September 2018*	*52 weeks ended 28 September 2019*
Operating profit	**20.9**	**24.6**	**25.5**
Add back:			
Non-underlying operating items	4.6	7.4	7.1
Depreciation and amortisation	10.5	10.7	11.5
Underlying EBITDA	**36.0**	**42.7**	**44.1**

3. Net Assets Statement of Marston's Brewing as at 28 September 2019

all figures in £ millions	*As at 28 September 2019*
Non-current assets	
Goodwill	29.7
Other intangible assets	65.8
Property, plant and equipment	150.4
Other non-current assets	9.3
Deferred tax assets	–
Retirement benefit surplus	–
	255.2
Current assets	
Inventories	31.5
Trade and other receivables	65.8
Other cash deposits	–
Cash and cash equivalents	–
	97.3
Assets held for sale	–
Total assets	**352.5**
Current liabilities	
Borrowings	(2.5)
Derivative financial instruments	–
Trade and other payables	(112.9)
Current tax liabilities	(1.5)
Provisions for other liabilities and charges	(0.2)
	(117.1)
Non-current liabilities	
Borrowings	(7.6)
Derivative financial instruments	–
Other non-current liabilities	–
Provisions for other liabilities and charges	–
Deferred tax liabilities	(31.8)
Retirement benefit obligations	–
	(39.4)
Net assets	**196.0**

PART IV

FINANCIAL INFORMATION RELATING TO CARLSBERG UK

Section A: Historical Financial Information relating to Carlsberg UK

This Section A of Part IV (*Financial Information Relating to Carlsberg UK*) contains combined financial information for Carlsberg UK for the three years ended 31 December 2019, 31 December 2018 and 31 December 2017.

Combined Income Statement

For the years ended 31 December 2017, 2018 and 2019

		2017			*2018*			*2019*		
	Note	*Underlying £m*	*Non-underlying £m*	*Total £m*	*Underlying £m*	*Non-underlying £m*	*Total £m*	*Underlying £m*	*Non-underlying £m*	*Total £m*
Revenue	2,3	452.6	–	452.6	429.4	–	429.4	414.1	–	414.1
Operating expenses	2	(466.5)	0.1	(466.4)	(433.2)	1.8	(431.4)	(407.6)	(2.3)	(409.9)
Operating profit	3	(13.9)	0.1	(13.8)	(3.8)	1.8	(2.0)	6.5	(2.3)	4.2
Finance Costs	5	(5.9)	(4.8)	(10.7)	(5.5)	(7.8)	(13.3)	(4.3)	(2.2)	(6.5)
Finance Income	5	9.3	–	9.3	10.7	–	10.7	12.0	–	12.0
Net finance costs	3,5	3.4	(4.8)	(1.4)	5.2	(7.8)	(2.6)	7.7	(2.2)	5.5
Profit/(loss) from associates		–						0.4	–	0.4
Profit/(loss) before taxation		(10.5)	(4.7)	(15.2)	1.4	(6.0)	(4.6)	14.6	(4.5)	10.1
Taxation	3,6	(2.8)	0.9	(1.9)	2.4	1.1	3.5	(3.7)	0.8	(2.9)
Profit/(loss) for the period attributable to Carlsberg		(13.3)	(3.8)	(17.1)	3.8	(4.9)	(1.1)	10.9	(3.7)	7.2

Combined Statement of Comprehensive Income

For the years ended 31 December 2017, 2018 and 2019

	2017 *£m*	*2018* *£m*	*2019* *£m*
Profit/(loss) for the period	(17.1)	(1.1)	7.2
Items of other comprehensive income that may subsequently be reclassified to profit or loss			
Losses arising on cash flow hedges	(2.1)	(1.5)	1.0
Transfers to the income statement on cash flow hedges	1.8	0.2	(0.9)
Exchange differences on translation of foreign operations	(2.8)	(1.2)	3.5
Tax on items that may subsequently be reclassified to profit or loss	–	0.1	–
	(3.1)	(2.4)	3.6
Items of other comprehensive income that will not be reclassified to profit or loss			
Remeasurement of retirement benefits	61.4	52.3	(33.5)
Tax on items that will not be reclassified to profit or loss	(1.1)	(2.5)	(3.1)
	60.3	49.8	(36.6)
Other comprehensive income/(expense) for the period	57.2	47.4	(33.0)
Total comprehensive income/(expense) for the period	40.1	46.3	(25.8)

Combined Cash Flow Statement

For the years ended 31 December 2017, 2018 and 2019

	Note	*2017* *£m*	*2018* *£m*	*2019* *£m*
Operating activities				
Underlying operating profit		(13.9)	(3.8)	6.5
Depreciation and amortisation		12.9	10.9	9.4
Underlying EBITDA		(1.0)	7.1	15.9
Non-underlying operating items		0.1	1.8	(2.3)
EBITDA		(0.9)	8.9	13.6
Working capital movement	21	5.0	10.3	(8.6)
Non-cash movements	21	0.1	0.3	0.7
Decrease in provisions and other non-current liabilities		(13.3)	(18.1)	(3.3)
Difference between defined benefit pension contributions paid and amounts charged		4.8	–	5.6
Income tax paid		(2.2)	(2.5)	2.2
Net cash inflow/(outflow) from operating activities		(6.5)	(1.1)	10.2
Investing activities				
Interest received	5	3.0	4.0	5.1
Sale of property, plant and equipment and assets held for sale		2.9	6.2	–
Purchase of property, plant and equipment and intangible assets		(8.6)	(9.5)	(19.5)
Movement in other non-current assets		1.0	0.7	(0.6)
Net cash inflow/(outflow) from investing activities		(1.7)	1.4	(15.0)
Financing activities				
Invested Capital movements		14.1	5.2	9.6
Interest paid	5	(5.9)	(5.5)	(4.3)
Capital element of finance leases repaid		–	–	(0.5)
Net cash inflow/(outflow) from financing activities		8.2	(0.3)	4.8
Net increase/(decrease) in cash and cash equivalents		–	–	–

Combined Balance Sheet

As at 31 December 2017, 2018 and 2019

	Note	*2017* *£m*	*2018* *£m*	*2019* *£m*
Non-current assets				
Intangible assets	7	0.4	0.2	0.1
Property, plant and equipment	8	126.7	119.4	130.3
Other non-current assets	9	83.7	15.9	16.1
Deferred tax assets	10	9.4	5.3	1.3
Investments in associates		3.4	3.4	3.8
		223.6	144.2	151.6
Current assets				
Inventories	12	31.8	34.5	29.4
Trade and other receivables	13	314.7	383.3	314.5
Derivative financial instruments	16	0.7	–	–
		347.2	417.8	343.9
Assets held for sale	14	0.3	–	–
Current liabilities				
Borrowings	15	–	–	(0.4)
Derivative financial instruments	16	–	(0.6)	(0.5)
Trade and other payables	17	(304.6)	(312.4)	(223.0)
Current tax liabilities		(7.2)	(4.1)	(7.7)
Provisions for other liabilities and charges	18	(22.6)	(11.4)	(11.4)
		(334.4)	(328.5)	(243.0)
Non-current liabilities				
Borrowings	15	–	–	(1.6)
Provisions for other liabilities and charges	18	(25.2)	(18.3)	(13.0)
Deferred tax liabilities	10	(12.2)	(7.5)	(8.0)
Retirement benefit obligations	11	(126.5)	(74.3)	(102.6)
		(163.9)	(100.1)	(125.2)
Net assets		72.8	133.4	127.3
Invested capital				
Invested capital		72.8	133.4	127.3
Total invested capital		72.8	133.4	127.3

Combined Statement of Changes in Equity

For the years ended 31 December 2017, 2018 and 2019

	Invested Capital £m
At 31 December 2016	8.4
Profit/(loss) for the period	(17.1)
Remeasurement of retirement benefits	61.4
Tax on remeasurement of retirement benefits	(1.1)
Losses on cash flow hedges	(2.1)
Transfers to the income statement on cash flow hedges	1.8
Tax on hedging reserve movements	–
Exchange differences on translation of foreign operations	(2.8)
Total comprehensive income	40.1
Share-based payments	–
Tax on share-based payments	–
Invested Capital movement	24.3
Total transactions with owners	24.3
At 31 December 2017	72.8
At 31 December 2017	72.8
Profit/(loss) for the period	(1.1)
Remeasurement of retirement benefits	52.3
Tax on remeasurement of retirement benefits	(2.5)
Losses on cash flow hedges	(1.5)
Transfers to the income statement on cash flow hedges	0.2
Tax on hedging reserve movements	0.1
Exchange differences on translation of foreign operations	(1.2)
Total comprehensive income	46.3
Share-based payments	0.5
Tax on share-based payments	–
Invested Capital movement	13.8
Total transactions with owners	14.3
At 31 December 2018	133.4
At 31 December 2018	133.4
Adjustment for adoption of IFRS 16	(0.2)
Tax impact of IFRS 16 adjustment	–
At 31 December 2018 (as restated)	133.2
Profit/(loss) for the period	7.2
Remeasurement of retirement benefits	(33.5)
Tax on remeasurement of retirement benefits	(3.1)
Losses on cash flow hedges	1.0
Transfers to the income statement on cash flow hedges	(0.9)
Tax on hedging reserve movements	–
Exchange differences on translation of foreign operations	3.5
Total comprehensive expense	(25.8)
Share-based payments	0.5
Tax on share-based payments	–
Invested Capital movement	19.4
Total transactions with owners	19.9
At 31 December 2019	127.3

1 Accounting policies

Basis of preparation

Carlsberg UK constitutes the brewing and sales activities of Carlsberg A/S in the United Kingdom, activities which previously formed part of the Carlsberg Group. Carlsberg UK did not comprise a separate legal entity or group of entities during the three years ended 31 December 2019.

The entities and businesses included in the combined historical financial information (the “Carlsberg UK Group”) (see below) are set out below:

		Equity interest at 31 December		
Company	*Country of Incorporation*	*2017*	*2018*	*2019*
Carlsberg UK Limited	United Kingdom	100%	100%	100%
Carlsberg Supply Company UK Limited	United Kingdom	100%	100%	100%
Serviced Dispense Equipment (Holdings) Limited and subsidiaries	United Kingdom	33%	33%	33%
LF Brewery Holdings Limited and subsidiaries	United Kingdom	100%	100%	100%
London Fields Brewery Opco Limited	United Kingdom	65%	65%	100%
The UK operations of Carlsberg Supply Company AG	Switzerland	Not applicable*	Not applicable*	Not applicable*

* The combined historical financial information includes the UK operations of Carlsberg Supply Company AG. The UK operations have been carved-out of the financial information of Carlsberg Supply Company AG, an entity incorporated in Switzerland.

The combined historical financial information for the three years ended 31 December 2019 (the “Historical Financial Information”) has been prepared specifically for the purposes of this Circular and in accordance with the Listing Rules and in accordance with this basis of preparation.

The combined Historical Financial Information is presented in pounds sterling and all values are in millions (£m) rounded to one decimal place except where otherwise indicated.

The combined Historical Financial Information does not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006.

The basis of preparation describes how the financial information has been prepared in accordance with International Financial Reporting Standards and IFRS Interpretations Committee (IFRS IC) and Standing Interpretations Committee interpretations as adopted by the European Union ("IFRS”), except as described below.

IFRS does not provide for the preparation of combined financial information and accordingly in preparing the combined Historical Financial Information certain accounting conventions commonly used for the preparation of historical financial information for inclusion in investment circulars as described in the Annexure to SIR 2000 Standards for Investment Reporting applicable to public reporting engagements on historical financial information issued by the UK Auditing Practices Board have been applied.

The combined Historical Financial Information of the Carlsberg UK Group is not prepared on a consolidated basis and therefore does not comply with the requirements of IFRS 10 Consolidated Financial Statements. The combined Historical Financial Information has been prepared on a basis that combines the results and assets and liabilities of each of the entities that constitutes the Carlsberg UK Group, derived from the accounting records of Carlsberg A/S, by applying the principles underlying the consolidation procedures of IFRS 10.

The following summarises the key accounting and other principles applied in preparing the combined Historical Financial Information:

- Carlsberg UK did not comprise a separate legal entity or group of entities during the three years ended 31 December 2019 and, therefore it is not meaningful to present share capital or an analysis of reserves. The excess of assets over liabilities of all combining entities in the Carlsberg UK Group as of 31 December 2017, 31 December 2018, and 31 December 2019 are representative of the cumulative investment of Carlsberg A/S in the Carlsberg UK Group, shown as “Invested Capital”.
- Historically, Carlsberg Group used a centralised approach to cash management and financing of its operations, and Carlsberg UK participated in a cash pooling arrangement with Carlsberg Group. None of Carlsberg Group’s cash and cash equivalents have been allocated to Carlsberg UK in the combined balance sheets. Cash transfers to and from Carlsberg Group are recorded as movements in related party receivables and payables are recorded within Trade and other receivables and Trade and other payables.
- Carlsberg UK was historically recharged selling, general and administrative expenses from Carlsberg Group for certain shared services of £28.4 million, £31.6 million and £21.2 million for the years ended 31 December 2017, 31 December 2018, and 31 December 2019 respectively. Historically, the centralised functions have included executive senior management including share-based payment charges, finance, tax, accounting, internal audit, shared services, information technology, tax, treasury and risk management, legal, compliance, human resources and payroll, procurement, and corporate affairs. These expenses are not necessarily representative of the expenses that would have been reported had the Carlsberg UK Group been a standalone group for the periods presented, nor are they necessarily representative of the costs that may be incurred by Carlsberg UK Group in the future. Actual costs that may have been incurred if Carlsberg UK had been a standalone group would depend on a number of factors, including the chosen organisational structure, functions outsourced or performed by employees and strategic decisions made.
- Certain assets, liabilities and transactions of Carlsberg Supply Company AG, identified as specifically relating to the brewing and sales activities of Carlsberg Group in the UK, have been included in the combined Historical Financial Information; this is primarily Property, plant and equipment, Inventory, certain Trade and Other Payables, Derivative financial instruments and Operating Expenses. Of these, the majority of the amounts concerned could be directly identified as being directly attributable to Carlsberg UK and therefore allocated directly. For the remainder where asset, liability or transaction amounts relating to UK activities cannot be specifically identified, an appropriate allocation methodology has been used to allocate a portion of the relevant Carlsberg Supply Company AG amount to Carlsberg UK Group and included in the combined Historical Financial Information. This includes certain Trade Payables balances that have been allocated using an appropriate allocation key based on a proportion of related sales from Carlsberg Supply Company AG to Carlsberg UK Limited.
- Transactions and balances between Carlsberg UK and the rest of Carlsberg Group represent third party transactions and balances from the perspective of Carlsberg UK. They have been presented alongside all other third-party transactions and balances in the appropriate financial statement line items of the combined historical financial information to which such transactions and balances relate and disclosed as related party transactions.
- Carlsberg UK has historically been funded as part of the Carlsberg Group and the related party balances reported within assets and liabilities, as receivables (Note 13) and payables (Note 17) are not representative of the anticipated post-transaction financing position. None of these balances are considered to be capital in nature.
- The tax charges in the combined historical financial information have been determined based on the analysis of the Carlsberg Group’s tax charge and, assessment of how much is attributable to Carlsberg UK, taking into account legal entity charges and applicable Carlsberg Group level adjustments. The tax charges recorded in the combined statements of comprehensive income may have been affected by the taxation arrangements within Carlsberg Group, and are not necessarily representative of the tax charges and liabilities that may have been reported had

Carlsberg UK Group been a standalone company or group for the periods presented nor are they necessarily representative of the tax charges of Carlsberg UK that may arise in the future.

The combined Historical Financial Information has been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of certain items, principally derivative financial instruments, and share-based payments.

The going concern basis of preparation covers a 12-month period extending across the completion of the Transaction. The impact of COVID-19 (as set out in Note 25) has had significant impact on the business with the government announcement for closure of all On-Trade venues and therefore Carlsberg UK's ability to sell to the on-trade, albeit partially offset by increased sales to the Off-Trade.

In the period prior to completion of the Transaction, a non-immediate parent, Carlsberg Breweries A/S, has agreed to provide such financial support as required by the Carlsberg UK Group to meet its financial liabilities as they fall due.

Subsequent to completion of the Transaction, the trading and cash flow forecasts of the Joint Venture, which reflect the current EBITDA of the two businesses and the expected synergies arising from the transaction show that the combined business will generate sufficient cash to meet its ongoing requirements.

The ongoing working capital requirements of the Joint Venture following completion will be managed through a combination of:

- The basis that both the Carlsberg UK and Marston's Brewing businesses will be transferred into the Joint Venture on a debt-free basis.
- Carlsberg UK's existing sources of liquidity from outside of the Carlsberg Group are expected to remain in place subsequent to the completion of the Transaction.
- The existing sources of liquidity of the Marston's UK brewing business from outside of the Marston's plc group are planned to be transferred into the Joint Venture to provide further working capital availability.
- The Shareholder Agreement provides for Carlsberg A/S to provide access to its cash pooling arrangements to the Joint Venture to support the working capital requirements of the Joint Venture on completion.
- Whilst not committed, the Joint Venture will also have the ability to access borrowings in its own capacity based on the Shareholder Agreement.

On the basis of the above, the directors of Marston's have formed the view that it is reasonable for the historical financial information to have been prepared on a going concern basis.

The accounting policies applied and disclosed below are consistent with those used by Marston's in its last annual financial statements for the 52 weeks ended 28 September 2019, except for the implementation of IFRS 16. These policies have been applied consistently to all periods presented unless stated otherwise.

The preparation of the combined Historical Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying Marston's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the combined historical financial information are disclosed below in note 1, "Key assumptions and significant judgements".

New standards and interpretations

Carlsberg UK Group has adopted IFRS 15 'Revenue from Contracts with Customers' from 1 January 2018 using the retrospective approach. IFRS 15 introduces a new five step model for the recognition of revenue, which is based on the satisfaction of performance obligations. The core principle is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The adoption of IFRS 15 has not had any impact on Carlsberg UK Group's results or financial position.

Carlsberg UK Group has adopted IFRS 9 'Financial Instruments' from 1 January 2018. IFRS 9 introduces a new model for the classification and measurement of financial assets, a new expected credit loss model for the impairment of financial assets held at amortised cost, and new requirements for hedge accounting. Carlsberg UK Group has implemented the new classifications and hedging and impairment rules under IFRS 9. The impact of reclassifications and the calculation of expected credit losses arising from these are not material to the combined Historical Financial Information, and the standard has thus been implemented without adjusting the opening balance at 1 January 2018. The adoption of IFRS 9 did not have a material impact on other comprehensive income or the income statement.

Carlsberg UK Group has adopted IFRS 16 'Leases' from 1 January 2019. The adoption of IFRS 16 'Leases' resulted in almost all leases being recognised as assets and liabilities in the balance sheet in the majority of cases and recognise depreciation and finance costs in the income statement. Carlsberg UK Group followed the modified retrospective approach in IFRS 16 and will also take the option to measure the right-of-use assets as if IFRS 16 had always applied but using the Carlsberg Group's incremental borrowing rate at the date of initial application. The impact of transition to IFRS 16 on Carlsberg UK Group's income statement and balance sheet is set out in note 24.

The International Accounting Standards Board (IASB) and IFRS IC have issued the following new or revised standards which are effective for the current period. None of these new or revised standards have any material impact on the Group's results or financial position:

IFRS 9 – Financial Instruments – Amendments regarding prepayment features with negative compensation and modifications of financial liabilities – 1 January 2019

IAS 19 – Employee Benefits – Amendments regarding plan amendments, curtailments or settlements – 1 January 2019

IAS 28 – Investments in Associates and Joint Ventures – Amendments regarding long-term interests in associates and joint ventures – 1 January 2019

IFRIC 23 – Uncertainty over Income Tax Treatments – 1 January 2019

The International Accounting Standards Board (IASB) and IFRS IC have issued the following new or revised standards and interpretations with an effective date for financial periods beginning on or after the dates disclosed below. These standards and interpretations have not yet been adopted by the Carlsberg UK Group.

IFRS 3	Business Combinations Amendments to clarify the definition of a business	1 January 2020
IFRS 7	Financial Instruments: Disclosures Amendments regarding pre-replacement issues in the context of the IBOR reform	1 January 2020
IFRS 9	Financial Instruments Amendments regarding pre-replacement issues in the context of the IBOR reform	1 January 2020
IFRS 10	Consolidated Financial Statements Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture	Date deferred
IFRS 17	Insurance Contracts New accounting standard	1 January 2021
IAS 1	Presentation of Financial Statements Amendments regarding the definition of material	1 January 2020
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors Amendments regarding the definition of material	1 January 2020

IAS 28	Investments in Associates and Joint Ventures Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture	Date deferred

It is not anticipated that any of the other above new standards or interpretations will have a material impact on the Carlsberg UK Group's results or financial position.

