



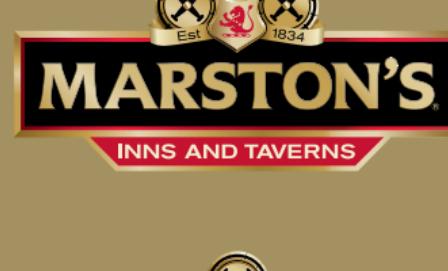
Marston's PLC
Annual Report 2010



The Group is a leading independent brewing and pub retailing business operating a vertically integrated business model.

We operate around 2,150 pubs and bars situated across England and Wales, comprising 1,664 tenanted or leased pubs and 489 managed pubs at the heart of thriving local communities offering a welcoming environment and value for money.

We operate five breweries — Banks's Brewery in Wolverhampton, Marston's Brewery in Burton upon Trent, Jennings Brewery in the Lake District, Ringwood Brewery in Hampshire and Wychwood Brewery in Oxfordshire.



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MARSTON'S

GROUP AT A GLANCE



MARSTON'S

INNS AND TAVERNS

Group Revenue Share

58%



MORE ABOUT MARSTON'S INNS AND TAVERNS

ON PAGE 12

Marston's Inns and Taverns has transformed itself, over the past few years, from a wet-led, community-based business into the premier league pub/restaurant operator you see today. Approximately 70% of combined sales are now generated from the desire to enjoy a value driven dining experience, with greater frequency.

Contributing factors to this dramatic evolution are: the disciplined pursuit of the 'F-Plan' — food, families, females, forty/fifty somethings; the outperformance of the new build programme; the recruitment, development and retention of top quality people.



MARSTON'S

PUB COMPANY

Group Revenue Share

26%



MORE ABOUT MARSTON'S PUB COMPANY

ON PAGE 14

Marston's Pub Company operates 1,664 Retail Agreements, tenanted and leased pubs (as at 2 October 2010). Our income is derived from the sale of beers, ciders, wines, spirits and soft drinks to the tenants and lessees of our pubs, from rent and gaming machines. Drink, food and gaming machine turnover from 104 Retail Agreements has started to make an important contribution to income.

We seek to attract and retain the best licensees by offering a wide range of innovative agreements, a flexible approach to the sharing of risk and reward and by building strong business relationships with them. We also provide training, advice and value adding business solutions through our Business Development Managers, My Marston's Online and our Customer Service Team.



MARSTON'S

BEER COMPANY

Group Revenue Share

16%



Marston's Beer Company is our brewing division and focuses on premium cask and bottled beers with true local provenance. Our brands include a wide range of classic English ales brewed in our five breweries:

- Marston's Brewery, Burton upon Trent, where our national flagship brand Marston's Pedigree is brewed
- Banks's Brewery, Wolverhampton brewing Banks's Bitter and Mild
- Castle Brewery, Cockermouth, producing Jennings beers such as Cumberland Ale and Sneck Lifter
- Ringwood Brewery, Hampshire known for its cask beers including Best Bitter, Fortyner and Old Thumper
- Wychwood Brewery, Oxfordshire, is home to Hobgoblin, Wychwood and Brakspear ales.

MORE ABOUT MARSTON'S BEER COMPANY

ON PAGE 16

STRATEGY HIGHLIGHTS

- **Managed pub development** — 15 new-build pubs completed with performance ahead of target; on track to complete next 20 new-build sites in 2011
- **The 'F-Plan'** — Food now represents 40% of sales; over 24 million meals sold in managed pubs, up 5% on last year, at an average spend of £6
- **Tenanted and leased pub development** — Retail Agreement implemented in 104 pubs with profit uplift in line with targets, on track to roll out a further 200 Agreements in 2011

For more info on our operations go to:

www.marstons.co.uk



DIRECTION

FINANCIAL HIGHLIGHTS

Revenue

10	£650.7m
09	£645.1m
08	£666.1m
07	£652.8m
06	£595.5m

£650.7m

Underlying* operating profit

10	£148.7m
09	£147.4m
08	£161.6m
07	£163.2m
06	£152.3m

£148.7m

Underlying* profit before tax

10	£73.5m
09	£70.3m
08	£85.1m
07	£98.0m
06	£101.5m

£73.5m

Dividend per share

10	5.8p
09	7.1p
08	9.5p
07	9.2p
06	7.7p

5.8p

Underlying* earnings per share

10	10.0p
09	13.4p
08	18.3p
07	18.8p
06	17.1p

10.0p

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

Earnings and dividends per share have been adjusted where appropriate to reflect the 4-for-1 share split in January 2007 and the impact of the issue of new shares under a rights issue in July 2009.

OUR MARKET & STRATEGY

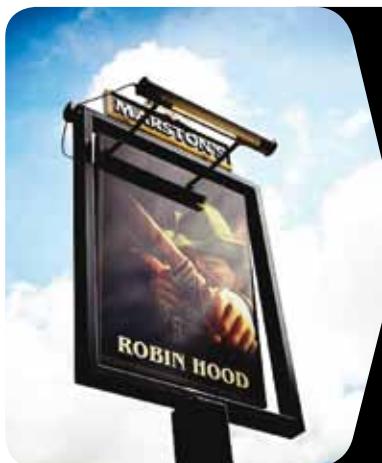
Our Strategic Objectives

Our strategy is to exploit and develop further competitive advantage in the pub and brewing sectors based upon our existing market positions, the knowledge and operational capabilities of our employees, and the traditional vertically integrated business model of the Group. In each of our trading divisions our target is to continue to outperform the market.



Managed pub development

We derive a source of competitive advantage in site selection and new pub-restaurant development through our industry-leading investment programme. We develop hand-picked sites in excellent trading locations, building pubs which reflect the expectations of today's consumer. Having built 15 pubs in 2010, we expect to build 20 in 2011 and 25 each year thereafter.