Basis of consolidation

The combined historical financial information incorporates the brewing and sales activities of Carlsberg A/S in the United Kingdom, activities which previously formed part of the Carlsberg Group. The results of new subsidiary undertakings are included in Carlsberg UK's accounts from the date on which control transferred to Carlsberg UK or, in the case of disposals, up to the effective date of disposal. Transactions between Carlsberg UK companies are eliminated on consolidation.

Carlsberg UK has applied the purchase method in accounting for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the consideration paid and deferred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition costs are expensed as incurred. The excess of the cost of acquisition over the fair value of Carlsberg UK's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of Carlsberg UK's share of the identifiable net assets of the subsidiary acquired, the difference is recognised immediately in the income statement.

Revenue and other operating income

The Carlsberg UK Group's revenue from contracts with customers comprises wholesale sales.

Wholesale sales

Carlsberg UK sells drinks to both the on and off trade, including wholesalers. Revenue is recognised when Carlsberg UK has transferred control of the goods to the customer. This occurs when the goods have been delivered to the customer, the customer has obtained legal title to the goods, Carlsberg UK cannot require the return or transfer of the goods and the customer has an unconditional obligation to pay for the goods.

Drinks are often sold with retrospective volume discounts based on sales over a defined period. The anticipated discounts are estimated based on accumulated experience using the highly probable method and are deducted from the sales price that is recognised in revenue. Revenue is constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur. A refund liability is recognised within trade and other payables for the volume discounts expected to be paid in respect of sales made prior to the balance sheet date.

Revenue is recorded net of discounts, intra group transactions, VAT and excise duty relating to the brewing and packaging of certain products.

Non-underlying items

In order to illustrate the underlying performance of the Carlsberg UK Group, presentation has been made of performance measures excluding those items which it is considered would distort the comparability of the Carlsberg UK Group's results. These non-underlying items comprise exceptional items.

Exceptional items are defined as those items that, by virtue of their nature, size or expected frequency, warrant separate additional disclosure in the historical financial information in order to fully understand the underlying performance of the Carlsberg UK Group.

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and any impairment losses.

Amortisation is calculated on a straight-line basis over the estimated useful life of the intangible asset. Impairment reviews are carried out more frequently if events or changes in circumstances indicate that the carrying value of an asset may be impaired. Any impairment of carrying value is charged to the income statement.

The useful lives of the Carlsberg UK Group's intangible assets are:

- Computer software Normally 3 to 5 years
- Operating licenses Depending on contract, normally not exceeding 20 years

Research and development expenditure

All expenditure on the research phase of an internal project is expensed as incurred.

Other development expenditure that does not meet these criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Property, plant and equipment

Freehold and leasehold properties are initially recognised at cost and subsequently measured at cost less accumulated depreciation and impairment losses. Plant and machinery and fixtures, fittings, tools and equipment are stated at cost.

Depreciation is charged to the income statement on a straight-line basis to provide for the cost or valuation of the assets less their residual values over their useful lives.

- Buildings: 20-40 years
- Fixtures, fittings, tools and equipment: 5-8 years
- Plant and machinery: 3-10 years
- Land: Not depreciated
- Own labour costs directly attributable to capital projects are capitalised.

Residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

Freehold and leasehold properties are reviewed for indication of impairment at each reporting date, using a process focusing on areas of risk and business performance throughout the portfolio to identify any exposure. Impairment losses are charged to the income statement.

Disposals of property, plant and equipment

Profit/loss on disposal of property, plant and equipment represents net sale proceeds less the carrying value of the assets.

Impairment

If there are indications of impairment or reversal of impairment, an assessment is made of the recoverable amount. An impairment loss is recognised where the recoverable amount is lower than the carrying value of assets. The recoverable amount is the higher of value in use and fair value less costs to sell.

Where there is an indication that any previously recognised impairment losses no longer exist or have decreased, a reversal of the loss is made if there has been a change in the estimates used to determine the recoverable amounts since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount only up to the carrying amount that would have resulted, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior periods. The reversal is recognised in the income statement unless the asset is carried at a revalued amount. The reversal of an impairment loss on a revalued asset is recognised in other comprehensive income and increases the revaluation surplus for that asset. However, to the extent that an impairment loss on the same revalued asset was previously recognised in the income statement, the reversal of that impairment loss is recognised in the income statement. The depreciation charge is adjusted in future periods to allocate the asset's revised carrying value, less any residual value, on a systematic basis over its remaining useful life. There is no reversal of impairment losses relating to goodwill.

Leases

During the years ended 31 December 2017 and 31 December 2018, leases were accounted for in accordance with IAS 17 'Leases' and the following accounting policies were applied in accordance with this standard:

Leases were classified as finance leases if the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases were classified as operating leases.

The cost or valuation of assets held under finance leases is included within property, plant and equipment and depreciation is charged in accordance with the accounting policy for each class of asset concerned. The corresponding capital obligations under these leases are shown as liabilities. The finance charge element of rentals is charged to the income statement and classified within finance costs as incurred.

Rental costs under operating leases, including lease incentives, are charged to the income statement on a straight-line basis over the term of the lease. Similarly, income receivable under operating leases is credited to the income statement on a straight-line basis over the term of the lease. Obligations arising from sale and leaseback arrangements with repurchase options that do not fall within the scope of IAS 17 'Leases' are classified as other lease related borrowings and accounted for in accordance with IFRS 9 'Financial Instruments'.

During the year ended 31 December 2019, leases were accounted for in accordance with IFRS 16 'Leases' and the following accounting policies were applied in accordance with this standard:

At the lease commencement date, Carlsberg UK recognises a lease liability and a corresponding right-of-use asset is recognised, adjusted for initial direct costs and lease incentive received, except for short-term leases of 12 months or less and leases of low-value assets.

Lease liabilities

The lease liability is measured at the present value of the remaining lease payments at the reporting date, discounted using the incremental borrowing rate for similar assets, taking into account the terms of the leases. A remeasurement of the lease liability, for example a change in the assessment of an option to purchase, results in a corresponding adjustment of the related right-of-use assets. Lease liabilities are classified within Borrowings.

Extension or termination options are included in the lease term if the lease is reasonably certain to be extended or not terminated. Consequently, all cash outflows that are reasonably certain to impact the future cash balances are recognised as lease liabilities at initial recognition of lease contracts. Carlsberg UK reassesses the circumstances leading to it not recognising extension or termination options on an ongoing basis.

Right-of-use assets

A right-of-use asset is initially measured at cost, which equals the initial lease liability and initial direct costs less any lease incentives received. Carlsberg UK has applied the practical expedient option allowed under IFRS 16 by using a portfolio approach for the recognition of lease contracts related to assets of the same nature and with similar lease terms, i.e. cars and trucks.

Subsequently, the right-of-use asset is measured at cost less depreciation and impairment losses and is adjusted for remeasurement of the lease liability. The right-of-use asset is depreciated over the earlier of the lease term or the useful life of the asset. The impairment testing of right-of-use assets follows the same principles as those applied for property, plant and equipment.

Right-of-use assets are recognised as property, plant and equipment.

Carlsberg UK has elected not to recognise right-of-use assets and liabilities for leases with a term of 12 months or less and leases of low-value assets. Lease payments related to such leases are recognised in the income statement as an expense on a straight-line basis over the lease term.

Inventories

Inventories are stated at the lower of cost and net realisable value. Raw materials are valued on a ‘first in, first out’ basis, with the exception of hops which are valued at average cost. Finished goods and work in progress include direct materials, labour and a proportion of attributable overheads.

Assets held for sale

Assets, typically properties and related fixtures and fittings, are categorised as held for sale when the value of the asset will be recovered through a sale transaction rather than continuing use. This condition is met when the sale is highly probable, the asset is available for immediate sale in its present condition and is being actively marketed. In addition, Carlsberg UK must be committed to the sale and completion should be expected to occur within one year from the date of classification. Assets held for sale are valued at the lower of carrying value and fair value less costs to sell, and are no longer depreciated.

Financial instruments

Carlsberg UK classifies its financial assets in one of the following two categories: at fair value through profit or loss and at amortised cost. Carlsberg UK classifies its financial liabilities in one of the following two categories: at fair value through profit or loss and other financial liabilities.

Carlsberg UK classifies a financial asset as at amortised cost if the asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest.

Financial instruments at fair value through profit or loss

Derivatives are categorised as financial instruments at fair value through profit or loss unless they are designated as part of a hedging relationship. Trade loans are also categorised as at fair value through profit or loss as they do not give rise on specified dates to cash flows that are solely payments of principal and interest. Carlsberg UK holds no other financial instruments at fair value through profit or loss.

Financial assets at amortised cost

Financial assets at amortised cost comprise trade receivables, other receivables, other cash deposits and cash and cash equivalents in the balance sheet and are measured using the effective interest method.

Other financial liabilities

Non-derivative financial liabilities are classified as other financial liabilities. The Carlsberg UK Group’s other financial liabilities comprise borrowings, trade payables and other payables. Other financial liabilities are carried at amortised cost using the effective interest method.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and Carlsberg UK has transferred substantially all risks and rewards of ownership.

It is, and has been throughout the period under review, the Carlsberg UK Group’s policy that no trading in financial instruments shall be undertaken.

Derivative financial instruments

The only derivative financial instruments that Carlsberg UK enters into are foreign currency forward contracts and aluminium raw material forward contracts. The purpose of these transactions is to manage the foreign currency exchange risk and aluminium raw material price risk arising from the UK Group’s operations and its sources of finance.

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at their fair value at each balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains or losses arising from changes in the fair value of derivatives which are not designated as part of a hedging relationship are presented in the income statement in the period in which they arise.

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. The fair values of derivatives which are not designated as part of a hedging relationship are classified as current assets or liabilities. Accrued interest is recognised separately in current assets or liabilities as appropriate.

At the inception of a hedging transaction, Carlsberg UK documents the economic relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking the hedging transaction. Carlsberg UK also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Amounts that have been recognised in other comprehensive income in respect of cash flow hedges are reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flow affects profit or loss.

Trade loans

In common with other major brewers, Carlsberg UK makes trade loans to customers who purchase the UK Group's beer. Significant trade loans are secured against the property of the loan recipient. Trade loans are classified as other non-current assets in the balance sheet. Since the adoption of IFRS 9 'Financial Instruments' at the start of the current period trade loans are held at fair value.

Trade receivables and other receivables

Trade receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment.

Since the adoption of IFRS 9 'Financial Instruments' at the start of the current period Carlsberg UK applies the expected credit loss model to calculate any loss allowance for trade receivables and other receivables.

For trade receivables and other receivables that result from transactions that are within the scope of IFRS 15 'Revenue from Contracts with Customers' or from transactions that are within the scope of IFRS 16 'Leases' the loss allowance is measured as the lifetime expected credit losses. For any other trade or other receivable, the loss allowance is measured as the 12-month expected credit losses unless the credit risk has increased significantly since initial recognition, in which case the lifetime expected credit losses are used. Details of the methodologies used to calculate the expected credit losses for the different groupings of trade receivables and other receivables are given in note 19.

The carrying amount of trade receivables and other receivables is reduced through the use of an allowance account, and the amount of the loss allowance is recognised in the income statement within other net operating charges. The Carlsberg UK Group's policy is to write off trade receivables and other receivables when there is no reasonable expectation of recovery of the balance due. Indicators that there is no reasonable expectation of recovery depend on the type of debtor/customer and include a debt being over four months old, the failure of the debtor to engage in a repayment plan and the failure to recover any amounts through enforcement activity. Subsequent recoveries of amounts previously written off are credited against other net operating charges in the income statement.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowing costs are recognised as an expense in the period in which they are incurred.

Trade payables and other payables

Trade payables and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Employee benefits

Pension costs for the Carlsberg UK Group’s defined benefit pension plan are determined by the Projected Unit Credit Method, with actuarial calculations being carried out at each period end date. Costs are recognised in the income statement within operating expenses and net finance costs. The current service cost, past service cost and gains or losses arising from settlements are included within operating expenses. The net interest on the net defined benefit asset/liability is included within exceptional finance income or costs and the administrative expenses paid from plan assets are included within finance costs.

Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are recognised in full in the period in which they occur in the statement of comprehensive income. The return on plan assets, excluding amounts included in the net interest on the net defined benefit asset/liability, is also recognised in other comprehensive income.

The asset/liability recognised in the balance sheet for the defined benefit pension plan is the fair value of plan assets less the present value of the defined benefit obligation. Where the fair value of plan assets exceeds the present value of the defined benefit obligation, Carlsberg UK recognises an asset at the lower of the fair value of plan assets less the present value of the defined benefit obligation, and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Should contributions payable under a minimum funding requirement not be available as a refund or reduction in future contributions after they are paid into the plan, a liability would be recognised to this extent when the obligation arose.

Pension costs for the Carlsberg UK Group’s defined contribution pension plans are charged to the income statement in the period in which they arise.

Key management personnel

Key management personnel are those who have authority and responsibility for planning, directing and controlling the activities of the Carlsberg UK Group. In the case of the Carlsberg UK Group, the UK Directors of Carlsberg UK are considered to be the only key management personnel.

Current and deferred tax

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date and is measured at the amount expected to be paid to, or recovered from, the tax authorities.

Deferred tax is provided in full, using the liability method, on all differences that have originated but not reversed by the balance sheet date, and which give rise to an obligation to pay more or less tax in the future. Differences are defined as the differences between the carrying value of assets and liabilities and their tax base.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the assets can be utilised.

Deferred tax is calculated using tax rates that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Provisions

Provisions are recognised in the balance sheet when Carlsberg UK has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

When valuations of leasehold properties (based on future estimated income streams) give rise to a deficit as a result of onerous lease conditions they are recognised as provisions. These provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation for which the estimates of future cash flows have not been adjusted. The key assumptions used in the discounted cash flow calculations are the discount and inflation rates and the market rents, vacant periods and future trading income of the properties.

Other contractual property costs are also recorded as provisions as appropriate.

Share-based payments

The fair value of share-based remuneration at the date of grant is calculated using the Black-Scholes option-pricing model and charged to the income statement on a straight-line basis over the vesting period of the award. The charge to the income statement takes account of the estimated number of shares that will vest.

Non-vesting conditions are taken into account when determining the fair value of the Carlsberg UK Group's share-based payments, and all cancellations of share-based payments, whether by Carlsberg UK or by employees, are accounted for in an identical manner with any costs unrecognised at the date of cancellation being immediately accelerated.

Transactions and balance sheet items in a foreign currency

Transactions in a foreign currency are translated to sterling using the exchange rate at the date of the transaction. Monetary receivables and payables are remeasured at closing day rates at each balance sheet date. Exchange gains or losses that arise from such remeasurement and on settlement of the transaction are recognised in the income statement. Translation differences for non-monetary assets valued at fair value through profit or loss are reported as part of the fair value gain or loss. Gains or losses on disposal of non-monetary assets are recognised in the income statement.

On recognition of entities with a functional currency other than the presentation currency, the income statement and statement of cash flows are translated at the exchange rates at the transaction date, and the statement of financial position items are translated at the exchange rates at the reporting date. Foreign exchange differences arising on translation of the opening balance of equity, and of the income statement on the reporting date, are recognised in other comprehensive income and attributed to a separate translation reserve in equity. Foreign exchange differences arising on the translation of the proportionate share of associates are likewise recognised in other comprehensive income.

Key assumptions and significant judgements

IFRS requires Carlsberg UK to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The Carlsberg UK Group's key assumptions and significant judgements are in respect of non-underlying items and retirement benefits as set out below. Where applicable further details are provided in the relevant accounting policy or detailed note to the historical financial information.

The following judgement and estimation have had the most significant effect on amounts recognised in the historical financial information:

Non-underlying items

- Determination of items to be classed as non-underlying (see accounting policy).

Retirement benefits

- The value of the Carlsberg UK Group's defined benefit plans is based on valuations from external actuaries. The valuation is based on a number of actuarial assumptions, including discount rates, expected return on plan assets, expected growth in salaries, mortality and retirement benefits (note 11).

2 Revenue and operating expenses

Operating expenses	*2017* *£m*	*2018* *£m*	*2019* *£m*
Change in stocks of finished goods and work in progress	(13.7)	(2.8)	6.2
Other operating income	0.2	0.1	0.4
Raw materials, consumables and excise duties	311.4	284.7	265.7
Depreciation of property, plant and equipment	12.7	10.7	9.3
Amortisation of intangible assets	0.2	0.2	0.1
Employee costs	66.8	48.9	43.8
Hire of plant and machinery	6.9	1.1	0.5
Property lease rentals	0.2	0.2	0.2
Income from other non-current assets	(5.7)	0.1	–
Impairment/(reversal of impairment) on property, plant and equipment	(0.7)	(0.7)	–
Logistics expenses	60.4	36.7	34.6
Marketing investment	27.8	29.7	29.8
Recharges from group companies	(1.2)	4.7	4.6
Other net operating charges	1.1	17.8	14.7
	466.4	431.4	409.9

Contract assets (prepayments and accrued income in Note 13) and contract liabilities (accruals and deferred income in Note 17) have been disclosed in Note 19.

The amounts included in the line items above which have been classed as non-underlying are as follows:

	2017 *£m*	*2018* *£m*	*2019* *£m*
Employee costs	7.9	(1.8)	0.9
Reversal of impairment	(0.7)	(0.7)	–
Realised gains on hedging	(1.8)	(0.2)	0.9
Gain on sale of entity – Carlsberg Uzbekistan	(5.7)	–	–
Other net operating charges	0.2	0.9	0.5
	(0.1)	(1.8)	2.3

Geographical areas

Revenue generated outside the United Kingdom during the period was £6.3 million (2018: £2.8 million; 2017: £4.0 million). All non-current assets are located in the United Kingdom.

3 Non-underlying items

	2017 £m	2018 £m	2019 £m
Exceptional operating items			
Gain on sale of entity – Carlsberg Uzbekistan	(5.7)	–	–
Reorganisation and integration costs	8.1	(1.8)	0.9
Write-off of inventory	–	–	0.5
Reversals of impairment	(0.7)	(0.7)	–
Realised gains on hedging	(1.8)	(0.2)	0.9
Impact of change in rate assumptions used for onerous lease provision	–	0.9	–
	(0.1)	(1.8)	2.3
Exceptional non-operating items			
Past service cost in respect of Guaranteed Minimum Pension equalisation	–	4.8	–
Net interest on defined benefit liability	4.8	3.0	2.2
	4.8	7.8	2.2
Total non-underlying items	4.7	6.0	4.5

Gain on sale

Carlsberg UK recognised a gain on sale of £nil (2018: £nil; 2017: £5.7 million) in relation to the disposal of its interest in Carlsberg Uzbekistan.

Reorganisation and integration costs

During the current period Carlsberg UK incurred reorganisation and integration costs of £0.9 million (2018: £1.8 million; 2017: £8.1 million) primarily as a result of the acquisition of businesses and management reorganisations.

Write-off of inventory

During the current period Carlsberg UK incurred write off of obsolete inventory and additional costs with fixed asset transportation of £0.5 million (2018: £nil; 2017: £nil) due to a new product line which have been charged to the Income Statement.

Reversals of impairment

During the current period Carlsberg UK incurred reversals of impairment of £nil (2018: £0.7 million; 2017: £0.7 million) which have been charged to the Income Statement.

Realised gains/losses on hedging

During the current period the Carlsberg UK Group realised gains on hedging activity of £1.8 million (2018: loss of £0.2 million; 2017: loss of £0.9 million) which have been recycled to the Income Statement.

Impact of change in rate assumptions used for onerous lease provisions

The update of the discount rate assumptions used in the calculation of Carlsberg UK's onerous property lease provisions resulted in an increase of £nil (2018: £0.9 million; 2017: £nil) in the total provision.

Past service cost in respect of Guaranteed Minimum Pension equalisation

On 26 October 2018 a High Court ruling indicated that Guaranteed Minimum Pensions must be equalised for men and women. This requirement has been reflected in the calculation of Carlsberg UK's net defined benefit asset/liability at 31 December 2018 and the resulting additional past service cost has been presented as an exceptional item.

Net interest on net defined benefit asset/liability

The net interest on the net defined benefit asset/liability in respect of the Carlsberg UK Group's defined benefit pension plan was a charge of £2.2 million (2018: £3.0 million; 2017: £4.8 million) (note 11).

Impact of taxation

The current tax credit relating to the above non-underlying items amounts to £0.3 million (2018: £0.4 million 2017: charge of £0.1 million. The deferred tax credit relating to the above non- underlying items amounts to £0.4 million (2018: £0.7 million 2017: £0.9 million.

4 Employees

	2017	*2018*	*2019*
	£m	*£m*	*£m*
Employee costs			
Wages and salaries	57.5	35.4	35.9
Social security costs	5.1	3.5	3.8
Pension costs	4.2	9.0	3.4
Share-based payments	–	0.5	0.5
Termination costs	–	0.5	0.2
	66.8	48.9	43.8

A non-underlying charge/(income) of £0.7 million (2018: -£1.8 million; 2017: £7.9 million) is included in employee costs.

The average monthly number of employees engaged in management, administration and production activities for Carlsberg UK was 1,330 (2018: 659; 2017: 661).

	2017	*2018*	*2019*
	£m	*£m*	*£m*
Key management personnel compensation			
Short-term employee benefits	2.4	2.1	1.6

5 Finance costs and income

	2017	*2018*	*2019*
	£m	*£m*	*£m*
Finance costs			
Bank borrowings	4.4	3.9	2.5
Leases	–	–	–
Other lease related borrowings	–	–	–
Other interest payable and similar charges	1.5	1.6	1.8
	5.9	5.5	4.3
Exceptional finance costs			
Net interest on net defined benefit liability	4.8	7.8	2.2
Total finance costs	10.7	13.3	6.5
Finance income			
Deposit and other interest receivable	9.3	10.7	12.0
Total finance income	9.3	10.7	12.0
Net finance income/(costs)	(1.4)	(2.6)	5.5

6 Taxation

	2017 £m	2018 £m	2019 £m
Income statement			
Current tax			
Current period	(2.7)	(1.7)	0.2
Adjustments in respect of prior periods	3.4	0.9	1.0
Credit in respect of tax on non-underlying items	–	0.4	0.3
	(0.7)	(0.4)	1.5
Deferred tax			
Current period	2.1	0.7	(0.1)
Adjustments in respect of prior periods	(1.8)	(4.6)	1.0
Credit in respect of tax on non-underlying items	0.9	0.8	0.5
	1.2	(3.1)	1.4
Taxation (credit)/charge reported in the income statement	1.9	(3.5)	2.9

	2017 £m	2018 £m	2019 £m
Statement of comprehensive income			
Remeasurement of retirement benefits	(1.1)	(2.5)	(3.1)
Hedging reserve movements	–	0.1	–
Taxation (credit)/charge reported in the statement of comprehensive income	(1.1)	(2.4)	(3.1)

	2017 £m	2018 £m	2019 £m
Recognised directly in equity			
Tax on share-based payments	–	–	–
Taxation credit recognised directly in equity	–	–	–

The actual tax rate for the period is higher (2018: lower; 2017: higher) than the standard rate of corporation tax of 19% (2018: 19%; 2017: 19.25%). The differences are explained below:

Tax reconciliation	2017 £m	2018 £m	2019 £m
(Loss)/profit before tax	(15.2)	(4.6)	10.1
Tax (credit)/ charge: (Loss)/profit before tax multiplied by the corporation tax rate of 19% (2018: 19%; 2017: 19.25%)	(2.9)	(0.9)	1.9
Effect of:			
Adjustments in respect of prior periods	1.6	(3.7)	2.0
Net deferred tax credit in respect of land and buildings	0.1	1.2	1.2
Costs not deductible for tax purposes	0.2	1.1	1.6
Other amounts upon which tax relief is available	6.7	3.9	1.2
Other permanent differences	(4.5)	(4.8)	(5.1)
Tax at lower rates of taxation in Switzerland	0.7	(0.3)	0.1
Current period taxation (credit)/charge	1.9	(3.5)	2.9

The March 2016 Budget announced that the standard rate of corporation tax would change from 19% to 17% with effect from 1 April 2020. This change was substantively enacted in the Finance Act 2016 in September 2016.

On 11 March 2020 the UK Government published a measure that sets the Corporation Tax main rate at 19% for the financial year beginning 1 April 2020. This maintains the rate at 19% rather than reducing it to 17% from 1 April 2021. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in the Historical Financial Information for the three years ended 31 December 2019.

7 Intangible assets

	Computer Software £m	Other £m	Total £m
Cost			
At 1 January 2019	3.1	0.4	3.5
Additions	–	–	–
Net transfers to assets held for sale and disposals	(0.3)	–	(0.3)
At 31 December 2019	2.8	0.4	3.2
Amortisation			
At 1 January 2019	3.0	0.3	3.3
Charge for the period	0.1	–	0.1
Net transfers to assets held for sale and disposals	(0.3)	–	(0.3)
At 31 December 2019	2.8	0.3	3.1
Net book amount at 31 December 2018	0.1	0.1	0.2
Net book amount at 31 December 2019	–	0.1	0.1

	Computer Software £m	Other £m	Total £m
Cost			
At 1 January 2018	3.4	0.4	3.8
Additions	–	–	–
Net transfers to assets held for sale and disposals	(0.3)	–	(0.3)
At 31 December 2018	3.1	0.4	3.5
Amortisation			
At 1 January 2018	3.2	0.2	3.4
Charge for the period	0.1	0.1	0.2
Net transfers to assets held for sale and disposals	(0.3)	–	(0.3)
At 31 December 2018	3.0	0.3	3.3
Net book amount at 31 December 2017	0.2	0.2	0.4
Net book amount at 31 December 2018	0.1	0.1	0.2

	Computer Software £m	Other £m	Total £m
Cost			
At 1 January 2017	3.3	0.5	3.8
Additions	–	–	–
Net transfers to assets held for sale and disposals	0.1	(0.1)	–
At 31 December 2017	3.4	0.4	3.8
Amortisation			
At 1 January 2017	3.0	0.2	3.2
Charge for the period	0.2	–	0.2
Net transfers to assets held for sale and disposals	–	–	–
At 31 December 2017	3.2	0.2	3.4
Net book amount at 31 December 2016	0.3	0.3	0.6
Net book amount at 31 December 2017	0.2	0.2	0.4

8 Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation				
At 1 January 2019	104.2	181.4	11.0	296.6
Transition Adjustment	1.5	0.1	0.7	2.3
Additions	3.4	16.1	–	19.5
Disposals	(0.3)	(6.8)	(1.4)	(8.5)
At 31 December 2019	108.8	190.8	10.3	309.9
Depreciation				
At 1 January 2019	38.3	130.9	8.1	177.3
Charge for the period	2.9	6.0	0.4	9.3
Disposals	(0.1)	(5.4)	(1.5)	(7.0)
Impairment/(Reversal of impairment)	–	–	–	–
At 31 December 2019	41.1	131.5	7.0	179.6
Net book amount at 31 December 2018	65.8	50.6	3.0	119.4
Net book amount at 31 December 2019	67.7	59.3	3.3	130.3
Right of use assets included at 31 December 2019				
Depreciation	(0.1)	(0.1)	(0.2)	(0.4)
Accumulated depreciation on disposals	–	–	(0.2)	(0.2)
Transition Adjustment	1.5	0.1	0.7	2.3
Carrying amount at 31 December 2019	1.4	–	0.5	1.9

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation				
At 1 January 2018	112.3	184.6	14.2	311.1
Additions	1.2	8.2	–	9.4
Disposals	(9.3)	(11.4)	(3.2)	(23.9)
At 31 December 2018	104.2	181.4	11.0	296.6
Depreciation				
At 1 January 2018	39.8	133.7	10.9	184.4
Charge for the period	2.7	7.8	0.2	10.7
Disposals	(4.1)	(10.0)	(3.1)	(17.2)
Impairment/ (Reversal of impairment)	–	(0.7)	–	(0.7)
At 31 December 2018	38.4	130.8	8.0	177.2
Net book amount at 31 December 2017	72.5	50.9	3.3	126.7
Net book amount at 31 December 2018	65.8	50.6	3.0	119.4

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation				
At 1 January 2017	115.8	178.9	18.8	313.5
Additions	0.6	7.9	0.1	8.6
Disposals	(4.1)	(2.2)	(4.7)	(11.0)
At 31 December 2017	112.3	184.6	14.2	311.1
Depreciation				
At 1 January 2017	38.8	127.2	15.0	181.0
Charge for the period	3.1	9.1	0.5	12.7
Disposals	(2.1)	(1.9)	(4.6)	(8.6)
Impairment/ (Reversal of impairment)	–	(0.7)	–	(0.7)
At 31 December 2017	39.8	133.7	10.9	184.4
Net book amount at 31 December 2016	77.0	51.7	3.8	132.5
Net book amount at 31 December 2017	72.5	50.9	3.3	126.7

The net book amount of land and buildings is split as follows:

	2017 £m	2018 £m	2019 £m
Freehold properties	71.4	64.8	65.5
Leasehold properties over 50 years unexpired	1.0	0.9	0.8
Leasehold properties under 50 years unexpired	0.1	0.1	1.4
	72.5	65.8	67.6

The net profit on disposal of property, plant and equipment, intangible assets and assets held for sale was £0.1 million (2018: profit of £0.2 million; 2017: profit of £0.4 million).

Right of use assets under IFRS 16

The Carlsberg UK Group leases storage, cars and machinery and production equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

As of 1 January 2019, the Carlsberg UK Group implemented IFRS 16 and recognised right-of-use assets at a total value of £2.3 million at this date. During the year to 31 December 2019, disposals amounted to £0.2 million and depreciation to £0.4 million.

Lease expenses recognised in the income statement related to short-term leases and leases of low-value assets and amounted to £0.5 million. Such contracts of car leases and property leases less than one year.

Further disclosures on adoption of IFRS 16 are contained in note 24.

Revaluation/impairment

During the periods presented various properties were reviewed for impairment. These valuation adjustments were recognised in the income statement as appropriate.

The impact of the revaluations/impairments described above is as follows:

	2017	*2018*	*2019*
	£m	*£m*	*£m*
Income statement:			
Impairment	–	–	–
Reversal of impairment	0.7	0.7	–
Net increase in invested capital/property, plant and equipment	0.7	0.7	–

A reversal of past impairment of £nil (2018: £0.7 million; 2017: £0.7 million) have been recognised within non-underlying items (note 3).

9 Other non-current assets

	2017	2018	2019
	£m	£m	£m
Trade loans	16.6	15.9	16.1
Loans to related parties	67.1	–	–
	83.7	15.9	16.1

Under IFRS 9 'Financial Instruments' trade loans and loans to related parties were reclassified as financial assets at fair value through profit or loss.

Further detail regarding the fair value measurement of trade loans and loans to related parties is provided in note 19.

10 Deferred tax

Deferred tax is calculated on temporary differences between tax bases of assets and liabilities and their carrying amounts under the liability method using a tax rate of 19% (2018: 19%; 2017: 19.25%). The movement on the deferred tax accounts is shown below:

	2017	*2018*	*2019*
	£m	*£m*	*£m*
Deferred tax asset			
At beginning of the period	12.6	9.4	5.3
Credited/(charged) to the income statement	(2.1)	(1.6)	(0.9)
Retirement benefits	(1.1)	(2.5)	(3.1)
At end of the period	9.4	5.3	1.3

	2017	*2018*	*2019*
	£m	*£m*	*£m*
Deferred tax liability			
At beginning of the period	13.1	12.2	7.5
(Credited)/charged to the income statement	(0.9)	(4.6)	0.5
Hedging reserve	–	(0.1)	–
At end of the period	12.2	7.5	8.0

In addition to the deferred tax above, the Carlsberg UK Group has additional unrecognised deferred tax assets of £35.7 million (2018: £29.4 million; 2017: £40.0 million).

11 Retirement benefits

During the period Carlsberg UK contributed to a funded defined benefit pension plan and defined contribution pension plans.

Pension costs for defined contribution plans are as follows:

Defined contribution plans

	2017	*2018*	*2019*
	£m	*£m*	*£m*
Defined contribution plans	4.2	9.0	3.4

Defined benefit plan

Carlsberg UK operates a defined benefit pension scheme in the UK which is a final salary scheme and provides benefits linked to salary at retirement or earlier date of leaving service. The scheme was closed to new members from 31 December 2003 and was closed to future accrual on 5 April 2016. The scheme is funded by regular contributions assessed every three years in line with UK legislation and regulatory guidance.

The latest comprehensive actuarial valuation was carried out as at 6 April 2016. The disclosures provided have been based on the results of that valuation appropriately adjusted to each of 31 December 2017, 2018 and 2019 allowing for benefit accrual, membership movements, pay and pension increases, outgoing benefits and changes in financial and demographic assumptions.

Carlsberg UK Limited and Carlsberg Supply Company UK Limited participate in the defined benefit pension scheme and therefore both companies share risks.

The Company also operates an unfunded unapproved retirement benefit scheme for two former employees.

The key risks to which the plan exposes the Carlsberg UK Group are as follows:

- Volatility of plan assets
- Changes in bond yields
- Inflation risk
- Changes in life expectancy

The movements in the fair value of plan assets and the present value of the defined benefit obligation during the period were:

	Fair value of plan assets			*Present value of defined benefit obligation*			*Net (deficit)/surplus*		
	2017	*2018*	*2019*	*2017*	*2018*	*2019*	*2017*	*2018*	*2019*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
At beginning of the period	587.1	611.9	573.1	(777.5)	(738.4)	(647.4)	(190.4)	(126.5)	(74.3)
Past service cost	–	–	–	–	–	–	–	–	–
Interest income/ (expense)	15.4	15.2	17.2	(20.2)	(18.2)	(19.4)	(4.8)	(3.0)	(2.2)
GMP equalisation	–	–	–	–	(4.8)	–	–	(4.8)	–
Remeasurements:									
Return on plan assets (excluding interest income)	30.8	(36.3)	54.9	–	–	–	30.8	(36.3)	54.9
Effect of changes in financial assumptions	–	–	–	26.1	97.3	(97.4)	26.1	97.3	(97.4)
Effect of experience adjustments	–	–	–	4.5	(1.4)	1.5	4.5	(1.4)	1.5
Adjustment in accordance with paragraph 64 of IAS19	–	–	–	–	(7.3)	7.5	–	(7.3)	7.5
Cash flows:									
Employer contributions	8.9	9.0	9.0	–	–	–	8.9	9.0	9.0
Administrative expenses paid from plan assets	(1.6)	(1.3)	(1.6)	–	–	–	(1.6)	(1.3)	(1.6)
Benefits paid	(28.7)	(25.4)	(22.4)	28.7	25.4	22.4	–	–	–
At end of the period	611.9	573.1	630.2	(738.4)	(647.4)	(732.8)	(126.5)	(74.3)	(102.6)

Pension costs recognised in the income statement

A charge of £2.2 million (2018: charge of £3.0 million; 2017: charge of £4.8 million) comprising the net interest on the net defined benefit asset/liability is included within exceptional finance costs and a charge of £1.6 million (2018: £1.3 million; 2017: £1.6 million) comprising the administrative expenses paid from plan assets is included within finance costs.

On 26 October 2018 a High Court ruling indicated that Guaranteed Minimum Pensions must be equalised for men and women. This requirement has been reflected in the calculation of the Carlsberg UK Group's net defined benefit asset/liability at 31 December 2018 and the resulting additional past service cost of £4.8 million has been classed as a non-underlying item (note 3).

An updated actuarial valuation of the plan was performed by Bucks Consultant as at 6 April 2019 for the purposes of the triennial valuation. The principal assumptions made by the actuaries were:

	2017	*2018*	*2019*
Discount rate	2.5%	3.1%	2.2%
Rate of increase in pensions – 5% RPI	3.1%	3.1%	2.9%
Rate of increase in pensions – 2.5% RPI	2.0%	2.2%	2.1%
Inflation assumption (RPI)	3.1%	3.1%	2.9%
Inflation assumption (CPI)	2.0%	2.0%	1.9%
Life expectancy for current members from age 65 (years)			
Male	22.9	22.2	22.2
Female	25	23.6	23.6
Life expectancy for future pensioners from age 65 (years)			
Male	24.6	24.0	24.0
Female	26.5	25.3	25.3

Mortality assumptions are based on standard tables adjusted for plan experience and with an allowance for future improvement in life expectancy.

The sensitivity of the defined benefit obligation to changes in the principal actuarial assumptions is:

	Change in assumption	*Increase in assumption*	*Decrease in assumption*
Discount rate	0.5%	Decrease by 9.6%	Increase by 11.0%
Inflation assumption	0.5%	Increase by 4.3%	Decrease by 4.3%
Life expectancy	One year	Increase by 4.3%	Decrease by 4.4%

The above sensitivity analyses have been determined by changing one assumption while holding all other assumptions constant. This is unlikely to be the case in practice as changes in some of the assumptions could be correlated. When calculating the above sensitivities, the same method has been applied as when calculating the net defined benefit asset/liability in the balance sheet i.e. the present value of the defined benefit obligation calculated using the Projected Unit Credit Method.

Plan assets	*2017 £m*	*2018 £m*	*2019 £m*
Equities	106.4	103.1	94.7
Absolute return bonds	42.5	51.2	52.3
Liability driven investments	327.8	241.8	293.4
Property	38.0	82.5	90.5
Diversified growth funds	95.5	89.8	95.0
Other	1.7	4.7	4.3
	611.9	573.1	630.2

The actual return on plan assets was a gain of £52.7 million (2018: loss of £39.3 million; 2017: gain of £26.0 million).

On 26 October 2018 the High Court issued its judgement on the Lloyds Banking Group case that states that pension schemes need to equalise members benefits to address the unequal effects of GMPs. Following discussion with the Company and the Trustees, the estimated cost of GMP equalisation was confirmed by Buck Consultants (Company actuary) to be approximately 0.8% of the Plan's liabilities as at 31 December 2018. This allowance has been incorporated in the obligations/liabilities as at 31 December 2018, no change is considered necessary for the year ended 31 December 2019. Included in Finance Costs and Income ("Interest on defined benefit liability") for the year ending 31 December 2019 £nil (2018: £4.8m; 2017: £nil).

Carlsberg UK is aiming to eliminate the plan's funding deficit in the medium term. A schedule of contributions was agreed as part of the April 2016 triennial valuation and contributions of £8 million per year are payable until 5 April 2029. Contributions are also payable in respect of the plan's expenses of £1 million per year. The 6 April 2019 triennial valuation is being performed as at 31 December 2019.

The employer contributions expected to be paid during the financial period ending 31 December 2020 amount to £9 million.

The weighted average duration of the defined benefit obligation is 20.9 years (2018: 20.3 years; 2017: 25.0 years).

12 Inventories

	2017	*2018*	*2019*
	£m	*£m*	*£m*
Raw materials and consumables	3.0	2.9	4.0
Work in progress	0.7	0.9	0.8
Finished goods	28.1	30.7	24.6
	31.8	34.5	29.4

13 Trade and other receivables

	2017	*2018*	*2019*
	£m	*£m*	*£m*
Trade receivables	64.0	55.2	42.2
Trade loans	13.5	12.1	8.4
Prepayments and accrued income	8.1	7.5	5.7
Other receivables	229.1	308.5	258.2
	314.7	383.3	314.5

Trade receivables are shown net of a provision of £0.9 million (2018: £1.1 million; 2017: £0.6 million). Further detail regarding the impairment of trade receivables is provided in note 19. All of Carlsberg UK's trade receivables are denominated in pounds sterling.

The above amounts include £232.6 million (2018: £279.7 million; 2017: £200.4 million) trade and other receivables from related parties. Further detail is provided in note 23.

14 Assets held for sale

	2017	*2018*	*2019*
	£m	*£m*	*£m*
Property, plant & equipment	0.3	–	–

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', property, plant and equipment categorised as held for sale have been written down to their fair value less costs to sell and are no longer depreciated.

15 Borrowings

Current	2017 £m	2018 £m	2019 £m
Lease liabilities	–	–	0.4
Other borrowings	–	–	–
	–	–	0.4

Non-Current	2017 £m	2018 £m	2019 £m
Lease liabilities	–	–	1.6
Other borrowings	–	–	–
	–	–	1.6

All of Carlsberg UK's borrowings are denominated in pounds sterling. There were no instances of default, including covenant terms, in either the current or prior period.

The fair values of all of Carlsberg UK's borrowings approximate to their carrying amounts and are within Level 2 of the fair value hierarchy.

16 Derivative financial instruments

Derivatives	2017 £m	2018 £m	2019 £m
Foreign exchange forwards			
Current assets	–	–	–
Commodity forwards (Aluminium Hedge)			
Current assets	0.7	–	–
Total current assets	0.7	–	–
Total non-current assets	–	–	–
Foreign exchange forwards			
Current liabilities	–	–	–
Commodity forwards (Aluminium Hedge)			
Current liabilities	–	0.6	0.5
Total current liabilities	–	0.6	0.5
Total non-current liabilities	–	–	–

Details of Carlsberg UK's derivatives are provided in note 19.