Tenanted and leased pub development

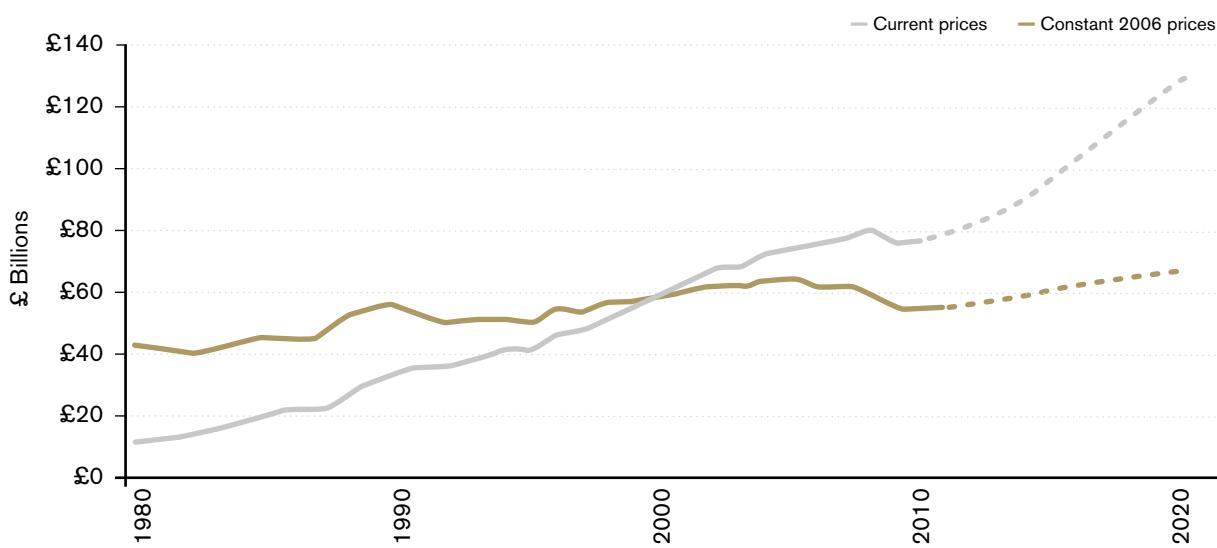
Sustainability, transparency, fair rents and a fair share of risks and rewards are the bases of our relationships with our licensees. Our expertise in operating managed pubs will support the introduction of 600 Retail Agreements by 2013. We provide choice in our longer-term lease agreements by offering free trade pricing and free-of-tie options.



The market in which we operate

Consumer expenditure on eating and drinking out of home

September 2010 forecast



Current prices: Expenditure at current prices is unadjusted — it simply represents the sum of sector spending in any given year.
Constant prices: Expenditure at constant prices takes into account inflation of the sector and represents the volume of the sector.

Source: Oxford Economics/nVision/Future Foundation
Base: UK



The 'F-Plan'

Designed five years ago to recognise longer-term market trends including growth in the eating-out market, the consequences of the smoking ban on pubs, and longer-term demographic trends, our 'F-Plan' — food, families, females and forty/fifty somethings — underpins operational development in our managed pubs.



MARSTON'S

'Localness' and premium brands in brewing

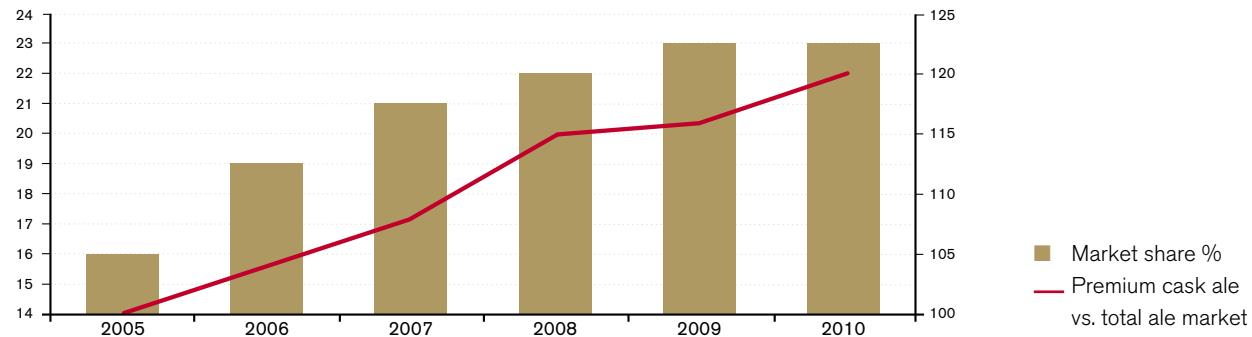
Our brewing strategy is differentiated and based upon two key principles: increasing consumer demand for premium cask and bottled ales; and providing choice in beers with provenance, taste, and quality. We are able to exploit this through national distribution of local beers from our five breweries.



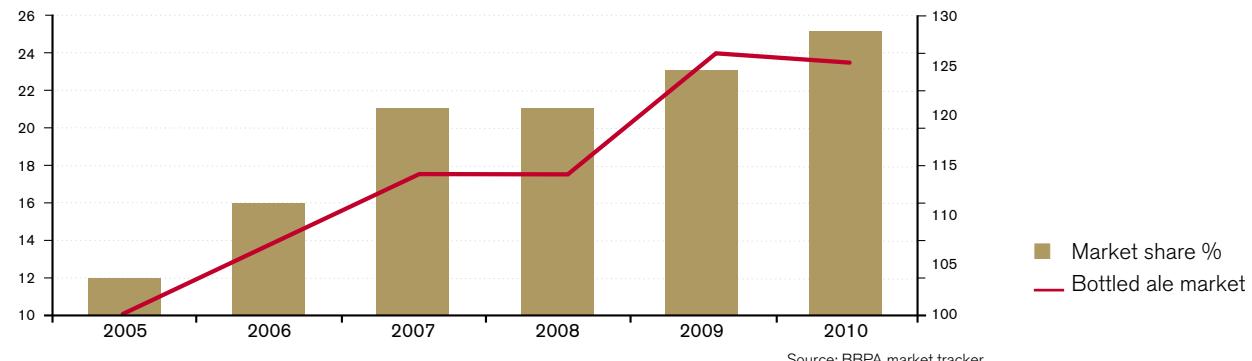
Financing

Over 90% of our debt is long term, low interest and secured on freehold pub assets. We will continue to target a reduction in the net debt to EBITDA ratio to around five times over the next three years through increasing return on capital across the Group.

Premium Cask Ale 2005–2010



Bottled Ale 2005–2010



INVESTING IN THE MARSTON'S ESTATE

The Group is the market leader in developing new-build pubs and has a highly skilled and experienced in-house team specialising in this area, with a proven and robust site appraisal process.

Breweries



New-build Pubs

	15 Open 2009/10	20 Proposed 2010/11
1. North West	3	1
2. Wales	1	3
3. South West	2	5
4. South & East	6	3
5. Midlands	2	5
6. North East	1	3



Progress

2010

15 New-build pubs completed

1. **Ladybird** Caterham
2. **Boat House** Braunstone
3. **Stepping Stones** Ashbourne
4. **Honey Bee** Aylesbury
5. **Jenny Wren** Sittingbourne
6. **Tawny Owl** Newark
7. **Kittiwake** Dover
8. **Peacock** Warrington
9. **Shire Horse** Newcastle
10. **Skylark** Wellington
11. **The Falcon** Wadebridge
12. **Dragonfly** Merthyr Tydfil
13. **The Copper Pot** Knowsley
14. **Running Hare** Ewloe
15. **The Fieldfare** Chorley





MARSTON'S



Our unique new-build programme is spearheading our strategic goal of raising the overall quality and performance of our managed business to the highest level in the industry.

Achieved turnover levels and return on investment are outstripping the disciplined targets we set ourselves at the end of 2008. The cocktail of great value food and drink, served attentively in high quality outlets, is proving irresistible to our customers.

Weekly turnover per new-build



Pro forma annual EBITDA per new-build



For more info on Marston's go to:

www.marstons.co.uk



2011

2012

2013

20

New Developments planned

9 On site

1. **Yorkshire Rose**
Huddersfield (open Oct 2010)
2. **The Red Admiral**
Trowbridge
3. **Dapple Grey**
Uttōxeter (open Dec 2010)
4. **The Golden Eagle**
Mansfield
5. **Meadowlark** Southend
6. **The Sand Martin** Cardiff
7. **The Red Deer** Crediton
8. **The Running Horse**
Fakenham
9. **The Water Mead**
Northwich

11 Sites under contract

25 Target



MARSTON'S

A MESSAGE FROM THE CHAIRMAN



Marston's PLC
Marston's House
Brewery Road
Wolverhampton
WV1 4JT

Dear Shareholder

There are six key points that you should note about this last year and for the future.

First, Marston's has progressed well on all the main strategic fronts set out at the time of our rights issue in 2009; these are to build around 25 new pubs each year, to develop our tenanted and leased estate, to enhance the local franchise of our beers, to reduce debt and to generate higher returns on capital invested.

At this moment, not much is getting worse, and a lot more is getting better.

Second, there is good evidence of high appeal to consumers across all three trading divisions. Alongside positive sales, the delivery of good margins indicates effective execution.

Our new-build pubs exceeded expectation; the roll-out of the new Retail Agreements for our tenanted pubs has developed good momentum; solid progress was achieved in stabilising our leased estate; and our ales performed well in a difficult beer market.

The team at Jennings Brewery, Cockermouth did a splendid job after the catastrophic floods in supplying our customers in the Lake District, and in restoring the brewery.

Third, a final dividend of 3.7p is proposed, making a total for the year of 5.8p. Dividend cover has increased to 1.7 times.

Fourth, the Board has made, and proposes changes to its composition. Robin Rowland, Chief Executive of YO! Sushi, joined in September 2010. His great and very relevant experience in food retailing will help in the execution of our plans. We welcome him. Derek Andrew will stand down from Marston's on 30 September 2011 after 30 years, we thank him and wish him good speed in his next ventures. We will then reduce the number of executive directors from five to three: Stephen Oliver will step down from the Board and will be responsible for the management of Marston's Beer Company and Marston's Pub Company. Miles Emley retires as Chairman of the Audit Committee on 3 December 2010, and Neil Goulden takes over.

Fifth, in May 2010 the Financial Reporting Council recommended that Boards are reviewed by external advisers, and that Directors stand for re-election annually; this latter we propose to you for the AGM in January 2011. Marston's has conducted annual Board appraisals for many years and in 2010 we engaged Blackwood to conduct a review from an external perspective.

Finally, the environment is not easy. We share the concerns of our customers about the imminent VAT rise and about economic confidence. We see the stirrings of other inflationary elements, beyond the immediately visible rise in fuel costs: commodity prices forcing up food and now material costs. We have contracts to mitigate these effects in the immediate future, but these are finite. Business rates continue to rise without reference to underlying trading or the costs of living. We do not yet see the benefits of proposed de-regulation after years of the burden of imposed costs. The tone of recent government announcements on alcohol has yet to recognise the benefits of well-ordered pubs and the positive role they play in society.

Nevertheless, despite these challenges, we have good momentum which we aim to sustain through 2011, and we have a clearly defined strategy for continuing profitable development in the future.

David Thompson
Chairman
2 December 2010



INDUSTRY AWARDS

"Marston's success reflects the quality of our staff."

DIRECTION



PUBLICAN AWARD

CSR Pub Company of the Year
JENNINGS BREWERY



MA NATIONAL CASK ALE SUPPLIER OF THE YEAR
MARSTON'S BEER COMPANY

MA REGIONAL CASK ALE OF THE YEAR
(Midlands and Wales)
MARSTON'S PEDIGREE

CAMRA'S CUMBRIAN BEER OF THE YEAR AWARD
In the Old Ale/Strong Mild category
SNECK LIFTER

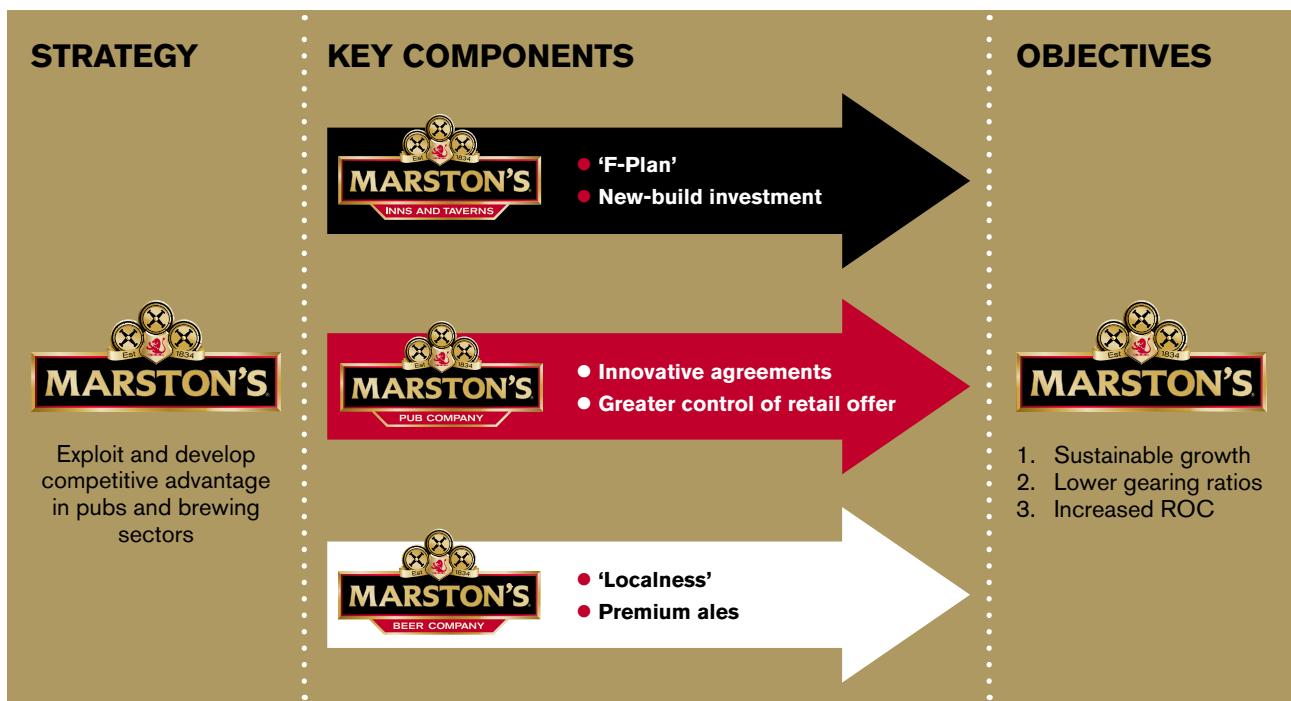
SOCIETY OF INDEPENDENT BREWERS
ASSOCIATION (SIBA)
Midlands Beer Competition 2010
BANKS'S MILD AWARDED SILVER