17 Trade and other payables

	2017 £m	2018 £m	2019 £m
Trade payables	118.2	107.8	100.4
Accruals and deferred income	24.1	22.1	17.5
Other taxes and social security	6.1	4.0	4.4
Other payables	156.2	178.5	100.7
	304.6	312.4	223.0

The above amounts include £42.8 million (2018: £118.9 million; 2017: £92.9 million) trade and other payables from related parties. Further detail is provided in note 23.

18 Provisions for other liabilities and charges

Property leases	*2017 £m*	*2018 £m*	*2019 £m*
At beginning of the period	5.4	3.3	2.9
Released in the period	(1.6)	–	–
Provided in the period	–	–	–
Unwinding of discount	0.1	–	–
Utilised in the period	(0.7)	(0.4)	(0.3)
At end of the period	3.2	2.9	2.6

Restructuring provision	2017 £m	2018 £m	2019 £m
At beginning of the period	23.4	19.1	7.3
Released in the period	(0.1)	–	–
Provided in the period	10.3	0.2	0.8
Utilised in the period	(14.5)	(12.0)	–
At end of the period	19.1	7.3	8.1

Litigation provision	*2017 £m*	*2018 £m*	*2019 £m*
At beginning of the period	5.0	5.0	5.0
Released in the period	–	–	–
Provided in the period	–	–	–
Utilised in the period	–	–	–
At end of the period	5.0	5.0	5.0

Contract provision	*2017 £m*	*2018 £m*	*2019 £m*
At beginning of the period	25.4	20.5	14.5
Released in the period	–	–	–
Provided in the period	–	–	–
Unwinding of discount	0.3	0.2	0.2
Utilised in the period	(5.2)	(6.2)	(6.0)
At end of the period	20.5	14.5	8.7

Recognised in the balance sheet	*2017 £m*	*2018 £m*	*2019 £m*
Current liabilities			
Property leases provision	0.2	0.2	0.3
Restructuring provision	12.8	0.7	1.1
Litigation provision	5.0	5.0	5.0
Contract provision	4.6	5.5	5.0
	22.6	11.4	11.4
Non-current liabilities			
Property leases provision	3.0	2.7	2.3
Restructuring provision	6.3	6.6	7.0
Litigation provision	–	–	–
Contract provision	15.9	9.0	3.7
	25.2	18.3	13.0
	47.8	29.7	24.4

Property leases

When valuations of leasehold properties (based on future estimated income streams) give rise to a deficit as a result of onerous lease conditions they are recognised as liabilities in provisions. Payments are expected to continue on these properties until year 2029.

Restructuring provisions

The restructuring provision relates to the restructuring of the production function in line with forecast volumes and the outsourcing of the logistics operations. The provision is expected to unwind between 2017-2028. Provisions of £1.1 million (2018: £0.7 million; 2017: £12.8 million) are deemed short term, due within one year and £7.0 million (2018: £6.6 million; 2017: £6.3 million) long term, due over one year.

Litigation provision

The litigation provision relates to provision in relation to the tragic fatal accident at the Northampton Brewery in November 2016, the timing of this payment is not yet known.

Contract provision

The contract provision relates to future losses expected to be incurred as a result of a contract expiring in 2021. £5.0 million of the provision is deemed short term, due within one year and £3.7 million long term, due over one year.

19 Financial instruments

Financial instruments by category

At 31 December 2019	*Assets at fair value through profit or loss £m*	*Assets at amortised cost £m*	*Derivatives used for hedging £m*	*Total £m*
Assets as per the balance sheet				
Trade loans	24.5	–	–	24.5
Trade receivables (before provision)	–	43.1	–	43.1
Non-current loans to related parties	–	–	–	–
Derivative financial instruments	–	–	–	–
Other receivables	–	263.9	–	263.9
	24.5	307.0	–	331.5

At 31 December 2019	*Derivatives used for hedging £m*	*Liabilities at fair value through profit or loss £m*	*Other financial liabilities £m*	*Total £m*
Liabilities as per the balance sheet				
Derivative financial instruments	0.5	–	–	0.5
Borrowings	–	–	2.0	2.0
Trade payables	–	–	100.4	100.4
Other payables	–	–	100.7	100.7
	0.5	–	203.1	203.6

At 31 December 2018	*Assets at fair value through profit or loss £m*	*Assets at amortised cost £m*	*Derivatives used for hedging £m*	*Total £m*
Assets as per the balance sheet				
Trade loans	28.0	–	–	28.0
Trade receivables (before provision)	–	56.3	–	56.3
Non-current loans to related parties	–	–	–	–
Derivative financial instruments	–	–	–	–
Other receivables	–	316.0	–	316.0
	28.0	372.3	–	400.3

At 31 December 2018	*Derivatives used for hedging £m*	*Liabilities at fair value through profit or loss £m*	*Other financial liabilities £m*	*Total £m*
Liabilities as per the balance sheet				
Derivative financial instruments	0.6	–	–	0.6
Borrowings	–	–	–	–
Trade payables	–	–	107.8	107.8
Other payables	–	–	178.5	178.5
	0.6	–	286.3	286.9

At 31 December 2017	*Assets at fair value through profit or loss £m*	*Assets at amortised cost £m*	*Derivatives used for hedging £m*	*Total £m*
Assets as per the balance sheet				
Trade loans	30.1	–	–	30.1
Trade receivables (before provision)	–	64.6	–	64.6
Non-current loans to related parties	–	67.1	–	67.1
Derivative financial instruments	–	–	0.7	0.7
Other receivables	–	237.2	–	237.2
	30.1	368.9	0.7	399.7

At 31 December 2017	*Derivatives used for hedging £m*	*Liabilities at fair value through profit or loss £m*	*Other financial liabilities £m*	*Total £m*
Liabilities as per the balance sheet				
Derivative financial instruments	–	–	–	–
Borrowings	–	–	–	–
Trade payables	–	–	118.2	118.2
Other payables	–	–	156.2	156.2
	–	–	274.4	274.4

Fair values of financial instruments

The only financial instruments which Carlsberg UK holds at fair value are trade loans and derivative financial instruments, which are classified as at fair value through profit or loss or derivatives used for hedging.

IFRS 13 'Fair Value Measurement' requires fair value measurements to be recognised using a fair value hierarchy that reflects the significance of the inputs used in the measurements, according to the following levels:

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – inputs for the asset or liability that are not based on observable market data.

The table below shows the level in the fair value hierarchy into which fair value measurements have been categorised:

	2017				2018				2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets as per the balance sheet	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Trade loans	–	–	30.1	30.1	–	–	28.0	28.0	–	–	24.5	24.5
Derivatives	–	0.7	–	0.7	–	–	–	–	–	–	–	–
	–	0.7	30.1	30.8	–	–	28.0	28.0	–	–	24.5	24.5

	2017				2018				2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities as per the balance sheet	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Derivatives	–	–	–	–	–	0.6	–	0.6	–	0.5	–	0.5

There were no transfers between Levels 1, 2 and 3 fair value measurements during the current or prior period. Trade loans were reclassified as financial assets at fair value through profit or loss upon adoption of IFRS 9 'Financial Instruments' at the start of the current period.

The Level 2 fair values of derivative financial instruments have been obtained using a market approach and reflect the estimated amount Carlsberg UK would expect to pay or receive on termination of the instruments, adjusted for the Carlsberg UK's own credit risk. Carlsberg UK utilises valuations from counterparties who use a variety of assumptions based on market conditions existing at each balance sheet date. The fair values are highly sensitive to the inputs to the valuations, such as discount rates, analysis of credit risk and yield curves.

The Level 3 fair values of trade loans reflect the loan balances outstanding net of any deemed impairment. The fair values of trade loans are estimated using discounted cash flow models. The valuation requires management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, and credit risk. Significant increases (or decreases) in any of those inputs in isolation would not result in a significantly lower (or higher) fair value measurement.

	2017	2018	2019
Level 3 recurring fair value measurements	£m	£m	£m
At beginning of the period	31.7	30.1	28.0
Additions	12.3	12.3	8.7
Disposals and repayments	(14.1)	(14.3)	(11.7)
Valuation changes	0.2	(0.1)	(0.5)
At end of the period	30.1	28.0	24.5

The fair values of all Carlsberg UK's other financial instruments are equal to their book values. The carrying amount less impairment provision of trade receivables and other receivables, and the carrying amount of other cash deposits, cash and cash equivalents, trade payables and other payables, are assumed to approximate their fair values.

Financial risk factors

Carlsberg UK's activities expose it to a variety of financial risks: market risk (including commodity risk, foreign currency risk, interest rate risk), counterparty risk, credit risk and liquidity risk. Carlsberg UK's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Carlsberg UK's financial performance. Carlsberg UK uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by Carlsberg Group's central treasury department (Carlsberg Group Treasury) under policies approved by the Board. Carlsberg Group Treasury identifies, evaluates and hedges financial risks. The Board provides principles for overall risk management, as well as policies covering specific areas, such as interest rate risk, credit risk, investment of excess liquidity and use of derivative and non-derivative financial instruments.

Commodity risk:

Commodity risks are associated in particular with purchasing of cans (aluminium). The management of commodity risks is coordinated centrally and aimed at achieving stable and predictable prices in the medium term and avoiding capital and liquidity being tied up unnecessarily.

In the majority of purchase agreements for cans, Carlsberg UK's purchase price is variable and based on the global market price of aluminium (London Metal Exchange, LME). The Carlsberg UK Group is thereby able to hedge the underlying aluminium price risk by applying a hedge ratio of 1:1.

In 2019, the majority of the aluminium price risk was hedged with financial instruments or with fixed prices via the suppliers to Carlsberg UK. The same has been done for 2020. The fair values of the financial instruments are specified in note 16.

Assuming 100% efficiency, the sensitivity of Other Comprehensive Income to a change in the price of Aluminium is:

Effect on OCI	*Sensitivity*	*2017* *£m*	*2018* *£m*	*2019* *£m*
Aluminium	+10%	1.7	0.3	0.2
Aluminium	–10%	(0.3)	(1.5)	(1.1)

Foreign currency risk:

Carlsberg UK buys goods denominated in non-sterling currencies, principally euros. As a result, movements in exchange rates can affect the value of Carlsberg UK's income and expenditure. Carlsberg UK's exposure in this area is not considered to be significant.

The Carlsberg UK Group holds investments in foreign subsidiaries where the translation of net assets to GBP is exposed to foreign exchange risks. The Carlsberg UK Group hedges part of this foreign exchange exposure by entering into forward exchange contracts. The basis for hedging is reviewed at least once a year, and the two parameters, risk reduction and cost, are balanced.

Positive fair values of derivatives are recognised as other receivables and negative values as other payables. Where the fair value adjustments of forward exchange contracts do not exceed the fair value adjustments of the investment, the adjustments of the financial instruments are recognised in other comprehensive income. At 31 December 2019, all adjustments of financial instruments were recognised in other comprehensive income.

Assuming 100% efficiency, the sensitivity of Other Comprehensive Income to a change in the EUR:GBP foreign exchange rate is:

Effect on OCI		*2017* *£m*	*2018* *£m*	*2019* *£m*
EUR/GBP forwards	Notional:	4.0	7.5	4.9
	Sensitivity: +/-5%	0.2	0.4	0.2

Interest rate risk:

Carlsberg UK's income and operating cash flows are substantially independent of changes in market interest rates, and as such the Carlsberg UK's interest rate risk arises from its borrowings. Borrowings issued at variable rates expose Carlsberg UK to cash flow interest rate risk. Carlsberg UK's exposure in this area is not considered to be significant.

Counterparty risk:

Carlsberg UK's counterparty risk in respect of its cash and cash equivalents and other cash deposits is mitigated by the use of cash sweeping for its deposits into Carlsberg Group treasury accounts.

There is no significant concentration of counterparty risk in respect of Carlsberg UK's pension assets, as these are held with a range of institutions.

Credit risk:

Credit risk is managed on a group basis. Credit risk arises from credit exposure to customers, including outstanding receivables and committed transactions. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, an assessment is made of the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual credit limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of and adherence to credit limits is regularly monitored.

The financial assets of Carlsberg UK which are subject to the new expected credit loss model under IFRS 9 'Financial Instruments' comprise trade receivables and other receivables. Other cash deposits and cash and cash equivalents are also subject to the impairment requirements of IFRS 9 however the impairment loss is immaterial.

Trade receivables and other receivables have been grouped as set out below for the purposes of calculating the expected credit losses:

		Gross			*Loss allowance*	
	2017	*2018*	*2019*	*2017*	*2018*	*2019*
Trade receivables	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Amounts invoiced to customers	107.3	96.2	53.9	(0.6)	(1.1)	(0.9)
Miscellaneous trade receivables	69.8	63.5	34.0	–	–	–
	177.1	159.7	87.9	(0.6)	(1.1)	(0.9)
Other receivables						
Amounts invoiced to customers	2.8	1.9	1.9	–	–	–
Miscellaneous other receivables	121.3	209.6	216.4	–	–	–
	124.1	211.5	218.3	–	–	–
	301.2	371.2	306.2	(0.6)	(1.1)	(0.9)

Expected credit losses have been calculated as follows:

		Gross			*Loss allowance*	
	2017	*2018*	*2019*	*2017*	*2018*	*2019*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Lifetime expected credit losses	177.1	159.7	87.9	(0.6)	(1.1)	(0.9)
	177.1	159.7	87.9	(0.6)	(1.1)	(0.9)

Amounts invoiced to customers

Amounts invoiced to customers result almost entirely from transactions that are within the scope of IFRS 15 and as such the loss allowance is calculated as the lifetime expected credit losses. The receivables have been grouped based on the number of months the balance has been outstanding.

The expected loss rates are based on historical payment profiles of sales and the credit losses incurred thereon. The historical loss rates are adjusted to reflect current and forward-looking information regarding macroeconomic factors affecting customers' ability to pay, such as the impact of Brexit and forecasts of the UK's GDP.

The groupings of the gross carrying amounts are as follows:

Gross carrying amount	Current £m	1 month or less £m	1 to 2 months £m	2 to 3 months £m	More than 3 months £m	Total £m
At 31 December 2019	40.7	1.1	0.4	0.3	0.7	43.2
At 31 December 2018	52.3	1.5	0.4	0.3	1.8	56.3
At 31 December 2017	61.6	1.5	0.3	0.2	1.0	64.6

Miscellaneous trade receivables

Miscellaneous trade receivables result almost entirely from transactions that are within the scope of IFRS 15 and as such the loss allowance is calculated as the lifetime expected credit losses.

Miscellaneous other receivables

Miscellaneous other receivables do not generally result from transactions that are within the scope of IFRS 15 and do not comprise lease receivables resulting from transactions that are within the scope of IFRS 16. These receivables are considered to have low credit risk and as such the loss allowance is calculated as the 12-month expected credit losses. Receivables are considered to have low credit risk where there is a low risk of default and it is expected that the debtor will be able to meet its payment obligations in the near future.

The movements in the loss allowances for trade receivables are as follows:

Trade receivables	2017 £m	2018 £m	2019 £m
At beginning of the period	(1.0)	(0.6)	(1.1)
Net increase in loss allowance recognised in profit or loss	0.2	(0.5)	(0.4)
Amounts written off as uncollectible	0.2	–	0.6
At end of the period	(0.6)	(1.1)	(0.9)

Carlsberg UK has no significant concentration of credit risk in respect of its customers. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable.

Liquidity risk:

Carlsberg UK applies a prudent liquidity risk management policy, which involves maintaining sufficient cash, ensuring the availability of funding through an adequate amount of committed credit facilities and having the ability to close out market positions. Due to the dynamic nature of the underlying business, Carlsberg Group Treasury maintains the availability of committed credit lines to ensure that Carlsberg UK has flexibility in funding.

Management monitors rolling forecasts of the Carlsberg UK's liquidity reserve (comprising undrawn borrowing facilities and cash and cash equivalents) on the basis of expected cash flow. In addition, Carlsberg UK's liquidity management policy involves maintaining debt financing plans, projecting cash flows and considering the level of liquid assets necessary to meet these, and monitoring balance sheet liquidity ratios against internal and external regulatory requirements. Carlsberg UK's borrowing covenants are subject to regular review.

Carlsberg UK has entered into arrangements with financial institutions whereby certain of its trade receivables are subject to invoice discounting from time to time. Such discounting is on a non-recourse basis and interest is payable at market rates.

The tables below analyse Carlsberg UK's financial liabilities and non-settled derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

At 31 December 2019	*Less than 1 year £m*	*Between 1 and 2 years £m*	*Between 2 and 5 years £m*	*Over 5 years £m*	*Total £m*
Derivative financial instruments	0.5	–	–	–	0.5
Lease liabilities	0.4	0.4	0.5	0.7	2.0
Trade payables	100.4	–	–	–	100.4
Other payables	100.7	–	–	–	100.7
	202.0	0.4	0.5	0.7	203.6

At 31 December 2018	*Less than 1 year £m*	*Between 1 and 2 years £m*	*Between 2 and 5 years £m*	*Over 5 years £m*	*Total £m*
Derivative financial instruments	0.6	–	–	–	0.6
Trade payables	107.8	–	–	–	107.8
Other payables	178.5	–	–	–	178.5
	286.9	–	–	–	286.9

At 31 December 2017	*Less than 1 year £m*	*Between 1 and 2 years £m*	*Between 2 and 5 years £m*	*Over 5 years £m*	*Total £m*
Derivative financial instruments	–	–	–	–	–
Trade payables	118.2	–	–	–	118.2
Other payables	156.2	–	–	–	156.2
	274.4	–	–	–	274.4

20 Share-based payments

Carlsberg UK Limited and Carlsberg Supply Company UK Limited were members of a Carlsberg Group share based payments plan during the three years ended 31 December 2017, 2018 and 2019 and Carlsberg UK recognises and measures its share-based payment expense on the basis of a reasonable allocation of the expense recognised for the Carlsberg Group. The basis for reasonable allocation is the time of service rendered by employee per entity within the vesting period. The charge to the profit and loss account in respect of share-based payments in the period was £0.5 million (2018: £0.5 million; 2017: £nil) with the difference between the expenses and the recharge from the ultimate parent undertaking being recorded in equity.

The share-based payment plans consist of the share options programme, the long-term incentive programme and the long-term incentive plan (performance shares). The equity settled schemes are settled in performance share units (PSUs). The participants in the programmes receive a number of PSUs, each giving the right to receive Carlsberg A/S B shares. The vesting conditions for the long-term incentive programme are 3 years of service and the Carlsberg Group's financial performance for the grant year. The vesting conditions for the long-term incentives plan (performance shares) are 3 years of service and achievement of 4 KPIs in the vesting period. Shares are transferred to the employee immediately after they have been vested.

21 Working capital and non-cash movements

Working capital movements	*2017 £m*	*2018 £m*	*2019 £m*
Decrease/(increase) in inventories	(9.1)	(2.7)	5.1
Decrease in trade and other receivables	17.0	5.2	75.7
Increase/(decrease) in trade and other payables	(2.9)	7.8	(89.4)
	5.0	10.3	(8.6)

Non-cash movements	2017 £m	2018 £m	2019 £m
Income from other non-current assets	–	–	(0.4)
Foreign exchange gains & losses	0.1	(0.2)	0.5
Share-based payments	–	0.5	0.6
	0.1	0.3	0.7

Further details of movements in respect of property, plant and equipment, assets held for sale and intangible assets are given in notes 7, 8 and 14.

22 Operating leases

The Carlsberg UK Group as lessee under IAS 17

The Carlsberg UK Group leases various properties and items of equipment under non-cancellable operating leases. The leases have various terms, escalation clauses and renewal rights. Future minimum lease rentals payable under non-cancellable operating leases are as follows:

	2017		*2018*	
Due	*Land and buildings £m*	*Other £m*	*Land and buildings £m*	*Other £m*
Within one year	2.2	1.6	0.7	0.3
In more than one year but less than five years	6.2	1.0	1.4	0.1
In more than five years	2.0	–	1.3	–
	10.4	2.6	3.4	0.4

23 Related party disclosures

Note 1 provides information about the entities and businesses included in the combined historical financial information as well as the Carlsberg UK Group's structure, including details of the subsidiaries and the holding company.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

		Recharges to/from related parties	*Sales to related parties*	*Purchases from related parties*	*Amount owed by related parties**	*Amount owed to related parties**
		£m	*£m*	*£m*	*£m*	*£m*
Entity with significant influence over the Carlsberg UK Group:						
Carlsberg UK Holdings	2019	–	–	–	174.9	–
	2018	–	–	–	167.9	–
	2017	–	–	–	161.2	–
Carlsberg Breweries A/S	2019	21.2	–	–	57.5	38.3
	2018	31.6	–	–	111.7	111.1
	2017	28.4	–	–	106.0	81.7
Other related parties:						
Serviced Dispense Equipment (Holdings) Limited**	2019	4.4	–	21.2	–	–
	2018	4.2	–	21.5	–	–
	2017	3.8	–	20.9	–	1.0
Carlsberg Global Business Services A/S	2019	–	–	–	–	4.3
	2018	–	–	–	–	7.3
	2017	–	–	–	–	9.7
Other	2019	–	–	–	0.2	0.2
	2018	–	–	–	0.1	0.5
	2017	–	–	–	0.3	0.5

* The amounts are classified as under other non-current assets and trade receivables, and under trade payables, respectively (see Notes 9 and 13, and Note 17).