BRITISH BOTTLERS' INSTITUTE (BBI)
2010 AWARDS
BANKS'S MILD AWARDED GOLD
IN CLASS A ALES

CREATIVE CIRCLE
Best Press Campaign Bronze Award
MARSTON'S PEDIGREE

MA PUB FOOD AWARDS —
DEREK ANDREW RECEIVED
SPECIAL ACHIEVEMENT AWARD





Group overview

Our results demonstrate the benefits of the successful implementation of our strategy with growth in revenue and earnings: an increase in return on capital compared to 2009 and reduced net debt.

Revenue was 0.9% up on last year, with improving trends in all three of our trading divisions. Operating margin is 0.1% up on last year as a result of tight cost control and the disposal of low margin leasehold assets. Underlying operating profit increased by 0.9% to £148.7 million with underlying profit before tax of £73.5 million (2009: £70.3 million) up 4.6% and underlying earnings per share were 10.0 pence per share (2009: 13.4 pence per share).

These results have been achieved over a challenging period for the sector and demonstrate the competitive advantage of operating high quality pubs able to meet changing consumer demands.

In each of our trading divisions, our target is to outperform the market. In implementing our strategy, our objectives are: sustainable growth; increased return on capital; and lower gearing ratios. Our focus will remain on providing good service; offering value for money; attractive, well-positioned pubs; choice of regional beers; and the careful control of costs.

In 2010 we have made good progress in executing the key operational components of our strategy, providing a strong basis for future development.

Managed pub development

The performance of the 15 pub-restaurants that opened in 2010 has been very encouraging, with average turnover of £25k per week well above our target of £20k per week. The food sales mix in these pubs is around 60%. Profitability is also ahead of target producing an estimated annual return on capital of around 17%, representing an effective acquisition multiple of below 6x EBITDA. It is our current intention to build 20 similar pub-restaurants in 2011, and 25 pubs each year thereafter.

"We have adapted well to market conditions and trends. We are benefiting from our focused, differentiated strategy as demonstrated by our robust results in 2010 and a strong start to the new financial year. Our plans are affordable, deliverable and target sustainable growth and strong returns in the future."

Ralph Findlay
Chief Executive

The 'F-Plan'

The operational focus which underpins organic development in our managed pubs is based on the 'F-Plan' — food, families, females and forty/fifty somethings — which we designed five years ago to recognise longer-term market trends including growth in the eating-out market, the smoking ban and demographic trends. Over five years, the implementation of the 'F-Plan' has contributed to food sales mix increasing from 28% to 40% and a 71% increase in meals served each year to over 24 million.

Tenanted and leased pub development

The results from the 104 pubs which have adopted the Retail Agreement in 2009 and 2010 have been encouraging, with post-conversion operating profit up by approximately £1 million compared to last year demonstrating the turnaround in performance achieved in these pubs. Capital investment in these 104 pubs in 2010 was £6 million; we plan to invest around £10 million in a further 200 sites during 2011, with another 300 sites to be converted by 2013. The targeted profit improvement from all 600 pubs is around £6 million per year from 2013, representing a return on incremental capital expenditure of 20%.

'Localness' and premium ale strategy contributes to outperformance in beer

We achieved growth in both turnover and profit in a UK beer market down by around 7%. Our strategy for beer is differentiated and based upon two key principles: increasing consumer demand for premium ales, both cask and bottled; and providing choice in beers with provenance. We offer a range of 60 different beers from our Marston's, Banks's, Jennings, Ringwood and Wychwood breweries.

Divisional changes to target 'best in class' customer service

The development of Retail Agreements has increased the extent to which market insight, best practice and resources are shared between our two pub divisions. As a consequence of the further development of Retail Agreements outlined above we expect that this process will continue, and we therefore plan to make certain changes to our divisional operations.

Key Performance Indicators

The Board of Marston's PLC and the divisional management boards monitor a range of financial and non-financial performance indicators, reported on a periodic basis, to measure performance against expected targets. Of these, the key performance indicators monitored by the Board are:

	2010	2009
Group		
1. Underlying earnings per share	10.0p	13.4p
2. Ratio of net debt to EBITDA	5.7 times	5.7 times
Marston's Inns and Taverns		
3. Like-for-like sales growth	1.7%	(0.6)%
4. New site openings	15	4
Average profit per pub		
5. Marston's Inns and Taverns	£132k	£120k
6. Marston's Pub Company	£47k	£48k

Definitions

1. Underlying earnings per share are basic earnings per share before exceptional items.
2. Ratio of net debt to EBITDA is the net debt at the period end compared to EBITDA before exceptional items.
3. Like-for-like sales growth is the percentage change in revenue for managed pubs owned by the Group for the whole of the current period under review and the prior comparative period.
4. New site openings are the number of managed pubs opened either as new-build pubs or acquired and refurbished pubs in the period under review.
- 5./6. Average profit per pub is operating profit before exceptional items divided by the average number of pubs in the period.



Key statistic

Since its launch in March nearly 3 million pints of **fastcask™** beer have been drunk. All Hobgoblin draught is now in **fastcask™**.

fastcask™ has opened new markets to draught beer, including sporting events and music festivals.

fastcask™ is also available in minicask format, making it possible for the first time to have cask-conditioned ale at home.



Pictured: Clarendon Hotel, Chapel Ash, Wolverhampton



From 2 October 2011 Marston's Inns and Taverns will take on the development and management of Retail Agreements. By 2013, Marston's Inns and Taverns will be in a position to develop consistent retail offers to consumers directly across approximately 1,100 pubs.