** The amounts in each period relate to a rebate received from Serviced Dispense Equipment (Holdings) Limited.

Compensation of key management personnel of the Carlsberg UK Group

	2017	*2018*	*2019*
	£m	*£m*	*£m*
Short term employee benefits	2.4	2.1	1.6
Post-employee pension and medical benefits	–	–	–
Termination benefits	–	–	–
Share-based payments	–	–	–
	2.4	2.1	1.6

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel. Generally, the non-executive directors do not receive pension entitlements from the Carlsberg UK Group.

24 Change in accounting policy

Adoption of IFRS 16 'Leases'

The implementation of IFRS 16 resulted in almost all leased assets and liabilities being recognised in the statement of financial position, except for short-term leases and leases of low-value assets. Carlsberg UK has applied the modified retrospective transition approach and, accordingly, not restated figures for prior periods.

The impact on profit after tax was a decrease of £0.1 million compared with the presentation in accordance with the previous accounting policy for leases, where operating leases were recognised in the income statement on a straight-line basis.

The Carlsberg UK Group has recognised right-of-use assets as assets that are depreciated with a corresponding financing liability reflecting the future lease payments for the assets, adjusted for initial direct costs and lease incentive received. The IFRS 16 transition option to set the right-of-use asset at what it would have been as if IFRS 16 had always applied has been taken, resulting in a transition adjustment to Invested Capital of £0.2 million at 1 January 2019.

In the statement of cash flows, lease payments are presented as interest paid and reduction of the lease liability. Before the implementation of IFRS 16, lease payments were presented as operating expenses and therefore a reduction in operating cash flows.

At implementation, Carlsberg UK recognised lease liabilities and right-of-use assets at the same amount as leases previously classified as operating leases. The table provides a reconciliation between reported operating leases at 31 December 2018 and the recognised lease liabilities as of 1 January 2019.

The impact of the changed accounting policies is specified in the tables below.

	£m
Operating lease commitments disclosed at 31 December 2018	3.9
Discounted using the incremental borrowing interest rate of 0.75%	3.8
Adjustments as a result of a different treatment, including short term leases and low value assets, extension and termination options and variable payments	(1.3)
Lease liability recognised at 1 January 2019	2.5

Impact on the balance sheet:

	1 January 2019 £m	*31 December 2019 £m*
Property, plant and equipment		
Land and Buildings	1.5	1.4
Plant and machinery	0.1	0.1
Fixtures, fittings, tools and equipment	0.7	0.5
Total property, plant and equipment	2.3	2.0
Other receivables	–	–
Total assets	2.3	2.0
Liabilities		
Lease liabilities	2.5	2.0
Total liabilities	2.5	2.0
Invested capital	(0.2)	–

Impact on the income statement:

	2019
	£m
Operating profit before depreciation, amortisation and impairment losses	0.5
Depreciation, right-of-use assets	(0.4)
Operating profit before non-underlying items	0.1
Interest expenses, lease liabilities	–
Profit before tax	0.1
Income tax	–
Consolidated profit	0.1

Impact on statement of cash flows:

	2019
	£m
Operating profit before depreciation, amortisation and impairment losses	0.5
Cash flow from operating activities	0.4
Interest etc. paid	–
Cash flow from operating activities	0.4
Cash flow from financing activities	(0.4)
Net change in cash flows	–

25 Events after the balance sheet date

Since the balance sheet date, there has been significant macro-economic uncertainty as a result of the Coronavirus outbreak, the scale and duration of which inherently remains uncertain. This has had a significant impact on the business. Carlsberg UK senior management are monitoring and reacting to the situation and have put in place contingency plans to safeguard Carlsberg UK's employees and to mitigate the developing risks. These plans will continue to be adapted as the situation evolves and the health and safety of the employees has been our primary concern. On 20 March 2020 the government announced that all On-Trade venues would be closed for an indeterminant amount of time. This has a material impact on Carlsberg UK's financial performance due to an inability to sell to the On-Trade. This is partially offset by increased sales to the Off-Trade and through cost mitigation initiatives.

26 First time adoption of IFRS

The historical financial information for three years ended 31 December 2019 are the first financial statements prepared for Carlsberg UK in accordance with IFRS. Carlsberg UK has not prepared financial statements under IFRS or another generally accepted accounting principles.

During the periods presented in the historical financial information Carlsberg UK has been wholly owned by Carlsberg A/S. As Carlsberg A/S reports under IFRS, Carlsberg UK has adopted IFRS at a date later than its parent and Management has elected to include the carrying amounts of the assets and liabilities presented for Carlsberg UK at those amounts previously included in the Carlsberg Group's consolidated financial statements for the three years ended 31 December 2019.

Accordingly, Carlsberg UK has prepared historical financial information that comply with IFRS as described in the basis of preparation in note 1.

In preparing the historical financial information, Carlsberg UK's opening balance sheet has been prepared as at 1 January 2017, Carlsberg UK's date of transition to IFRS:

Combined Balance Sheet

	1 January 2017
	£m
Non-current assets	
Intangible assets	0.6
Property, plant and equipment	132.5
Other non-current assets	84.7
Deferred tax assets	12.6
Investments in associates	3.4
	233.8
Current assets	
Inventories	22.6
Trade and other receivables	331.7
Derivative financial instruments	1.0
	355.3
Assets held for sale	–
Current liabilities	
Borrowings	–
Derivative financial instruments	–
Trade and other payables	307.4
Current tax liabilities	8.7
Provisions for other liabilities and charges	21.1
	337.2
Non-current liabilities	
Borrowings	–
Derivative financial instruments	–
Other non-current liabilities	0.5
Provisions for other liabilities and charges	39.5
Deferred tax liabilities	13.1
Retirement benefit obligations	190.4
	243.5
Net assets	8.4
Invested capital	
Invested capital	8.4
Total invested capital	8.4

As Carlsberg UK has not previously prepared financial statements no reconciliations are presented.

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8 June 2020

Dear Ladies and Gentlemen

Carlsberg UK

We report on the financial information of Carlsberg UK for the three years ended 31 December 2019 set out in section A of Part IV above (the "**Financial Information Table**"). The Financial Information Table has been prepared for inclusion in the Class 1 circular dated 8 June 2020 (the "**Circular**") of Marston's PLC (the "**Company**") on the basis of the accounting policies set out in note 1 to the Financial Information Table. This report is required by item 13.5.21R of the Listing Rules of the Financial Conduct Authority (the "**Listing Rules**") and is given for the purpose of complying with that item and for no other purpose.

Responsibilities

The Directors of the Company are responsible for preparing the Financial Information Table in accordance with the basis of preparation set out in note 1 to the Financial Information Table and in a form that is consistent with the accounting policies adopted in the Company's latest annual accounts.

It is our responsibility to form an opinion as to whether the Financial Information Table gives a true and fair view, for the purposes of the Circular and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant

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to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to Carlsberg UK's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the Financial Information Table gives, for the purposes of the Circular dated 8 June 2020, a true and fair view of the state of affairs of Carlsberg UK as at the dates stated and of its profits/losses, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in note 1 to the Financial Information Table.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountants

PART V

UNAUDITED PRO FORMA FINANCIAL INFORMATION

Section A: Unaudited Pro Forma Financial Information

The unaudited pro forma financial information for the Group (the "**Pro Forma Financial Information**") has been prepared on the basis of the notes set out below to illustrate the effect of the Transaction on the income statement of the Group as if it had occurred on 30 September 2018, and on the net assets of the Group as if it had occurred on 28 September 2019. As Marston's will acquire 40 per cent. of the ordinary shares and voting rights of the Joint Venture at Completion, which will be accounted under the equity method as per IAS 28 Investments in associates and joint ventures. The Pro Forma Financial Information reflects the deconsolidation of Marston's Brewing and the consolidation of the Group's share of its interest in the Joint Venture. This accounting treatment will be in the Company's next audited annual accounts where the period commences after completion of the Transaction.

The Pro Forma Financial Information has been produced for illustrative purposes only, by its nature addresses a hypothetical situation and therefore does not represent the Group's actual financial position or results. The Pro Forma Financial Information does not purport to represent what the Group's financial position would have been if the Transaction had been completed on the date indicated, nor does it purport to represent the financial position at any future date.

The Pro Forma Financial Information does not constitute financial statements within the meaning of section 434 of the Companies Act 2006. Investors should read the whole of this Circular and not rely solely on the information in this Part V (*Unaudited Pro Forma Financial Information*). The reporting Accountants' report on the Pro Forma Financial Information is set out in Section B of this Part V (*Unaudited Pro Forma Financial Information*).

1. Unaudited Pro Forma Income Statement

all figures in £ millions	*Group 52 weeks ended 28 September 2019 (Note 1)*	*De-consolidation of Marston's Brewing 52 weeks ended 28 September 2019 (Note 2)*	*Joint Venture adjustments (Note 3)*	*Profit on disposal and other transaction adjustments (Note 4)*	*Pro forma total (Note 5)*
Revenue	1,173.5	(497.6)	108.3		784.2
Operating expenses	(1,067.0)	472.1	(108.3)	340.2	(363.0)
Share of net profit in associates	–	–	10.9	–	10.9
Operating profit	106.5	(25.5)	10.9	340.2	432.1
Finance costs	(78.7)	0.9		6.1	(71.7)
Finance income	0.9	–		–	0.9
Interest rate swap movements	(48.7)	–		–	(48.7)
Net finance cost	(126.5)	0.9		6.1	(119.5)
Profit/(loss) before taxation	(20.0)	(24.6)	10.9	346.3	312.6
Taxation	2.0	4.7		(1.2)	5.5
Profit/(loss) for the period attributable to equity shareholders	(18.0)	(19.9)	10.9	345.1	318.1

Notes

1. The results have been extracted, without material adjustment, from the published audited accounts of the Group for the 52 weeks period ended 28 September 2019.
2. The results have been extracted, without material adjustment, from the unaudited disposal table in Part III (*Historical Information relating to Marston's Brewing*) of this Circular.
3. As explained in the first paragraph of this Section A, the Group will acquire 40 per cent. of the ordinary shares and voting rights of the Joint Venture at the Completion, which will be accounted under the equity method as per IAS 28 Investments in associates and joint ventures and will have a continuing impact on the Group. The Group's share of the net profit of the Joint Venture is calculated as below.

all figures in £ millions	*Marston's Brewing 52 weeks ended 28 September 2019 (Note 3a)*	*Carlsberg UK Year ended 31 December 2019 (Note 3b)*	*Joint Venture Total*	*Group's share of the Joint Venture result*
Revenue	497.6	414.1	911.7	
Operating expenses	(472.1)	(409.9)	(882.0)	
Profit/(loss) from associates	–	0.4	0.4	
Operating profit	25.5	4.6	30.1	
Finance costs	(0.9)	(6.5)	(7.4)	
Finance income	–	12.0	12.0	
Profit/(loss) before taxation	24.6	10.1	34.7	
Taxation	(4.7)	(2.9)	(7.6)	
Profit/(loss) for the period attributable to equity shareholders	19.9	7.2	27.1	10.9

(3a) The result has been extracted, without material adjustment, from the unaudited disposal table in Part III (*Historical Financial Information relating to Marston's Brewing*) of this Circular.

(3b) The result has been extracted, without material adjustment, from the audited historical financial information of Carlsberg UK for the year ended 31 December 2019 set out in Part IV (*Historical Financial Information relating to Carlsberg UK*) of this Circular.

(3c) The Marston's Brewing results include £108.3 million of revenue and operating expenses in respect of transactions with the Group. The adjustment to revenue and operating expenses ensures that only Marston's Brewing's external revenue to third parties is excluded from the pro forma result.

4. The adjustments arising as a result of the Transaction are set out below, and will not have a continuing impact on the Group:

   a. The adjustment for profit on disposal is calculated as follows:

	£ millions
Completion Payment	239.1
Group's share of interest in the Joint Venture	312.1
Consideration	551.2
Net Assets of Marston's Brewing disposed of	(196.0)
Transaction costs	(15.0)
Profit on disposal	340.2

The Completion Payment of £239.1 million excludes £34.0 million that will be deferred for 12 months from Completion as described in Part VI (*Summary of the Principal Terms of the Transaction*). The Group's investment in the Joint Venture of £312.1 million is described in Note 3 of the Unaudited Pro Forma Net Assets Statement.

The excess of Completion Payment and Group's share of its interest in the Joint Venture over the net assets of Marston's Brewing (£196.0 million) as described in Note 2 of the Unaudited Pro Forma Net Assets Statement net of transaction costs (£15.0 million) relating to bank and other professional service provider fees, has been reflected as profit on disposal. The profit on disposal is assumed as being exempt from tax due to the expected application of the Substantial Shareholding Exemption.

   b. The adjustment to finance costs of £6.1 million represents the reduced interest charge due to the repayment of borrowings with the proceeds of the Transaction net of transaction costs as described in Note 4 of Unaudited Pro Forma Net Assets Statement. The impact of the reduced interest charge results in an additional £1.2 million taxation charge.

5. The unaudited pro forma income statement does not reflect any trading or other transactions undertaken by the Group since 28 September 2019 or Carlsberg UK since 31 December 2019.

6. A reconciliation to the Retained Group's pro forma underlying EBITDA of £188.7 million is as follows:

	£m
Operating profit for the 52 weeks ended 28 September 2019 for the Group (Note 6b)	106.5
Add: Non underlying operating items for the 52 weeks ended 28 September 2019 for the Group (Note 6b)	72.2
Add: Depreciation and amortisation for the 52 weeks ended 28 September 2019 for the Group (Note 6b)	43.2
Underlying EBITDA for the 52 weeks ended 28 September 2019 for the Group (Note 6b)	221.9
Less: Underlying EBITDA for the 52 weeks ended 28 September 2019 for Marston's Brewing (Note 6c)	(44.1)
Plus: Share of net profit of the joint venture (Note 3)	10.9
Pro forma underlying EBITDA for the Retained Group	188.7

(6a) Underlying items comprise all items save for exceptional items and other adjusting items which are non-underlying items.

(6b) The results have been extracted, without material adjustment, from the published audited accounts of the Group for the 52 weeks period ended 28 September 2019.

(6c) The result has been extracted, without material adjustment, from the unaudited disposal table in Part III (*Historical Financial Information relating to Marston's Brewing*) of this Circular.

7. The Pro Forma Financial Information has been prepared in accordance with Annex 20 of the Prospectus Regulation and in a manner consistent with the accounting policies adopted by the Group in preparing its audited consolidated financial statements for the 52 weeks ended 28 September 2019.

2. Unaudited Pro Forma Net Assets Statement

all figures in £ millions	*Group as at 28 September 2019 (Note 1)*	*De-consolidation of Marston's Brewing as at 28 September 2019 (Note 2)*	*Joint Venture adjustments (Note 3)*	*Transaction adjustments (Note 4)*	*Pro forma total (Note 5)*
Non-current assets					
Goodwill	230.3	(29.7)			200.6
Other intangible assets	88.5	(65.8)			22.7
Property, plant and equipment	2,350.4	(150.4)			2,200.0
Other non-current assets	9.3	(9.3)			–
Deferred tax assets	5.8	–			5.8
Retirement benefit surplus	–	–			–
Investment in associate	–	–	312.1		312.1
	2,684.3	(255.2)	312.1		2,741.2
Current assets					
Inventories	43.6	(31.5)			12.1
Trade and other receivables	90.9	(65.8)			25.1
Other cash deposits	2.0	–			2.0
Cash and cash equivalents	37.6	–			37.6
	174.1	(97.3)			76.8
Assets held for sale	1.7	–			1.7
Total assets	2,860.1	(352.5)	312.1		2,819.7
Current liabilities					
Borrowings	(54.9)	2.5			(52.4)
Derivative financial instruments	(184.2)	–			(184.2)
Trade and other payables	(248.3)	112.9			(135.4)
Current tax liabilities	(1.7)	1.5			(0.2)
Provisions for other liabilities and charges	(2.6)	0.2			(2.4)
	(491.7)	117.1	–	–	(374.6)

all figures in £ millions	*Group as at 28 September 2019 (Note 1)*	*De-consolidation of Marston's Brewing as at 28 September 2019 (Note 2)*	*Joint Venture adjustments (Note 3)*	*Transaction adjustments (Note 4)*	*Pro forma total (Note 5)*
Non-current liabilities					
Borrowings	(1,383.4)	7.6		224.1	(1,151.7)
Derivative financial instruments	(51.3)	–			(51.3)
Other non-current liabilities	(2.6)	–			(2.6)
Provisions for other liabilities and charges	(19.7)	–			(19.7)
Deferred tax liabilities	(63.9)	31.8			(32.1)
Retirement benefit obligations	(36.4)	–			(36.4)
	(1,557.3)	39.4		224.1	(1,293.8)
Net assets	811.1	(196.0)	312.1	224.1	1,151.3

Notes

1. The results have been extracted, without material adjustment, from the published audited accounts of the Group as at 28 September 2019.

2. The results have been extracted, without material adjustment, from the unaudited disposal table in Part III (*Historical Financial Information relating to Marston's Brewing*) of this Circular.

3. As explained in the first paragraph of this Section A, the Group will acquire 40 per cent. of the Joint Venture at Completion, which will be accounted under the equity method as per IAS 28 Investments in associates and joint ventures. The carrying value of the Group's investment in the Joint Venture is calculated as below.

all figures in £ millions	*Net Assets of Marston's Brewing as at 28 September 2019 (Note 3a)*	*Net Assets of Carlsberg UK as at 31 December 2019 (Note 3b)*	*Fair Value Adjustment*	*Fair Value of Joint Venture (Note 3c)*	*Group's investment in the Joint Venture*
Total	196.0	127.3	457.0	780.3	312.1

(3a) The results have been extracted, without material adjustment, from the unaudited disposal table in Part III (*Historical Financial Information relating to Marston's Brewing*) of this Circular.

(3b) The result has been extracted, without material adjustment, from the audited historical financial information of Carlsberg UK for the year ended 31 December 2019 set out in Part IV (*Historical Financial Information relating to Carlsberg UK*) of this Circular.

(3c) Reflects the estimated fair value of the net assets of the Joint Venture as at the Completion date being the aggregate value of Marston's Brewing (£580 million) and Carlsberg UK (£200 million) as set out in the Master Agreement. A fair value exercise will be completed post Completion.

4. The gross initial proceeds of the Transaction represent the Completion Payment of £239.1 million which, after incurring £15.0 million of transaction costs, will be used to repay non-current bank borrowings. The deferred contingent element of the Completion Payment (£34.0 million) has been excluded from this adjustment.

   As set out in the unaudited pro forma net assets statement, the Retained Group will have Borrowings of £52.4 million and £1,151.7 million which less the Other Cash deposits of £2.0 million and the cash and cash equivalents of £37.6 million, results in pro forma net debt for the Retained Group of £1,164.5 million.

5. The unaudited pro forma statement of net assets does not reflect any trading or other transactions undertaken by the Group since 28 September 2019 or Carlsberg UK since 31 December 2019.

6. The Pro Forma Financial Information has been prepared in accordance with Annex 20 of the Prospectus Regulation and in a manner consistent with the accounting policies adopted by the Group in preparing its audited consolidated financial statements for the 52 weeks ended 28 September 2019.

The Directors
Marston's PLC
Marston's House,
Brewery Road,
Wolverhampton WV1 4JT

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London
E14 5JP

8 June 2020

Dear Ladies and Gentlemen

Marston's PLC (the "Company")

We report on the pro forma financial information (the "**Pro Forma Financial Information**") set out in section B of Part V of the Company's circular dated 8 June 2020 (the "**Circular**") which has been prepared on the basis described in the notes to the Pro Forma Financial Information, for illustrative purposes only, to provide information about how the proposed contribution of the Brewing business by the Company to the Joint Venture in exchange for cash and a 40% stake in the Joint Venture (comprising Carlsberg's UK Brewery business and the Company's Brewery business) might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the 52 weeks ended 28 September 2019. This report is required by item 13.3.3R of the Listing Rules of the Financial Conduct Authority (the "**Listing Rules**") and is given for the purpose of complying with that Listing Rule and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Pro Forma Financial Information in accordance with item 13.3.3R of the Listing Rules.

It is our responsibility to form an opinion, as required by item 13.3.3R of the Listing Rules as to the proper compilation of the Pro Forma Financial Information and to report our opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro Forma Financial Information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to shareholders of the Company as a result of the inclusion of this report in the Circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such person as a result of,

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arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with item 13.4.1R(6) of the Listing Rules, consenting to its inclusion in the Circular.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro Forma Financial Information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company.

Yours faithfully

PricewaterhouseCoopers LLP
Chartered Accountant

PART VI

SUMMARY OF THE PRINCIPAL TERMS OF THE TRANSACTION

The key terms of the Transaction Agreements are set out below.

1. Disposal

The Disposal is governed by the Master Agreement entered into between the Company, Marston's Trading Limited, Carlsberg Breweries, Carlsberg and JVCo.

Transaction steps

The effect of the Master Agreement is: (i) Marston's NewCo will be contributed to the Joint Venture by Marston's Trading Limited in return for 40 per cent. of the ordinary shares and voting rights in the Joint Venture and proceeds of up to £273 million in the form of the Completion Payment (subject to adjustment as set out under "*Consideration adjustment*" below and the deferred contingent payment as set out under "*Deferred contingent payment*" below) and (ii) Carlsberg UK will be contributed to the Joint Venture by Carlsberg in return for 60 per cent. of the ordinary shares and voting rights in the Joint Venture.

Marston's Trading Limited has agreed to grant security over its shares in the Joint Venture to Carlsberg to support its liabilities in respect of certain trigger events under the Shareholders' Agreement (and will be seeking the consent of its lenders to do so).

Conditions

Completion under the Master Agreement is conditional on satisfaction or (if permitted) waiver of the Conditions. The Conditions are as follows:

i. completion of the Separation;

ii. completion of the Carlsberg Reorganisation;

iii. the approval of the Resolution by Shareholders at the General Meeting;

iv. clearance of the Transaction by the relevant Competition Authorities; and

v. no breach of certain key warranties given by each of Marston's Trading Limited and Carlsberg having occurred between 22 May 2020 and Completion and subsisting as at immediately prior to Completion,

(together, the "**Conditions**").

If the Resolution is not passed by the Shareholders at the General Meeting (or any adjournment or postponement thereof) on or before 31 July 2021 and the Master Agreement is terminated as a result, the Company would be required to reimburse Carlsberg for the reasonable costs incurred by the Carlsberg Group in connection with the Transaction subject to a cap of 1 per cent. of the market capitalisation of the Company at the close of trading on 21 May 2020.

If the Conditions are not satisfied or (if permitted) waived on or before 31 July 2021, then the Master Agreement shall terminate.

Consideration adjustment

The amount of the Completion Payment is subject to adjustment in respect of customary working capital and debt free/cash free adjustments.

Deferred contingent payment

Of the up to £273 million Completion Payment, £34 million will be deferred for 12 months from Completion with the amount payable being contingent on the extent of the share price recovery of a pre-agreed basket of companies to pre-COVID-19 levels (A.G. BARR PLC, Britvic PLC, C&C Group PLC, Mitchells & Butlers PLC and Marston's).

The deferred contingent payment will be calculated on a linear basis based on the extent to which the 3-month VWAP (volume-weighted average price) of a pre-agreed basket of companies recovers (or not) between the date of Completion and the date that is 12 months after Completion. The recovery of the pre-agreed basket of companies will be benchmarked against the share price performance of those companies between (2 March 2020 and 15 May 2020). If the recovery of the pre-agreed basket of companies is equal to or exceeds the benchmark reduction, then the full amount of the deferred contingent payment will be payable.

Warranties and Indemnities

The Master Agreement contains certain customary warranties and indemnities from Marston's Trading Limited in favour of JVCo and (where applicable) members of the Carlsberg Group. In particular, Marston's Trading Limited has agreed to indemnify JVCo or (where applicable) members of the Carlsberg Group for any losses suffered or incurred as a result of, or in connection with:

i. a failure to implement the Separation in accordance with the relevant terms;

ii. any claim by an employee of the Marston's Group that they have been underpaid holiday pay;

iii. any breach by Marston's Brewing of certain laws and regulations relating to trade loans and anti-bribery and corruption;

iv. any security interests granted to Marston's Brewing pursuant to its trade loan agreements being unenforceable as a result of transferring the security interest pursuant to the Separation; and

v. any third party claims or regulatory action in respect of the presence of asbestos at certain of Marston's Brewing's breweries.

2. Joint Venture

The Joint Venture will be governed by a Shareholders' Agreement to be entered into between the Company, Marston's Trading Limited, Carlsberg, Carlsberg Breweries and JVCo. The Shareholders' Agreement will include the following terms.

Governance

Day-to-day management of the Joint Venture will be delegated by the Joint Venture Board to the executive management team, subject to appropriate reserved matters for the Joint Venture Board.

Marston's will have two representatives on the Joint Venture Board and Carlsberg will have three representatives. Ralph Findlay, CEO of Marston's, will serve as Non-executive Chairman of the Joint Venture. Tomasz Blawat, Managing Director of Carlsberg UK, will be the CEO of the Joint Venture. Richard Westwood, Managing Director of Marston's Brewing, will be appointed Chief Operating Officer, Integration.

Business plans

Business plans will be agreed between Marston's and Carlsberg on a five-yearly basis. The business plan for the initial five years from Completion has been agreed between Marston's and Carlsberg.

Reserved matters

Marston's will receive reserved matter rights consistent with its shareholding in the Joint Venture, including: approval rights over issuance of new equity; changes to the dividend policy; and borrowings and other debt-like items in excess of the target leverage ratio.

Deadlock

Customary escalation mechanisms apply in the event of deadlock involving escalation to senior representatives of the parties. Subject to the exit mechanisms set out below under "Call/put options" and "Exit rights", if there is a deadlock between the parties the relevant matter will not proceed.

Leverage policy

Leverage of the Joint Venture shall not exceed 2 times LTM pre-exceptional EBITDA without the consent of Marston's (except in certain limited circumstances, including those set out under "Dividend policy" below).

Dividend policy

The intention of the parties is that dividends should at a minimum be 90% of free cash flow to equity (free cash flow to equity defined as operating cash flow after capital expenditure and other adjustments), paid out on a semi-annual basis (subject to applicable law and the ability of the directors to adjust payments in accordance with their duties and considerations in the ordinary course in respect of future cash and working capital requirements and the terms of any financing arrangements). The parties' intention (subject to the foregoing) is that the Joint Venture will pay dividends such that the Joint Venture will retain cash of at least £25 million post the dividend payment. In the period to 31 December 2022, up to £20 million of restructuring costs will be excluded from the calculation of free cash flow to equity in order to support the dividend payment to both shareholders.

If the Joint Venture wishes to incur expenditure outside the business plan which Marston's has not consented to and such additional expenditure is within the control of the Joint Venture and would reasonably be expected to result directly in the Joint Venture not being able to pay the Minimum Dividend to Marston's, the Joint Venture may incur additional borrowings above the threshold of the leverage policy (up to a maximum of 3 times LTM pre-exceptional EBITDA) solely for the purposes of procuring that Marston's will receive a minimum annual dividend amount of £20 million (the "**Minimum Dividend**").

Call / put options

Carlsberg has the ability to require Marston's to sell its entire interest in the Joint Venture to Carlsberg at a fixed multiple of 8.3 times to 9.0 times LTM pre-exceptional EBITDA in the event of change of control, insolvency of Marston's or of Marston's Pubs Parent Limited's group, material breach of the Drinks Supply and Distribution Agreement, a sale of more than half of Marston's existing pub estate (a "**Major Disposal**") or default of Marston's.

Marston's has the ability to require Carlsberg to purchase its entire interest in the Joint Venture at a fixed multiple of 8.3 times to 9.0 times LTM pre-exceptional EBITDA in the event of change of control or default of Carlsberg. In addition, Marston's has the ability to require Carlsberg to sell its entire interest in the Joint Venture to Marston's at the same valuation in the event of insolvency of Carlsberg.

The option exit multiple will be 8.3 times to 9.0 times LTM pre-exceptional EBITDA, depending on the extent to which the requirements for the contingent deferred payment were satisfied following Completion (and subject to adjustments for net debt and target working capital). In the event of Marston's or Marston's Pubs Parent Limited's group's insolvency a material breach of the Drinks Supply and Distribution Agreement or a Major Disposal, a £50 million discount will be applied to the foregoing price.

Marston's has agreed to grant security over its shares in the Joint Venture to support Marston's liabilities in respect of certain trigger events under the Shareholders' Agreement. These trigger events principally include insolvency of, or the commencement of insolvency proceedings by, Marston's Trading Limited, material unremedied breach by Marston's Trading Limited of the Shareholders' Agreement, and breach by Marston's of certain fundamental terms of the Drinks Supply and Distribution Agreement. The executed charge is a Completion deliverable without which, Completion would be deferred or (in the absence of a waiver from Carlsberg) unable to occur. Marston's will be seeking the consent of its lenders to grant this security prior to Completion, which it expects to obtain.

Exit rights

In the event that a new business plan cannot be agreed between the parties from year 10 onwards, then Marston's has a 40 business day window, commencing at the end of year 10 (or on the date on which a subsequent five-yearly business plan is to be agreed), to notify Carlsberg that it would like to exit the Joint Venture (the "**Notification Period**").

After giving such notice, and within the Notification Period, Marston's must propose a price for which it would be willing to sell its share in the Joint Venture to Carlsberg.

If appropriate terms cannot be agreed between the parties within 40 business days commencing on the date Marston's notifies Carlsberg it wishes to exit the Joint Venture (the "**Negotiation Period**"), then Marston's will have the right to either: (a) sell its share to a third party within six months of the end of the Negotiation Period at a price above the lowest price offered by either Marston's or Carlsberg, subject to Carlsberg's consent to the identity of such third party (not to be unreasonably withheld); and/or (b) initiate an initial public offering of the Joint Venture with the cooperation of Carlsberg, with the shareholders using all reasonable endeavours to procure that such initial public offering will take place within 12 months of the end of the Negotiation Period.

Carlsberg will have the right to exercise a call option for a period of three months from the end of the Negotiation Period to acquire Marston's stake at 8.3 times to 9 times LTM pre-exceptional EBITDA (see above under "Call/put options" for calculation of the exit multiple). If Marston's elects to pursue an initial public offering, the call option exercise period will be extended until the business day before the date on which the intention to float announcement is released.

Share transfers

The approval of the other party will be required for any other transfer of any shares in the Joint Venture (subject to customary exclusions for intra-group transfers) or the creation of any security interests over the parties' shares in the Joint Venture.

Carlsberg Defined Benefit Pension Scheme

The Carlsberg Defined Benefit Pension Scheme is included within the Joint Venture Perimeter and, under the UK pension scheme funding regime, two subsidiaries of JVCo, Carlsberg UK Limited and Carlsberg Supply Company UK Limited, have primary liability for funding the Carlsberg Defined Benefit Pension Scheme.

The Shareholders' Agreement provides for Carlsberg to fund all contributions due to the Carlsberg Defined Benefit Pension Scheme and Carlsberg Breweries to give a back-stop indemnity to the Retained Group and the Joint Venture Group against any amount required to be paid to the Carlsberg Defined Benefit Pension Scheme.

3. Arrangements supporting the Joint Venture

3.1 Drinks Supply and Distribution Agreement

On Completion, the Company will enter into a Drinks Supply and Distribution Agreement governing the terms for the supply and distribution by the Joint Venture of drinks products and related services to the Retained Group.

Scope

Under the terms of the Drinks Supply and Distribution Agreement, the Joint Venture will (subject to certain limited exceptions) be the sole wet supplier and distributor of beer, cider, wines, spirits and other beverages (together the "drinks products") to the Retained Group. The drinks products shall comprise products from the Joint Venture's own portfolio and products sourced from third party suppliers by the Joint Venture. The Joint Venture will also provide to the Retained Group certain support services related to the supply and distribution of the drinks products, being the installation, maintenance and servicing of cellar cooling and dispense equipment. Marston's is not obliged to purchase any minimum quantities of drinks products under the Drinks Supply and Distribution Agreement.

Under the Drinks Supply and Distribution Agreement, Marston's has also agreed to ensure that at each of the managed and franchised outlets within the Retained Group, the following proportions of functioning draught lager taps are used for dispensing draught lager products from Carlsberg's own portfolio:

(i) thirty-three per cent. (33%) by the end of the third contract year; and

(ii) fifty per cent. (50%) by the end of the fifth contract year.

Marston's will also use all reasonable endeavours to achieve the same targets across the leased and tenanted outlets within the Retained Group.

The scope described above applies to the Retained Group's outlet estate as at the date of the Drinks Supply and Distribution Agreement and Marston's will use all reasonable endeavours to bring any managed and franchised pubs, and its reasonable endeavours to bring any leased and tenanted outlets it subsequently acquires within the scope of the Drinks Supply and Distribution Agreement.

In addition, under the Drinks Supply and Distribution Agreement, Marston's has agreed to use best endeavours to ensure that the proportion of the Joint Venture's ale and bitter products that are sold by the Retained Group's outlet estate as a percentage of the total quantity of ale and bitter products sold by the Retained Group's outlet estate shall be the same or greater than the proportion of Marston's Brewing ale and bitter products sold by the Retained Group's outlet estate in the 12 months prior to 29 February 2020 as a percentage of the total ale and bitter products sold by the Retained Group's outlet estate during that period. This commitment does not impose a minimum volume commitment on the Retained Group with respect to Joint Venture or Carlsberg products that are ale and bitter products, and is dependent upon the Joint Venture maintaining supply and distribution of materially the same portfolio of ale and bitter products on materially the same terms as such products were supplied to the Retained Group during the 12 month period ending 29 February 2020.

Charges

Pricing for the drinks products and the distribution services provided by the Joint Venture shall be fixed for the term of the agreement, subject to adjustment in line with annual consumer price index increases and subject to a price review if the total number of lager taps in the Retained Group's outlet estate changes by 10% or more or, in certain circumstances, if the number of outlets in the Retained Group's outlet estate decreases in aggregate over a 12 month period by 10% or more. Pricing for drinks products which are sourced by the Joint Venture from third parties shall be adjusted in accordance with the terms of the relevant underlying contract.

Compensation payment on disposal of outlets

If, at any time during the term of the Drinks Supply and Distribution Agreement, the number of outlets in the Retained Group's outlet estate falls to or below 1,027 (being 75% of the current number of outlets) as a result of any disposal, and the number of outlets remains at or below 1,027 12 months following the date of the relevant disposal transaction, Marston's will pay to the Joint Venture a compensation payment of £30,000 per outlet below the current number of outlets (being 1,369 outlets). Such sum is payable only once in respect of any disposed of outlet.

Term and termination

The Drinks Supply and Distribution Agreement is for an initial term of five years. Either of Marston's or the Joint Venture may renew the agreement for one or more successive further terms of five years on providing written notice of such extension to the other party at least three months prior to the end of the initial term or the then current further term, provided that the maximum term of the agreement shall be 20 years.

Either party may terminate the agreement for material unremedied breach by, or insolvency of, the other party, or if a Force Majeure event continues for longer than 60 business days.

Marston's may terminate the agreement with six months' notice for the Joint Venture's consistent failure to meet certain KPI targets.

Governing law and jurisdiction

The Drinks Supply and Distribution Agreement will be governed by English law. The English courts will have exclusive jurisdiction to settle any dispute arising out of or in connection with the agreement.

3.2 Transitional Services Agreement

On Completion, the Company and Marston's NewCo will enter into the Marston's Transitional Services Agreement to support the separation of Marston's Brewing from the Retained Group.

Under the Marston's Transitional Services Agreement:

(A) the Company is to provide to Marston's NewCo certain IT-related services (including telecommunications services and brewery-specific IT functions) and non-IT services (including payroll services); and

(B) Marston's NewCo is to provide to members of the Retained Group certain IT-related services (including access to IT assets owned by Marston's and hosted within premises it is contributing to the Joint Venture) and non-IT services (including access to storage and archiving rooms hosted with such premises),

in each case from Completion for a transitional period.

Each transitional service:

(A) provided by Marston's to Marston's NewCo is to expire on the date that is 12 months after Completion (save for any IT-related service, including payroll and certain financial and transaction processing services), which may be extended by Marston's NewCo to up to 24 months after Completion);

(B) provided by Marston's NewCo to Marston's is to expire on the date that is 12 months after Completion (save for any IT-related service, which is to expire on the date that is 12 months after the cessation of the IT-related services referred to in (A) and may be extended by Marston's to up to 24 months after such cessation); and

(C) is to be provided to the same standard of service and performance at which it was provided in the 12 months immediately prior to Completion.

The charges for the provision of the services under the Marston's Transitional Services Agreement shall be the cost of providing the services and shall, in respect of the services provided by Marston's (excluding any exceptional cost items), be capped at £8.8 million per annum.

3.3 Carlsberg Services Agreement and Transitional Operating Model Agreement

On Completion, JVCo and Carlsberg Breweries will enter into: (i) the Carlsberg Services Agreement; and (ii) the Transitional Operating Model Agreement, to set up and continue certain services required to support the ongoing operation of the Joint Venture.

Under the Carlsberg Services Agreement, Carlsberg Breweries is to provide to JVCo and the Joint Venture Group certain IT, head office, supply chain and other related services on a long-term basis from Completion. Each service is to be provided to at least the same standard of service and performance at which it was provided in the 12 months immediately prior to Completion. The fees will be calculated using an agreed mechanic specific to the service type, for example a cost, cost plus, fixed fee or volume-usage mechanic.

Under the Transitional Operating Model Agreement, Carlsberg Breweries is to implement on behalf of JVCo a standalone SAP ERP system and effect the migration of data from the existing Carlsberg systems to such new ERP system. JVCo will reimburse Carlsberg Breweries for the costs which the Carlsberg Group reasonably incurs as part of such implementation and migration. Until such migration is achieved, the Carlsberg Group and the Joint Venture Group shall continue to provide each other with the services that support the existing P1 ERP model, to materially the same scope, standard and extent (and on the same charging basis) as such services were provided in the 12 months prior to Completion. Following such migration: (i) Carlsberg Breweries and JVCo shall procure that the relevant members of their respective Groups enter into an agreement for the sale and purchase of certain inventory, by-products and returnables; and (ii) raw materials and packaging required by the Joint Venture Group from the Carlsberg Group pursuant to the P1 model will continue to be provided and be charged at cost plus a mark-up.

3.4 Trade Mark Licence Agreements

The trade mark licensing aspects of the Transaction are governed by the 'Marston's Licence Agreement', the 'Joint Venture Licence Agreement' and the 'Carlsberg Licence Agreement' (together, the "**Trade Mark Licence Agreements**").

Under the Marston's Licence Agreement JVCo is to license to the Company on a royalty-free, worldwide basis:

(A) certain word and device marks relating to the "Marston's" name, including the "Marston's" and "Marston's Brewery" trade marks and the "three barrels" device mark, for use in connection with the operation of a hospitality, telecommunications and/or property development business; and

(B) certain other trade marks contributed to the Joint Venture by the Retained Group, including beer brands such as "Jennings" and "Banks's", for use in connection with the operation of a hospitality business.

This licence from JVCo to the Company is exclusive in the fields set out at (A) and (B) above, such that only the Retained Group can use the licensed trade marks within those exclusive fields. Although the Retained Group no longer exercises direct control over the "Marston's" name, JVCo is required, pursuant to the Marston's Licence Agreement, to maintain and prosecute the licensed marks (including "Marston's") at the Company's cost.

Under the Joint Venture Licence Agreement, JVCo is to license to Carlsberg Breweries, on a royalty-bearing basis for use in connection with the brewing, manufacturing, packaging, selling, supplying and marketing of alcoholic and non-alcoholic beverages and any activities reasonably ancillary thereto worldwide excluding the UK, all trade marks and related brewing know-how owned by the Joint Venture (including all trade marks transferred to the Joint Venture by the Retained Group as part of the Transaction). Royalties are calculated as a percentage of net sales of products bearing the licensed trade marks and are payable by Carlsberg Breweries A/S to the Joint Venture on a quarterly basis. The licence from JVCo to Carlsberg Breweries is exclusive, such that only the Carlsberg Group can use the licensed trade marks and know-how within the exclusive field.