With Retail Agreements managed by Marston's Inns and Taverns, Marston's Pub Company will operate around 1,000 pubs under longer term lease agreements. The focus of management will be to continue to improve customer service and support so that our licensees are better placed to develop their own businesses and to respond to market trends. During 2010 we combined certain areas of commercial support and developed shared business initiatives between Marston's Pub Company and Marston's Beer Company, recognising that many of the challenges faced by lessees are identical to those of independent operators. These initiatives contributed to improved performance in both divisions, and we therefore plan to extend this philosophy by bringing the management of our leased pubs and independent pub customers together from 2 October 2011.

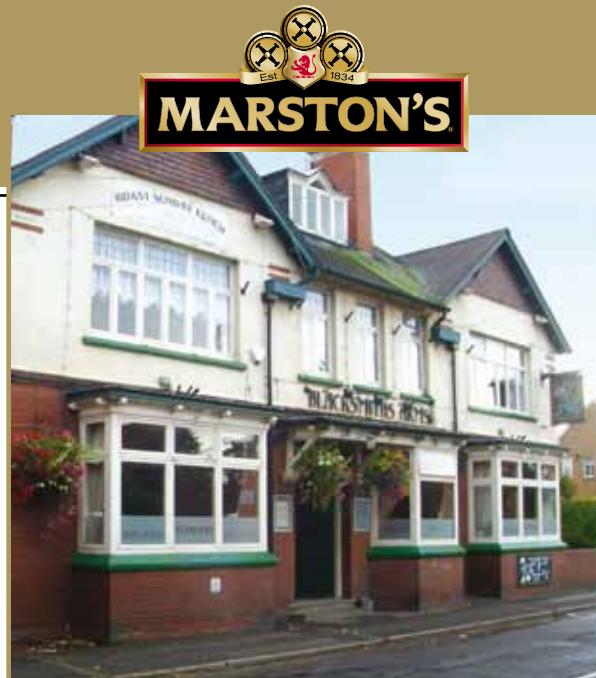
Through implementing these plans we aim to have a consistent and clear focus on consumers visiting our managed and Retail Agreement pubs, and on supporting leasehold and independent customers in developing their businesses. In summary, our objective is to promote 'best in class' service to our consumers and to our customers.

Board

The implementation of the plans described above will also be accompanied by changes to the responsibilities of certain Board directors.

From 2 October 2011:

- It is intended that the Executive Directors of the Company be reduced from five to three; Ralph Findlay, Chief Executive; Alistair Darby (currently Managing Director of Marston's Pub Company), who will become Chief Operating Officer; and Andrew Andrea, Finance Director.



- Derek Andrew, Managing Director of Marston's Inns and Taverns, will stand down from the Company having given 30 years of excellent service. However, we are delighted that he will be retained as an external advisor to maintain the momentum of the new site acquisition programme.
- Peter Dalzell, who is currently Operations Director, Marston's Pub Company, and previously Operations Director, Marston's Inns and Taverns will succeed Derek as Managing Director of Marston's Inns and Taverns and will report to Alistair Darby.
- Stephen Oliver, Managing Director of Marston's Beer Company, will also be responsible for Marston's Pub Company and will report to Alistair Darby as Managing Director of both businesses.

On 1 September 2010 Robin Rowland, Chief Executive of YO! Sushi joined the Company as a Non-executive Director; his extensive background in food retailing is welcome as we continue to develop the 'F-Plan'.

Dividend

The proposed final dividend of 3.70 pence per share is the same as last year and will give a total dividend for the period of 5.80 pence per share, compared to 7.14 pence per share in the prior period.

Current trading

We have seen an encouraging start to the year. In Marston's Inns and Taverns, like-for-like sales increased by 3.0% in the eight weeks ended 27 November, with food sales growth of 5.8% and wet sales improving by 1.7%. In Marston's Pub Company, in the eight weeks to 27 November, profits were down by an estimated 1.5% compared to last year, and profit per pub was in line with last year. In Marston's Beer Company, own-brewed volume is ahead of last year and in line with our expectations.

Local Business Solutions

Our Free Trade customers benefit from an unrivalled range of drinks brands. We win and retain their loyalty through business building solutions, including deals on non-drink items which help keep costs down. It is this compelling combination that differentiates us from our competitors and it is why we have been voted Cask Ale Supplier of the Year.¹

With sales teams based at all five breweries we really are able to deliver that local experience backed up by all the benefits of trading with a business the size of Marston's.

"Since deciding to trade with Marston's I have not been disappointed. Their range of beers is fantastic and the costs savings and business building ideas implemented by my representative have had a real positive impact on my profits."

— Peter Humphrey,
Landlord Blacksmith's Arms, Harworth

¹ MA Suppliers Awards 2010

Marston's Inns and Taverns



"Our performance has remained robust despite the difficult economic climate, and was achieved through the continuing implementation of the 'F-Plan' and consistent focus on value for money, service and on the quality of our pubs."

Derek Andrew MBE
Managing Director, Marston's Inns and Taverns

Revenue £m

10	373.8
09	367.8
08	388.3
07	367.8
06	330.7

Average weekly sales £k

10	15
09	14
08	14
07	13
06	13

Average profit per pub £k

10	132
09	120
08	117
07	128
06	127

Performance

As at 2 October 2010 our managed estate comprised 489 pubs.

Total revenue increased by 1.6% to £373.8 million, reflecting principally the opening of 15 new-build pub-restaurants during the year, offset slightly by the disposal of 17 low margin leasehold sites. Underlying operating profit of £65.1 million (2009: £60.3 million) was up 8.0%. The average annual profit per pub increased by 10% from £120k to £132k.

Total like-for-like sales were 1.7% above last year, with like-for-like food sales up by 2.5% and like-for-like wet sales up 1.4%. Our performance has remained robust despite the difficult economic climate, and was achieved through the continuing implementation of the 'F-Plan' and consistent focus on value for money, service and on the quality of our pubs.

The 'F-Plan' has been at the heart of our operational development over the last five years, with the increased importance of our food offers reflected in food sales now accounting for 40% (2009: 39%) of sales. We estimate that, for around 70% of our customers, dining is the primary reason for visiting our pubs.

Our value for money offers, combined with good service and attractive pubs, have proved popular. Average spend per head on food remains at around £6 demonstrating that our offers are affordable even in the current difficult economic environment. This is further illustrated by the fact that our strongest performance came from our 217 high-quality destination pub-restaurants operating under trading formats such as 'Two for One' and 'Milestone'. Everyday value offers including '2 meals for £10' and carvery meals also continue to be successful. Our like-for-like sales growth in food reflects volume and footfall growth rather than higher prices. The growth in wet sales represents a good performance compared to the poor UK on-trade market, which fell by around 7%. We have seen improving trends in all drinks categories, and in particular increased sales of our own cask ales — including premium cask ale growth of 6% — building on the strong growth achieved last year.