Under the Carlsberg Licence Agreement, Carlsberg UK receives an exclusive licence to use in the UK certain global Carlsberg Group trade marks (including the "Carlsberg", "Tetley's" and "Tuborg" brands) and related brewing know-how. Royalties are calculated as a percentage of net sales of products bearing the licensed trade marks and are payable by Carlsberg UK to the relevant member of the Carlsberg Group on a quarterly basis. The Carlsberg Licence Agreement contains obligations on Carlsberg UK regarding use of the licensed marks, marketing and quality of products branded under the licensed marks and contribution to the costs of promotion and sponsorship activities carried out by Carlsberg Group in respect of such licensed products. The Shareholders' Agreement includes certain controls and protections relating to the Carlsberg Licence Agreement, to ensure that, amongst other things, the aggregate liability of the Joint Venture Group to the Carlsberg Group under the Carlsberg Licence Agreement is capped at an appropriate value. The licences granted under the Trade Mark Licence Agreements are perpetual and irrevocable (or in the case of the Carlsberg Licence Agreement, continue for an indefinite term), subject to limited termination rights for the licensees (e.g. for convenience) and the licensors (e.g. for non-payment (in the context of the Joint Venture Licence Agreement), exit from the Carlsberg Group (in the context of the Carlsberg Licence Agreement), material breach or insolvency of the licensee).

PART VII

ADDITIONAL INFORMATION

1. Responsibility

The Company and the Directors, whose names appear in paragraph 3 below, accept responsibility for the information contained in this Circular. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. The Company

The Company was incorporated and registered in England and Wales as a private limited company on 14 May 1890 with company number 00031461 and the name The Wolverhampton & Dudley Breweries Limited. The Company re-registered as a public limited company on 22 March 1982 and changed its name to Marston's PLC on 8 January 2007. The principal legislation under which the Company operates is the Companies Acts and the regulations made thereunder.

The Company is headquartered in the United Kingdom with its registered office at Marston's House, Brewery Road, Wolverhampton, WV1 4JT.

3. The Directors

The Directors of the Company are:

- William Rucker *Chairman*
- Ralph Findlay *Chief Executive Officer*
- Andrew Andrea *Chief Financial and Corporate Development Officer*
- Carolyn Bradley *Senior Independent Director*
- Matthew Roberts *Non-executive Director*
- Bridget Lea *Non-executive Director*
- Octavia Morley *Non-executive Director*

4. Directors' interests in Ordinary Shares

4.1 Direct holdings in Ordinary Shares

Name	No. of Ordinary Shares	Percentage of Issued Ordinary Shares
Andrew Andrea	332,773	0.05%
Ralph Findlay	1,290,475	0.20%
Carolyn Bradley	25,000	0.00%
William Rucker	100,000	0.02%
Matthew Roberts	25,000	0.00%

4.2 Interests in Ordinary Shares held pursuant to incentive plans

Save as You Earn Scheme

Details of this plan are set out on page 58 of the 2019 Annual Report and Accounts. Pursuant to the Save as You Earn Scheme, as at the Latest Practicable Date, Ralph Findlay held a three-year option over 20,224 Ordinary Shares.

Long Term Incentive Plan

Details of this plan are set out on page 59 of the 2019 Annual Report and Accounts. Pursuant to the Long Term Incentive Plan, as at the Latest Practicable Date, certain Directors held the following options over Ordinary Shares, as detailed below:

Name	2017 award	2018 award	2019 award
Andrew Andrea	382,500	473,033	372,124
Ralph Findlay	571,115	706,287	555,620

5. Directors' service contracts and letters of appointment

Details of the Directors' service contracts and letters of appointment are set out on pages 63 to 64 of the 2019 Annual Report and Accounts.

6. Major interests in Shares

Set out in the table below are the names of those persons (other than the Directors) who, so far as the Company is aware (pursuant to notifications made to the Company under the Disclosure Guidance and Transparency Rules), are interested, directly or indirectly, in 3% or more of the total voting rights attaching to the issued Shares as at the Latest Practicable Date. The information shown below was correct at the time of notification. However, the percentages shown (as provided at the time of notification) have not been re-calculated based on the issued share capital as at the Latest Practicable Date. It should also be noted that these holdings may have changed since the Company was notified, however, notification of any change is not required until the next notifiable threshold is crossed.

Shareholder	No. of Ordinary Shares	Percentage of Voting Rights	Nature of Interest	Date of Notification
Dimensional Fund Advisors LLP	9,373,005	5.00%	Indirect	20 February 2018
The Capital Group Companies, Inc	9,291,379	4.97%	Indirect	13 April 2018
Standard Life Aberdeen plc	9,228,860	4.93%	Indirect	7 November 2018
Brewin Dolphin	8,392,337	4.94%	Indirect	25 May 2016
Royal London Asset Management Limited	6,794,023	3.99%	Direct	18 January 2017

7. Related party transactions

The Company has not entered into any related party transactions (within the meaning ascribed to that term in the Standards adopted according to the Regulation (EC) No 1606/2002) between 2 October 2016 and the Latest Practicable Date.

8. Material contracts

8.1 The Retained Group

(A) Transaction Agreements

Details of the Transaction Agreements are set out in Part VI (*Summary of the Principal Terms of the Transaction*).

(B) Private Placement

In November 2019, the Company issued £40 million of privately placed debt that sits *pari passu* with the Company's bank lending. There is a fixed rate of interest paid quarterly over a five-year term, with a bullet repayment on maturity.

(C) Property Transactions

On 4 November 2019, the Company announced that it had entered into an agreement to dispose of 137 smaller wet-led leased, tenanted and franchised pubs to Admiral Taverns for consideration of £44.9 million. This transaction completed on 25 November 2019.

8.2 Marston's Brewing

No contracts have been entered into (other than contracts entered into in the ordinary course of business) by Marston's Brewing, either: (i) within the two years immediately preceding the date of this document which are or may be material to Marston's Brewing; or (ii) at any time, which contain any provision under which any member of Marston's Brewing has any obligation or entitlement which is or may be material to Marston's Brewing as at the date of this document.

8.3 Carlsberg UK

No contracts have been entered into (other than contracts entered into in the ordinary course of business) by Carlsberg UK, either: (i) within the two years immediately preceding the date of this document which are or may be material to Carlsberg UK; or (ii) at any time, which contain any provision under which any member of Carlsberg UK has any obligation or entitlement which is or may be material to Carlsberg UK as at the date of this document.

9. Litigation

9.1 The Retained Group

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during a period covering the 12 months prior to the date of this document which may have, or have had in the recent past a significant effect on the Company and/or the Retained Group's financial position or profitability.

9.2 Marston's Brewing

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during a period covering the 12 months prior to the date of this document which may have, or have had in the recent past a significant effect on Marston's Brewing and/or Marston's Brewing's financial position or profitability.

9.3 Carlsberg UK

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Carlsberg UK is aware) during a period covering the 12 months prior to the date of this document which may have, or have had in the recent past a significant effect on Carlsberg UK and/or Carlsberg UK's financial position or profitability.

10. Working capital

The Retained Group is of the opinion that it does not have sufficient working capital for its present requirements, which is, for at least the next 12 months from the date of this document ("**Working Capital Period**"). This is expected to be the case regardless of whether the Transaction completes and is a result of forecasted breaches of certain financial covenants in the Group's financing arrangements.

But for the forecasted covenant breaches, the Retained Group expects to have sufficient working capital throughout the Working Capital Period on a reasonable worst-case basis. This reasonable worst-case basis assumes that:

- all of the Retained Group's pubs continue to be closed until and including 3 October 2020, but that none of the Retained Group's pubs are required to be closed on any date after 3 October 2020; and
- normalised trading of the Retained Group will resume from 3 October 2020.

Covenant shortfall

The Group's borrowings are structured in two parts, with 950 pubs owned by the members of the Group within the Securitisation in respect of which there is outstanding principal debt of £724.6 million at the date of this Circular owed by members of the Securitisation group. The balance of 421 pubs and the Marston's Brewing assets are owned by members of the Group outside of the Securitisation. The Group's remaining debt outside the Securitisation includes: a £40 million unsecured private placement issued in November 2019 (the "**Private Placement**") and a £430 million unsecured facility (which, as announced on 14 May 2020, was increased by £70 million from £360 million until November 2020), with approximately £312 million of principal drawn down at the date of this Circular (the "**Revolving Credit Facility**" and, together with the Private Placement, the "**Unsecured Facilities**"). In addition, the Company has a £10 million bilateral unsecured loan with HSBC which has been fully drawn down and which is due to be repaid by the Company in September 2020. The Company also has an uncommitted bank overdraft with Barclays of up to £5 million or £20 million, depending on the month of the year. Currently, the bank overdraft is undrawn. Additionally, the Group holds finance leases totalling £338.7 million.

The Group has secured a temporary waiver of the suspension of business and operations event of default under the terms of the Securitisation, which has been granted until 2 October 2021. The terms of the Securitisation also include financial covenants, including a debt service cover ratio covenant which is tested as at the end of each calendar quarter. Following covenant waivers and amendments approved on 29 May 2020, this covenant will next be tested as at 3 January 2021 (the "**Securitisation Debt Service Covenants**"). On a base case scenario in the Retained Group's working capital projections, the Retained Group will not breach the Securitisation Debt Service Covenants during the Working Capital Period. However, based on the reasonable worst-case scenario, which assumes that the Group's pubs remain closed until 3 October 2020, the Retained Group anticipates breaching the Securitisation Debt Service Covenant as at 3 January 2021 and 3 April 2021. As approved on 29 May 2020, as part of the negotiation of the covenant waivers and amendment packages, the Company has agreed not to withdraw cash from the Securitisation group until at least 2 October 2021.

The Group has accessible cash balances and cash available to draw under the Revolving Credit Facility, totalling approximately £123 million as at the date of publishing this Circular. Following a relaxation of the financial covenants under the Unsecured Facilities, the Unsecured Facilities permit the Group's net debt to be up to 5 times the Group's underlying trailing 12 month EBITDA outside the Securitisation group as at 3 October 2020. From 3 April 2021 onwards, the Unsecured Facilities permit the Retained Group's net debt to be up to 3.5 times the Retained Group's underlying trailing 12 month EBITDA outside the Securitisation group (the "**Net Debt Covenant**"). In addition, the terms of the Unsecured Facilities also include an EBITDA to interest cover financial covenant ratio which is tested every six months (the "**Interest Cover Covenant**"). In preparation for an anticipated scenario where the Group's pubs remain closed only until 30 June 2020, the Group successfully negotiated a reduction in the minimum level of interest cover such that, for the six months ending 3 October 2020 and 3 April 2021, the Interest Cover Covenant requires the Group's underlying trailing 12 month EBITDA to be only 2.0 times the interest payments due under the Unsecured Facilities (rather than the usual 3.0 times). On a base case scenario in the Retained Group's working capital projection, there are no covenant breaches under the Unsecured Facilities during the Working Capital Period. Despite the relaxations secured by the Group to date, based on a reasonable worst-case scenario in the Retained Group's working capital projections (which assumes that the Group's pubs remain closed until 3 October 2020), the Retained Group would breach both the Net Debt Covenant and the Interest Cover Covenant as at 3 October 2020 and as at 3 April 2021.

Action Plan

The Group's management team are actively engaged in discussions with its lenders (whom the Board believe remain supportive of the Group in these uncertain times) around covenant waivers. As described in paragraph 9 (*Current Trading and Prospects*) of the Chairman's Letter, the Group have also taken a number of mitigating actions to reduce the Group's expenditure. In 2019 the Group commenced a debt reduction programme and, excluding the Transaction, the Company will continue to focus on reducing the Group's overall levels of debt over the medium and long term.

Given the waivers and relaxations achieved to date, the Directors are confident that the Retained Group can secure the necessary financial covenant modifications or waivers under both the Securitisation and the Unsecured Facilities described above, at least by one month ahead of each testing date so as to avoid a financial covenant breach during the Working Capital Period. If the Retained Group can achieve these, it will have sufficient working capital for the Working Capital Period.

Implications

A breach of one or more of the financial covenants under the Securitisation would, if not waived, amended or remedied within the applicable grace period, cause an event of default to occur under the loan between the Issuer and Marston's Pubs Limited in the Securitisation, following which a requisite majority of bondholders (the requisite majority being at least 75 per cent. of votes cast at a quorate meeting of the most senior class of notes then outstanding) may vote to accelerate the loan and enforce the security over the pubs within the Securitisation. At the expected first default date of 3 January 2021, the principal amount outstanding in respect of the Securitisation would be £707.4 million. In circumstances where waivers are not achieved for the Securitisation, the Retained Group would engage with its creditors with a view to restructuring or refinancing the Securitisation.

A breach of one or more financial covenants under the Unsecured Facilities would cause an event of default under those financing arrangements, which would enable a requisite majority of lenders to, amongst other things, demand that all amounts outstanding under the Unsecured Facilities become immediately due and payable. As at the 3 October 2020 test date and, in the absence of waivers, the amounts expected to be outstanding under the Unsecured Facilities, under the reasonable worst-case would be, approximately £380 million. In these circumstances, the Retained Group would be required to seek alternative funding or develop alternative plans for the Retained Group's future. The alternative funding options available to the Board would include sale and leaseback of unencumbered pubs, an equity capital raise or new credit facilities. Given its ability to raise finance in the past and the level of unencumbered assets held by the Retained Group, the Board are confident that these alternative strategies would be successful, if required.

If the alternative strategies described above fail, the Board may have to initiate an insolvency process (be that administration or liquidation) shortly after the failure of those strategies, which could result in Shareholders losing part or all of their investment in the Company.

11. Consents

J.P. Morgan Cazenove has given, and has not withdrawn, its consent to the inclusion in this document of the references to its name in the form and context in which they are included.

PricewaterhouseCoopers LLP has given, and not withdrawn, its written consent to the inclusion of (i) the Accountant's Report on the Historical Financial Information set out in Section B of Part IV (*Financial Information relating to Carlsberg UK*) and (ii) the Accountant's Report on the Unaudited Pro Forma Financial Information in Part V (*Unaudited Pro Forma Financial Information*) of this Circular in the form and context in which they are included.

12. Significant changes

12.1 The Retained Group

Other than as described below there has been no significant change in the financial performance or financial position of the Retained Group since 28 September 2019, the date of the last financial period for which financial information of the Group has been published.

In November 2019, the Company issued £40 million of privately placed debt with a five-year term that sits pari passu with the Revolving Credit Facility.

On 4 November 2019, the Company announced that it had entered into an agreement to dispose of 137 smaller wet-led leased, tenanted and franchised pubs to Admiral Taverns for consideration of £44.9 million. This transaction completed on 25 November 2019.

On 14 May 2020, the Company agreed £70 million of additional liquidity through an increased 180 day bank facility as part of its Revolving Credit Facility.

Most significantly and as stated on 14 May 2020, the COVID-19 pandemic led to the temporary closure of all pubs and hospitality venues. The Retained Group's pubs all remain closed pending a lifting of lockdown restrictions by the Government. As a result, the Retained Group's financial performance and financial position has deteriorated since 28 September 2019 and the Retained Group expects a material reduction in revenue for the financial period ending 3 October 2020.

For further information regarding the impact of COVID-19 on the Retained Group, see section 9 (*Current Trading and Prospects*) of Part I (*Letter from the Chairman of Marston's PLC*).

12.2 Marston's Brewing

Other than as described below, there has been no significant change in the financial performance or financial position of Marston's Brewing since 30 September 2019, the date of the last financial period for which financial information of Marston's Brewing has been published.

From mid-March 2020, the COVID-19 pandemic led to the closure of all licensed premises in the UK, for an indeterminate amount of time. This has a material impact on Marston's Brewing's financial performance due to an inability to sell to the licensed premises. This is partially offset by increased sales to the Off-Trade and through cost mitigation initiatives.

12.3 Carlsberg UK

Other than as described below, there has been no significant change in the financial performance or financial position of Carlsberg UK since 31 December 2019, the date of the last financial period for which financial information of Carlsberg UK has been published.

From mid-March 2020, the COVID-19 pandemic led to the closure of all licensed premises in the UK, for an indeterminate amount of time. This has a material impact on Carlsberg UK's financial performance due to an inability to sell to the licensed premises. This is partially offset by increased sales to the Off-Trade and through cost mitigation initiatives.

13. Key individuals

Ralph Findlay, CEO of Marston's, will serve as Non-executive Chairman of the Joint Venture. Tomasz Blawat, Managing Director of Carlsberg UK, will be the CEO of the Joint Venture. Richard Westwood, Managing Director of Marston's Brewing, will be appointed Chief Operating Officer, Integration.

14. Information incorporated by reference

The table below sets out the various information incorporated by reference into this Circular, so as to provide the information required pursuant to the Listing Rules.

Documents containing information incorporated by reference	Page number(s) in reference document	Type of information	Paragraph of this document with information incorporated by reference	Where the information can be accessed by Shareholders
2019 Annual Report and Accounts	58, 59, 63-64	Interests in Ordinary shares held pursuant to incentive plans and Directors' service contracts and letters of appointment	Paragraphs 4.2 and 5 of Part VII (*Additional Information*)	www.marstons.co.uk/docs/financials/2019/MARS_AR19.pdf

15. Sources of financial information

Unless otherwise stated, all financial information relating to the Group disclosed in this Circular has been extracted, without material adjustment, from the 2019 Annual Report and Accounts.

Unless otherwise stated, all financial information relating to Carlsberg UK disclosed in this Circular has been extracted, without material adjustment, from the historical financial information included in Part IV (*Financial Information relating to Carlsberg UK*).

16. Documents available for inspection

Copies of the Master Agreement will be available for inspection at the offices of Slaughter and May at One Bunhill Row, London, EC1Y 8YY during normal business hours on any weekday (excluding

Saturdays, Sundays and public holidays), from the date of this Circular up to and including the date of the General Meeting and until its conclusion. If a Shareholder is not able to travel to this location due to the Government's restrictions on travel in response to the COVID-19 pandemic, and would otherwise like to inspect the Master Agreement, they may email **investorrelations@marstons.co.uk**. Copies of the following documents will be available for inspection on the Company's website (**www.marstons.co.uk**) where Shareholders and beneficial owners of Shares can follow instructions on how to access such documents, from the date of this Circular up to and including the date of the General Meeting and until its conclusion:

- the memorandum and articles of association of the Company;
- the unaudited pro forma financial information of the Group in Part V (*Unaudited Pro Forma Financial Information*), together with PricewaterhouseCoopers LLP's report thereon;
- the financial information relating to Carlsberg UK in Part IV (*Financial Information relating to Carlsberg UK*), together with PricewaterhouseCoopers LLP's report thereon;
- the 2017 Annual Report and Accounts;
- the 2018 Annual Report and Accounts;
- the 2019 Annual Report and Accounts; and
- the letters in relation to the consents referred to in paragraph 11 of this Part VII (*Additional Information*) of this Circular.