We achieved a 1.0% improvement in operating margin primarily through lower food and utility costs and tight labour cost control. We expect only modest cost inflation in 2011 as a consequence of the majority of our supply contracts being at fixed prices. In addition, we disposed of 17 non-core low margin leasehold sites.

Capital investment included £31 million in new-build pub-restaurants and £22 million in the existing estate including major refurbishments of 21 pubs.

New-build development programme

Our new-build programme is a key driver of growth for Marston's Inns and Taverns, and for the Group as a whole. As previously highlighted, we opened 15 new pubs in 2010 and expect to increase the rate of development to 20 in 2011 and 25 in 2012 – a £140 million investment plan over three years. We expect to open 25 new sites each year thereafter. The attractions of investing in these well situated pub-restaurants include:

- **Increased exposure to the growing demand for eating outside the home:** it is estimated that the UK eating-out market has doubled over the last 20 years and we expect growth to continue in the future.
- **Hand-picked sites in busy locations such as retail parks:** over the last 18 months we have been able to take advantage of reduced competitor activity to acquire prime sites at lower costs compared to previous years.
- **Sustainable high returns on investment:** the current trend for both revenue and returns is ahead of our targets, and the post-investment like-for-like sales performance of those pub-restaurants opened over the last five years is above the average for the division.



Opening Time

Our new-build programme has, this year, delivered 15 top quality pub-restaurants, each with a clear focus on families and food. Every opening is heralded by a range of social activities, aimed at ensuring our pub is at the very heart of its new community.

Key to its success is engagement with local schoolchildren in the burying of a time capsule. One of the early ceremonies took place in March 2010 at The Tawny Owl in Newark. Children from Chuter Ede Primary School inserted newspapers, letters, drawings, and photographs into a time capsule.

Mrs Taylor, Head Teacher at Chuter Ede, said: "This was such a great idea. It really challenged the children to think about posterity by leaving items in the time capsule that could be discovered in the future." The ceremony was attended by the children, their parents, the local mayor and the Nottingham Evening Post.

Every new-build pub is supported by the burial of a capsule along with a plaque detailing the date and which schools were involved. The event is hugely symbolic, as these new pubs are destined to be around for generations to come.

Marston's Pub Company



"Under the Retail Agreement, Marston's shares responsibility with the self-employed retailer, utilising the expertise, systems and resources of our managed pub infrastructure."

Alistair Darby
Managing Director, Marston's Pub Company

Revenue £m

10	170.8
09	175.8
08	186.4
07	200.9
06	178.8

Operating Profit £m

10	78.8
09	81.8
08	88.0
07	90.8
06	80.3

Average profit per pub £k

10	47
09	48
08	51
07	50
06	44

Performance

As at 2 October 2010 the tenanted and leased pub estate comprised 1,664 pubs.

Total revenue decreased by 2.8% to £170.8 million, reflecting lower volumes of beer, wines and spirits sold to tenants and lessees. The performance of the UK tenanted and leased pub sector has been weak, with overall volumes across the sector estimated to be down by around 7%. Underlying operating profit was £78.8 million, a reduction of 3.7% with the rate of decline improving throughout the year. Average profit per pub reduced by 2.1% from £48k to £47k.

Many of our tenanted and leased operators have adapted successfully to capitalise on longer-term market trends. This is evident from the fact that profits from the 86% of our tenanted and leased pubs, let on substantive agreements, generated profit growth in 2010 despite the poor performance of the market overall. Our long held approach to fair rents, sustainability, transparency and a fair share of risks and rewards remains at the heart of our relationship with our licensees.

Operating margin for the division was 0.4% lower at 46.1%, primarily due to the development of Retail Agreements. Capital investment in 2010 was £22 million including around £6 million in Retail Agreement pubs. Our expenditure on maintenance capital, £13 million, was consistent with previous years and reflects our objective to maintain the estate to a high quality.

Development of pub estate

Although many operators of tenanted and leased pubs have responded well to significant regulatory and market pressures including taxation, increased price competition, market trends such as the increasing importance of food sales and the effects of the weak UK economy, a significant minority have not.

We believe that these trends will continue for the foreseeable future and, as indicated in the Interim Results, we have begun to implement plans to make significant changes to the operation of our tenanted and leased estate as described below.



Retail Agreement

Darrall Bebbington and his team of 20 staff opened The Robin Hood near Congleton before Easter as a food-led Retail Agreement. The eighteenth-century coaching inn was completely refurbished with extensive work carried out to the kitchen. The pub now takes between £10,000 and £12,000 per week.

"Marston's pays the bills with me responsible for the staff and the insurance," Darrall said. "I've run managed pubs and a tenancy and I enjoy this way of doing things more. I've got more freedom to do what I want to do and make the business work. It's the best thing I ever did. For me, this is by far the best way. I get a percentage of the takings and I make a decent living for very little risk."

- Over the next three years, we expect to increase the number of pubs being operated under the Retail Agreement to around 600 pubs. The Retail Agreement is a 'franchise-style' arrangement. Marston's shares responsibility for the consumer proposition in partnership with the self-employed retailer, utilising the expertise, systems and resources of our managed pub infrastructure within Marston's Inns and Taverns.

As a consequence, we aim to realise a number of benefits as follows:

- Sustained increase in revenue and volume;
- Increased profitability — a targeted annual profit improvement of £10k per pub;
- Improved retailer stability;
- Better qualified retailers; and
- Improved consumer appeal and competitive position for the pub.

In rolling out the Retail Agreement we expect to invest around £50k per pub.

- Approximately 1,000 pubs will continue to be operated under longer-term lease agreements which include agreements that offer licensees the opportunity to buy beer, wines and spirits at the same prices available to our free trade customers, and a genuine free-of-tie option.
- We anticipate the disposal of around 60 pubs from the estate over the next 18 months.

In 2010 we combined a number of commercial support teams from Marston's Beer Company and Marston's Pub Company, recognising that many of the challenges and opportunities are similar for tenants and lessees, and independent operators. This has helped us to be more effective in deploying promotions, offering training courses for licensees, and in identifying opportunities for licensees to cut a range of costs by exploiting Marston's buying power, including those for food, energy and consumables.

We also launched our new accredited Code of Conduct in response to the recommendations of the Business Innovation and Skills Committee inquiry. This Code will increase the transparency of our agreements and provide a greater understanding of the rent setting process. We anticipate that it will also contribute to the success of our licensees and increase licensee stability and tenure.



Pictured: The Mustard Pot, Chapel Allerton
Marston's Pub Company Pub of the Year 2010

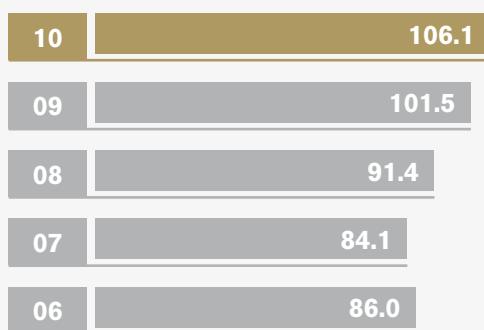
Marston's Beer Company



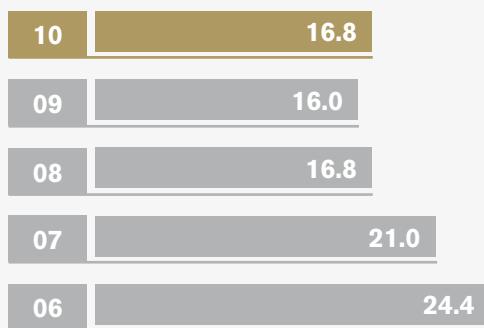
"Our strategy for beer is differentiated and based upon increasing consumer demand for premium ales, both cask and bottled, and for choice in beers with provenance, taste and quality."

Stephen Oliver
Managing Director, Marston's Beer Company

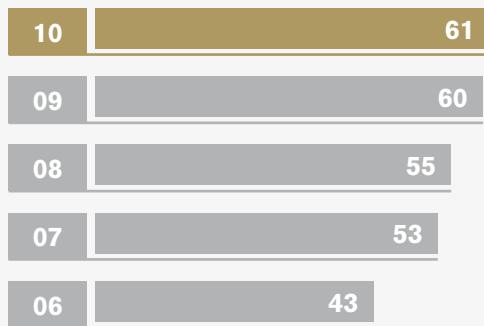
Revenue £m



EBITDA Return on Capital %



Premium ale: Total ale volume %



Performance

We own a wide range of genuinely local beer brands supported by local marketing, high levels of service and in-house distribution. Our access to national distribution through our owned pubs and free trade customers offers us a genuine competitive advantage.

Our focus on premium ale has driven significant progress in our market share in these segments, with our share in premium cask ale growing by 7% to 23% since 2005, and our market share of premium bottled ale more than doubling to 25% over the same period. Approximately 72% of our own-brewed beers are sold to third parties.

Total revenue increased by 4.5% to £106.1 million. Underlying operating profit increased by 1.3% to £16.2 million.

Our strategy to focus on premium ale and 'localness' helped increase premium ale volumes — up by 3%. Premium ale brands now represent 61% of our ale volume. Local brand volume performance has also been strong, with Ringwood beers up 16%; Wychwood up 5%; and Jennings up 13% despite the significant disruption to brewing operations following the Cockermouth flood in November 2009. This has primarily been achieved through growth in sales to the independent free trade and to supermarkets, although we have made progress in all three of our channels of trade during the year.

In the independent free trade we increased revenue, volumes and operating profit, including cask ales volumes up by 5%. Our 'localness' strategy helped to increase our customer base by over 10% in 2010. We now supply over 2,800 regular customers aiming to provide a high quality service and 'business solutions', advising customers on sales building and cost reduction initiatives.

In the take home market we have successfully built on our strong 2009 performance, with premium ales up 11%. Take home volumes now account for 44% of our external ale sales volume. We have achieved strong premium ale performance across the brand range, with Marston's up 9%, Hobgoblin up 18%, Jennings up 53% and Ringwood up 187%.



Sales to tenanted and managed pub companies were down year on year in a difficult market; however trends stabilised throughout the year with our brands making good progress in most of the major pub companies.

Operating margin was down by 0.5% to 15.3% as a consequence of the change in sales mix towards the off-trade, which is at lower margins than the on-trade. Costs were broadly unchanged and we anticipate this to be the case in 2011 as a consequence of the majority of our supply contracts being at fixed prices.

Our EBITDA return on capital employed has increased to 16.8% (2009: 16.0%) demonstrating good returns from our brewing investments.

Development of 'Localness' and premium ale strategy
 We continued to invest in national and regional ale marketing campaigns, with Hobgoblin and Marston's Pedigree being the major focus of brand investment in 2010. Hobgoblin, the 'Unofficial Beer of Halloween', was sold in 7,000 pubs nationwide and it was the leading seasonal premium bottled ale brand in supermarkets. The position of Marston's Pedigree as a leading national cask ale was reinforced with continued sponsorship activity supporting the ECB as 'The Official Beer of England Cricket'. Our regional brands benefited from committed sponsorships of a wide range of events, including the New Forest Show, the Oxford Ale Trail and the Keswick Jazz Festival.

The **fastcask™** initiative launched in 2010 has enabled us to serve cask ale in many different types of outlet, such as music festivals, holiday parks and in pubs discovering cask beer for the first time.

Awards received in 2010 include the Morning Advertiser's National Cask Ale Supplier of the Year Award and the Publican magazine's Corporate Social Responsibility Award for our handling of the aftermath of the Cockermouth floods when we raised over £178k for the Cumbria Flood Relief Fund.



MARSTON'S

BEER COMPANY

fastcask™

fastcask™ is the first genuine innovation in cask beer for many years and for the first time allows licensees to serve traditional cask ale immediately.

The superior quality of cask beer is mainly due to the yeast continuing to ferment whilst the beer matures in the pub cellar. This maturation produces the depth and complexity of flavours that distinguishes cask beer from the rest.

In conventional cask beer it takes around 24 hours for this fermenting yeast to settle to the bottom of the cask and before the clear beer can be served.

With **fastcask™** we trap the yeast within a porous gel bead that settles to the bottom of the cask within seconds. The residual sugar in the beer can permeate the outer layers of the bead allowing the yeast to continue its magic of secondary fermentation.

The result is a beer with all the qualities of beer matured in the cask but with the benefit of immediate sale.



Pictured: Hobgoblin at the G20 Summit



Key Relationships

"The successful operation of our business is dependent on a wide range of relationships with outside parties."



Customers and consumers

Marston's has a wide range of customers including national supermarkets, pub companies, tenants, free trade operators, and every individual that steps into one of our pubs. This relationship is not taken for granted. We work to understand our customers' needs, their preferences and dislikes. We invest time in market research and customer surveys in order to understand the changing tastes of our customers, and our network of area managers is sufficiently resourced to interact on a local level with our customers so that this knowledge becomes a bedrock for business planning.

Local communities

Breweries and pubs have a historic and intrinsically linked relationship with their local communities. Our beer brands carry the local pride of the towns in which they are brewed. Our pubs are a hub for social gathering and shared leisure. Marston's recognises the importance of fostering and sustaining this relationship. All concerns communicated by our neighbours are considered and local meetings are called to resolve any issues.