8 June 2020

PART VIII

DEFINITIONS

The following terms have the following meanings throughout this document unless the context otherwise requires:

"**2017 Annual Report and Accounts**"	means the annual report and accounts of the Company in respect of FY2017;
"2018 Annual Report and Accounts"	means the annual report and accounts of the Company in respect of FY2018;
"2019 Annual Report and Accounts"	means the annual report and accounts of the Company in respect of FY2019;
"**Board**"	means the board of directors of the Company;
"**Call Option**"	means the right that Carlsberg has, pursuant to the Shareholders' Agreement, to acquire Marston's Trading Limited's share of the Joint Venture in certain specific circumstances, as further described in paragraph 2 of Part VI (*Summary of the Principal Terms of the Transaction*) of this Circular;
"**Carlsberg**"	means Carlsberg UK Holdings Limited, a private limited company registered in England and Wales with company number 00867160 whose registered office is situated at 140 Bridge Street, Northampton, Northamptonshire, NN1 1PZ;
"**Carlsberg A/S**"	means Carlsberg A/S, a company registered in Denmark with the company number CVR 61056416 whose registered office is situated at Ny Carlsberg Vej 100, DK-1760 Copenhagen V, Denmark,
"**Carlsberg Breweries**"	means Carlsberg Breweries A/S, a company registered in Denmark with the company number 25508343 whose registered office is situated at J.C. Jacobsens Gade 1, 1799 Copenhagen V, Denmark;
"**Carlsberg Defined Benefit Pension Scheme**"	means the Carlsberg UK Limited Pension Scheme, currently governed by a definitive trust deed and rules dated 19 December 1997, as amended;
"**Carlsberg Group**"	means Carlsberg A/S and each of its subsidiaries from time to time;
"**Carlsberg Licence Agreement**"	means the existing agreement between Carlsberg Breweries and Carlsberg UK Limited pursuant to which certain trade marks and related brewing know-how owned by the Carlsberg Group are licensed to Carlsberg UK, , further details of which are set out in paragraph 3.4 of Part VI (*Summary of the Principal Terms of the Transaction*) of this Circular;
"**Carlsberg Reorganisation**"	means the restructuring required to transfer the business and assets of the Carlsberg Group that are within the Joint Venture Perimeter to JVCo;
"**Carlsberg Supply Company UK Limited**"	means Carlsberg Supply Company UK Limited, a private limited company registered in England and Wales with company number 8626420 whose registered office is situated at 140 Bridge Street, Northampton, Northamptonshire, NN1 1PZ;

"**Carlsberg Services Agreement**"	means the agreement to be entered into between Carlsberg Breweries and JVCo at Completion, pursuant to which Carlsberg is to provide JVCo and the Joint Venture Group with certain services on a long-term basis from Completion, further details of which are set out in paragraph 3.2 of Part VI (*Summary of the Principal Terms of the Transaction*) of this Circular;
"**Carlsberg UK**"	means the Carlsberg Group's UK brewing business;
"**Carlsberg UK Limited**"	means Carlsberg UK Limited, a private limited company registered in England and Wales with company number 00078439 whose registered office is situated at 140 Bridge Street, Northampton, Northamptonshire, NN1 1PZ;
"**Circular**"	means this document;
"**Companies Acts**"	has the meaning given to it in section 2 of the Companies Act 2006;
"**Company**"	means Marston's PLC, a public limited company incorporated in England and Wales with registered number 00031461 whose registered office is situated at Marston's House, Brewery Road, Wolverhampton, WV1 4JT;
"**Competition Authority**"	means any relevant government, governmental, national, supranational, competition or antitrust body or other authority, in any jurisdiction, which is responsible for applying merger control or other competition or antitrust legislation in such jurisdictions and, for the avoidance of doubt, includes the notion of "competent authority" as that term is used in the EU Merger Regulation;
"**Completion**"	means the completion of the Disposal in accordance with the terms of the Master Agreement;
"**Completion Payment**"	means the cash completion payment of up to £273 million to be paid to Marston's Trading Limited pursuant to the terms of the Master Agreement, which is subject to adjustment in respect of customary working capital and debt free/cash free adjustments, and includes the deferred contingent payment described in paragraph 1 of Part VI (*Summary of the Principal Terms of the Transaction*) and £5 million of additional cash consideration;
"**Conditions**"	means the conditions to Completion contained in the Master Agreement and further described in paragraph 1 of Part VI (*Summary of the Principal Terms of the Transaction*) of this Circular and **Condition** means any one of them;
"**CREST**"	means the paperless settlement procedure operated by Euroclear enabling system securities to be evidenced otherwise than by certificates and transferred otherwise than by written instrument;
"**CREST Manual**"	means the rules governing the operation of CREST as published by Euroclear;
"**CREST Proxy Instruction**"	means a proxy appointment or instruction made via CREST, authenticated in accordance with Euroclear's specifications and containing the information set out in the CREST Manual;
"**Directors**"	means the directors of the Company;

"**Disposal**"	means the sale by Marston's Trading Limited of the entire issued share capital of Marston's NewCo to JVCo in accordance with the terms of the Master Agreement;
"**Drinks Supply and Distribution Agreement**"	means the agreement to be entered into between JVCo and the Company, among others, at Completion pursuant to which JVCo will supply and distribute drinks products to the Retained Group, further details of which are set out in paragraph 3.1 of Part VI (*Summary of the Principal Terms of the Transaction*) of this Circular;
"**EBITDA**"	means earnings before interest, tax, depreciation and amortisation;
"**Euroclear**"	means Euroclear UK & Ireland Limited, the operator of CREST;
"**FCA**"	means the Financial Conduct Authority of the United Kingdom and, where appropriate, acting in its capacity as the competent authority for the purposes of Part VI of FSMA or any successor thereto;
"**Form of Proxy**"	means the form of proxy accompanying this Circular for use by Shareholders as described herein;
"**FSMA**"	means the Financial Services Act 2000, as amended;
"**FY2017**"	means the Company's financial year (being a period of 52 weeks) ending on 30 September 2017;
"**FY2018**"	means the Company's financial year (being a period of 52 weeks) ending on 29 September 2018;
"**FY2019**"	means the Company's financial year (being a period of 52 weeks) ending on 28 September 2019;
"**General Meeting**"	means the general meeting of the Company convened by the Notice for the purposes of approving the Resolution (or any reconvened meeting following any adjournment thereof);
"**Group**"	means the Company, its subsidiaries, as defined in the Companies Act 2006, and its subsidiary undertakings from time to time;
"**IFRS**"	means the International Financial Reporting Standards issued by the IFRS Foundation and the International Accounting Standards Board;
"**Issuer**"	means Marston's Issuer PLC, a public limited company registered in England and Wales with company number 05135049 whose registered office is at Wilmington Trust Sp Services (london) Limited, Third Floor, 1 King's Arms Yard, London, EC2R 7AF;
"**IT**"	means information technology;
"**Joint Venture**"	means the 40/60 joint venture between Carlsberg and Marston's Trading Limited, as contemplated by the terms of the Shareholders' Agreement;
"**Joint Venture Board**"	means the Board of Directors of JVCo;
"**Joint Venture Group**"	means JVCo, and each of its subsidiaries from time to time;

"**Joint Venture Licence Agreement**"	means the agreement to be entered into between JVCo and Carlsberg Breweries at Completion pursuant to which all trade marks and related brewing know-how owned by JVCo will be licensed to Carlsberg Breweries, further details of which are set out in paragraph 3.4 of Part VI (*Summary of the Principal Terms of the Transaction*) of this Circular;
"**Joint Venture Perimeter**"	means assets, rights and liabilities of Marston's Brewing and Carlsberg UK to be contributed to the Joint Venture as contemplated by the terms of the Master Agreement;
"**J.P. Morgan Cazenove**"	means J.P. Morgan Securities plc, which conducts its UK investment banking business as J.P. Morgan Cazenove;
"**JVCo**"	means Gatercrown Limited, a private limited company registered in England and Wales with company number 12577732, whose registered office is at 140 Bridge Street, Northampton, Northamptonshire, NN1 1PZ;
"**Latest Practicable Date**"	means 5 June 2020;
"**Listing Rules**"	means the rules made by the UK Listing Authority under Part IV of FSMA;
"**LTM**"	means last 12 months;
"**Master Agreement**"	means the agreement between Marston's, Marston's Trading Limited, Carlsberg Breweries, Carlsberg and JVCo relating to the sale and purchase of the entire issued share capital of Marston's NewCo and Carlsberg, dated 22 May 2020, further details of which are set out in paragraph 1 of Part VI (*Summary of the Principal Terms of the Transaction*) of this Circular;
"**Marston's**"	means the Company;
"**Marston's Brewing**"	means the assets, rights and liabilities of Marston's Brewing and the other members of the Group constituting the Group's brewing business;
"**Marston's Licence Agreement**"	means the agreement between the Company and JVCo to be entered into at Completion pursuant to which JVCo will licence to the Company certain trade marks owned by JVCo immediately following Completion, further details of which are set out in paragraph 3.4 of Part VI (*Summary of the Principal Terms of the Transaction*) of this Circular;
"**Marston's NewCo**"	means Project Mermaid Limited, a private limited company registered in Jersey with company number 131498 whose registered office is situated at 22 Grenville Street, St Helier Jersey, JE4 8PX;
"**Marston's Pubs Limited**"	means Marston's Pubs Limited, a private limited company registered in England and Wales with company number 05453367 whose registered office is situated at Marston's House, Brewery Road, Wolverhampton, WV1 4JT;
"**Marston's Pubs Parent Limited**"	means Marston's Pubs Parent Limited, a private limited company registered in England and Wales with company number 05453370 whose registered office is situated at Marston's House, Brewery Road, Wolverhampton, WV1 4JT;
"**Marston's Trading Limited**"	means Marston's Trading Limited, a private limited company registered in England and Wales with company number

	00040590 whose registered office is situated at Marston's House, Brewery Road, Wolverhampton, WV1 4JT;
"**Marston's Transitional Services Agreement**"	means the agreement to be entered into between Marston's and Marston's NewCo at Completion, pursuant to which (i) Marston's NewCo shall provide certain services to Marston's; and (ii) Marston's shall provide certain services to Marston's NewCo, each on a transitional basis from Completion, further details of which are set out in paragraph 3.2 of Part VI (*Summary of the Principal Terms of the Transaction*) of this Circular;
"**Minimum Dividend**"	has the meaning given to that term in paragraph 2 of Part VI (*Summary of the Principal Terms of the Transaction*) of this Circular;
"**Notice**"	means the notice of the General Meeting set out at the end of this Circular;
"**Ordinary Shares**"	means the ordinary shares of 7.375 pence each in the capital of the Company;
"**Private Placement**"	means £40 million of privately placed debt announced by the Company in November 2019 and maturing in November 2024, further details of which are set out in paragraph 10 of Part VII (*Additional Information*) of this Circular;
"**Resolution**"	means the ordinary resolution of the shareholders of the Company for the approval of the Transaction set out in the Notice;
"**Retained Group**"	the Company, its subsidiaries and subsidiary undertakings (and, for the avoidance of doubt, excluding Marston's Brewing and the Joint Venture), being the continuing business of the Group following the completion of the Transaction;
"**Revolving Credit Facility**"	means the Group's £430 million revolving credit facility (£70 million of which is an extension available until mid-November 2020) maturing in March 2024 between, amongst others Marston's PLC and Marston's Trading Limited as Borrowers and several Marston entities as Guarantors and originally dated 7 March 2017, further details of which are set out in paragraph 10 of Part VII (*Additional Information*) of this Circular;
"**Securitisation**"	means the Class A1 Secured Floating Rate Notes due 2020, Class A2 Secured Fixed/Floating Rate Notes due 2027, Class A3 Secured Fixed/Floating Rate Notes due 2032, Class B Secured Fixed/Floating Rate Notes due 2035, Class A4 Secured Floating Rate Notes due 2031 each issued by Marston's Issuer PLC pursuant to the Group's long-term securitisation and listed on the London Stock Exchange;
"**Services Agreements**"	means the Marston's Transitional Services Agreement, the Carlsberg Services Agreement and the Transitional Operating Model Agreement;
"**Separation**"	means the restructuring required to transfer the business and assets of the Group that are within the Joint Venture Perimeter to Marston's NewCo;
"**Shares**"	means the ordinary shares of 7.375 pence each in the capital of the Company and the preference shares of £1.00 each in the capital of the Company;

"**Shareholder**"	means a holder of Shares;
"**Shareholders' Agreement**"	means the agreement to be entered into between the Company, Marston's Trading Limited, Carlsberg, Carlsberg Breweries and JVCo at Completion which will govern the relationship between Marston's Trading Limited and Carlsberg in respect of their shareholdings in JVCo, further details of which are set out in paragraph 2 of Part VI (*Summary of the Principal Terms of the Transaction*) of this Circular;
"**Takeover Code**"	means The City Code on Takeovers and Mergers as amended from time to time;
"**Trade Mark Licence Agreements**"	means the Carlsberg Licence Agreement, the Marston's Licence Agreement and the Joint Venture Licence Agreement;
"**Transaction**"	means the Disposal and the Joint Venture, including the Call Option;
"**Transaction Agreements**"	means the Master Agreement, the Shareholders' Agreement, the Drinks Supply and Distribution Agreement, the Trade Mark Licence Agreements and the Services Agreement;
"**Transitional Operating Model Agreement**"	means the agreement to be entered into between Carlsberg Breweries and JVCo at Completion, pursuant to which Carlsberg Breweries shall establish and implement certain operational software on behalf of JVCo and provide transitional services in relation thereto, further details of which are set out in paragraph 3.2 of Part VI (*Summary of the Principal Terms of the Transaction*) of this Circular;
"**Underlying EBITDA**"	means EBITDA excluding exceptional items and other adjusting items;
"**Unsecured Facilities**"	means the Revolving Credit Facility and the Private Placement; and
"**Working Capital Period**"	means the period from the date of this Circular for at least the next 12 months from the date of this Circular.

MARSTON'S PLC

(*incorporated and registered in England and Wales under the Companies Act 2006, registered number 00031461*)

NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of Marston's PLC will be held at 9.00 a.m. on 25 June 2020 at Marston's House, Brewery Road, Wolverhampton, WV1 4JT. You will be asked to consider and, if thought fit, to pass the Resolution below. The Resolution will be proposed as an ordinary resolution and will be decided on a poll.

Capitalised terms used in this Notice shall have the same meaning as is given to them in the Circular of which this Notice forms part.

ORDINARY RESOLUTION

THAT:

(a) the Transaction, on the terms and subject to the conditions set out in the Transaction Documents (as summarised in the Circular) with such modifications (if any) as may be made to them in the manner specified below, is hereby approved for the purposes of Chapter 10 of the Listing Rules; and

(b) the Board of Directors of the Company (or a duly authorised committee thereof) be and is hereby authorised to conclude and implement, or procure the conclusion or implementation of the Transaction on the terms and subject to the conditions set out in the Circular and to do or procure to be done all such acts and things as they consider necessary, expedient or appropriate in connection with the Transaction and this resolution (including for the purpose of obtaining any approval, consent, clearance or permission that is a condition to the Transaction or that the Board of Directors otherwise considers necessary or expedient) and to agree and give effect to such modifications, variations, revisions, waivers or amendments to the terms and conditions of the Transaction (provided that such modifications, variations, revisions, waivers or amendments do not materially change the terms of the Transaction for the purposes of the UK Listing Authority's Listing Rule 10.5.2) and to any document or arrangement relating thereto, as the Board of Directors (or a duly authorised committee thereof) may, in its absolute discretion, think fit.

By order of the Board

Anne Marie Brennan
Group Secretary

8 June 2020

Registered Office:

Marston's House
Brewery Road
Wolverhampton
WV1 4JT

Registered in England and Wales No. 00031461

NOTES TO THE NOTICE OF MEETING

Notes 1 to 10 below give further explanation as to the proxy, voting and attendance procedures at the General Meeting.

1. About the General Meeting

Given prevailing Government guidance in relation to COVID-19 and specifically the restrictions on large gatherings and unnecessary travel, the General Meeting will be convened with the minimum quorum of shareholders (which will be facilitated by Marston's management) in order to conduct the business of the General Meeting. Therefore, instead of attending the General Meeting, we ask that shareholders please exercise their votes by completing the enclosed Form of Proxy or by registering the appointment of a proxy electronically, as set out in Notes 2-3 below. The Board strongly recommends that shareholders appoint the Chairman of the General Meeting as their proxy. In the interests of safety, any: (i) proxy who is not the Chairman of the General Meeting; or (ii) shareholder attending the General Meeting in person, will be denied access to the General Meeting.

We will continue to closely monitor the developing impact of COVID-19, including the latest Government guidance. Should it become necessary or appropriate to revise the current arrangements for the General Meeting, this will be notified to shareholders on our website at **www.marstons.co.uk** and/or via RNS.

2. Entitlement to appoint and appointment of proxies

A shareholder entitled to attend, speak and vote at the General Meeting is also entitled to appoint one or more proxies to exercise all or any of his/her rights to attend, speak and vote instead of the shareholder, provided that, if more than one proxy is appointed, each proxy is appointed to exercise rights attaching to different shares held by that shareholder. As described in Note 1 above, in light of the current circumstances regarding the COVID-19 pandemic, the Board strongly recommends that shareholders appoint the Chairman of the General Meeting as their proxy and no one else.

A shareholder may only appoint a proxy or proxies by:

a. completing and returning the Form of Proxy accompanying this Notice in accordance with the instructions contained therein and return it to the Company's Registrar, Equiniti at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA;

b. going to **www.sharevote.co.uk** using the Voting ID, Task ID and Shareholder Reference Number set out in the Form of Proxy and following the instructions provided; or

c. if you are a user of the CREST system (including CREST personal members), having an appropriate CREST message transmitted (see Note 3 below).

If more than one proxy appointment is returned in respect of the same holding of shares, either by paper or electronic communication, that proxy received last by Equiniti before the latest time for the receipt of proxies will take precedence. To be valid, the completed Form of Proxy and any power of attorney or other authority under which (it is/they are) executed (or a certified copy thereof) must be deposited with Equiniti or received via www.sharevote.co.uk or lodged via the CREST proxy service (in each case) not later than 9.00 a.m. on 23 June 2020, or 48 hours (excluding nonworking days) before the time appointed for holding any adjourned General Meeting.

3. Electronic proxy appointment through Crest

CREST members who wish to appoint a proxy or proxies through the CREST proxy service may do so for the General Meeting to be held on 25 June 2020 and any adjournment(s) thereof by using the procedures described in the CREST Manual (available at **www.euroclear.com**). CREST personal members or other CREST sponsored members, and those CREST members who have appointed voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order to appoint a proxy or to give or amend an instruction to a previously appointed proxy using the CREST proxy service, a CREST Proxy Instruction must be properly authenticated in accordance with Euroclear UK & Ireland Limited specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) not less than 48 hours (excluding non-working days) before the time appointed for the General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001.

4. Entitlement to vote

In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, the Company gives notice that only those shareholders entered in the register of members of the Company at 6.30 p.m. on 23 June 2020 or, in the event that the meeting is adjourned, in the register of members by 6.30 p.m. two days (excluding non-working days) before any adjourned General Meeting, will be entitled to vote at the General Meeting in respect of the number of shares registered in their name at that time.

Changes to entries in the register after 6.30 p.m. on 23 June 2020 or, in the event that the General Meeting is adjourned, in the register of members by 6.30 p.m. two days (excluding non-working days) before any adjourned General Meeting, will be disregarded in determining the rights of any person to vote at the General Meeting.

Voting on all of the proposed resolutions at the meeting will be conducted on a poll vote. This reflects current best practice and ensures that shareholders who are not able to attend the General Meeting, but who have appointed the Chairman of the General Meeting as their proxy, have their votes fully taken into account. When appointed as proxy, the Chairman of the Meeting will cast shareholder votes as directed by the shareholder(s).

The poll results will be published via a Regulatory Information Service and on the Company's website as soon as practical after the conclusion of the General Meeting.

5. Corporate representatives

Any corporation which is a member can appoint one or more corporate representative(s) who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

6. Nominated persons

Any person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights. The statement of the rights of shareholders in relation to the appointment of proxies at Note 1 above does not apply to Nominated Persons. The rights described in that paragraph can only be exercised by shareholders of the Company.

7. Voting rights

As at 5 June 2020 (being the latest practicable date prior to the publication of this document), 660,362,194 ordinary shares of 7.375 pence each and 75,000 preference shares of £1 each were in issue.

26,312,918 of the ordinary shares were held in treasury and no preference shares were held in treasury. On a poll vote, a shareholder has one vote for every 25 pence of nominal value of share capital (of whatever class) of which he/she is the holder. Accordingly, the maximum total number of voting rights attached to the Company's issued ordinary shares (excluding treasury shares) as at 5 June 2020 was 187,044,536 and the maximum total number of voting rights attached to the Company's issued preference shares was 300,000.

8. Right to ask questions

As described in Note 1 above, in light of prevailing Government restrictions in response to the COVID-19 pandemic, physical attendance of the General Meeting will be limited to the minimum number of persons to ensure that the meeting is quorate and to conduct the business of the meeting. Shareholders will be able to ask questions in advance of the General Meeting on our website (**www.marstons.co.uk**). Please note that, in certain circumstances prescribed by section 319A(2) of the Companies Act 2006, the Company need not answer a question.

Please note, that no other methods of communication with the Company in relation to the General Meeting will be accepted. In particular, you may not use any electronic address provided either in this Notice or in any related documents (including, without limitation, the Circular and the Form of Proxy) to communicate with the Company for any purpose other than those expressly stated.

9. Voting results

The results of the voting at the General Meeting will be announced through a Regulatory Information Service and will appear on our website **www.marstons.co.uk** on the next business day.

10. Inspection of documents

Copies of the Master Agreement will be available for inspection at the offices of Slaughter and May at One Bunhill Row, London EC1Y 8YY during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays), from the date of this Circular up to and including the date of the General Meeting and until its conclusion. If a Shareholder is not able to travel to this location due to the Government's restrictions on travel in response to the COVID-19 pandemic, and would otherwise like to inspect the Master Agreement, they may email **investorrelations@marstons.co.uk**. Copies of the following documents will be available for inspection on the Company's website (**www.marstons.co.uk**) where shareholders and beneficial owners of shares in the Company can follow instructions on how to access such documents, from the date of the Circular up to and including the date of the General Meeting and until its conclusion:

- the memorandum and articles of association of the Company;
- the unaudited pro forma financial information of the Group in Part V (*Unaudited Pro Forma Financial Information*), together with PricewaterhouseCoopers LLP's report thereon;
- the financial information relating to Carlsberg UK in Part IV (*Financial Information relating to Carlsberg UK*), together with PricewaterhouseCoopers LLP's report thereon;
- the 2017 Annual Report and Accounts;
- the 2018 Annual Report and Accounts;
- the 2019 Annual Report and Accounts; and
- the letters in relation to the consents referred to in paragraph 11 of this Part VII (*Additional Information*) of the Circular.

A copy of this notice, and other information required by section 311A of the Companies Act 2006, can be found at **www.marstons.co.uk**.