The flood at Cockermouth in November 2009 was a physical demonstration of how what affects our local community also affects us, and how mutual support helps both parties win through.

We consider carefully the impact of our business upon the environment shared with our neighbours. Our largest breweries have to demonstrate annually to the Environment Agency that they actively manage their impact upon the local environment in order to achieve their Integrated Pollution Prevention and Control permit.

Key statistic

In Marston's Beer Company, our independent free trade team serviced over 4,000 customers, including over 2,800 regular customers, and increased its account base by over 10% despite a contracting beer market, demonstrating the success of our 'localness' strategy.

Regulatory bodies

The licensing system within the UK tightly controls the operation of our pubs. Marston's recognises that licensing strives for important social objectives — prevention of crime and disorder, protection of public safety, prevention of public nuisance and protection of children from harm. Marston's engages actively within the industry on licensing matters and with Government to consider the best way these objectives can be met. Keeping the operation of our managed pubs within the licensing rules, and assisting our tenants likewise, is of utmost importance to our long-term success and reputation.

Suppliers

The Group carefully manages its dependence upon suppliers and also their dependence upon Marston's. Disruption to supply would otherwise be a significant threat to business continuity for the Group. Marston's is not solely reliant upon one particular supplier. Marston's contingency arrangements are planned for, documented and subject to continual review. Suppliers' own continuity plans are collected and periodically a number are audited.

Employees

The success of Marston's will always reflect the quality of our staff. The development and the support of our staff to reach their own aspirations is described in the Corporate Social Responsibility report.

Financial Review

“Stronger free cash flow has reduced net debt despite the increase in capital expenditure.”

	Revenue		Underlying operating profit		Margin	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 %	2009 %
Marston's Inns and Taverns	373.8	367.8	65.1	60.3	17.4	16.4
Marston's Pub Company	170.8	175.8	78.8	81.8	46.1	46.5
Marston's Beer Company	106.1	101.5	16.2	16.0	15.3	15.8
Marston's Group Services	—	—	(11.4)	(10.7)	(1.8)	(1.7)
Group	650.7	645.1	148.7	147.4	22.9	22.8

Results for the 52 weeks to 2 October 2010

Despite the continued tough economic backdrop, Group revenue was 0.9% up on last year, with improving trends in all three of our trading divisions. Group operating margin was 0.1% up on last year with significant improvement in Marston's Inns and Taverns as a consequence of tight cost control and the disposal of low margin leasehold assets.

Underlying operating profit increased by 0.9% to £148.7 million and underlying earnings per share were 10.0 pence per share (2009: 13.4 pence per share).

Operating profit after exceptional items was £132.4 million (2009: £110.4 million) and basic earnings per share after exceptional items were 8.3 pence per share (2009: 3.9 pence per share). One of our core strategic objectives is to increase return on capital employed. In 2010 this figure was 9.4% representing an improvement on the 2009 figure of 9.0%.

Dividend

The proposed final dividend of 3.70 pence per share is the same as last year and will give a total dividend for the year of 5.80 pence per share, compared to 7.14 pence per share in the prior year. Dividend cover at the year end is 1.7 times (2009: 1.6 times).

The Board's policy remains to target a dividend cover of around two times over the medium term although the level of cover in any one year may vary.

Capital expenditure

Capital expenditure was £83.5 million in 2010 (2009: £56.1 million), including the construction of 15 new-build sites. We expect this to increase to around £100 million in 2011, the increase being primarily attributable to the development of an additional five new-build sites in the year. The level of maintenance capital expenditure will be broadly similar to 2010.

Disposals

We continually review our property portfolio and sell those with low growth prospects and those with higher alternative use value. Despite a challenging property market, we sold 45 properties during the year, realising book values on average and generating cash of £17.5 million.

Financing

The higher margin payable under the forward start bank facility, which commenced in August 2010, will result in the blended cost of debt for the Group marginally increasing to 6.9%. This facility, together with our long-term securitisation of approximately £1 billion, provides us with an appropriate level of financing headroom for the medium term, with a structure that continues to provide operational flexibility.

The Group has significant headroom on both the banking and securitisation covenants. Importantly, the Group also has flexibility within the financing structures to transfer pubs between the banking and securitisation groups.

Net debt of £1,082.2 million at 2 October 2010 is a reduction of £17.1 million compared to £1,099.3 million at 3 October 2009. The reduction in net debt, which has been achieved despite the increase in capital expenditure, has been driven by a combination of tighter working capital management and a tax repayment in respect of prior year queries.

For the period ended 2 October 2010 the ratio of net debt to EBITDA before exceptional items was 5.7 times (2009: 5.7 times). It remains our intention to reduce this ratio to around 5.0 times over the course of the next few years. Interest cover of 2.0 times has improved slightly versus last year (2009: 1.9 times).

Net finance costs before exceptional items are £1.9 million below last year largely driven by the lower level of net debt.

At the year end virtually all of our gross debt is at fixed rates of interest.

Treasury management

The Group regularly reviews its forecast short-term and medium-term cash flows, and excess cash is either placed on short-term deposit or invested in deposits which are refundable on demand. The vast majority of the Group's borrowings are fixed through a combination of fixed rate securitised debt and interest rate swaps.

The financial risks faced by the Group are managed in accordance with Board approved policies and are subject to regular review by the treasury committee. The banking and securitisation covenants are reviewed throughout the year by the treasury committee and Board with a focus on ensuring appropriate headroom is available.

Pensions

The deficit on our final salary pension scheme at the year end was £25.0 million before tax (2009: £35.3 million), and £18.2 million after tax (2009: £25.4 million).

Contributions to the scheme were broadly similar to last year with a £10 million top-up contribution. The top-up contribution increases at 5.75% annually, with the intention of funding the deficit over the next nine years.

Taxation

The underlying rate of taxation (before exceptional items) of 22.3% in 2010 is below the standard rate of corporation tax of 28% due to the favourable agreement of certain prior year tax issues and the advantageous tax treatment of a number of short leasehold properties.

The underlying tax rate has increased by 1.4% from 20.9% in 2009.

Exceptional items

There are net exceptional charges of £9.6 million after tax. This reflects £18.9 million provision in respect of onerous leases, £4.7 million loss on the mark-to-market valuation of certain interest rate swaps and £2.1 million of property related insurance claims in the period. This has been offset by a £4.7 million credit for reclaimed VAT in respect of gaming machine income. The consequential tax related credit is £11.4 million.

Corporate Social Responsibility

"We want employees to be proud of who they work for, suppliers to be keen to do business with us and customers to choose Marston's for its value and quality."

Marston's believes that conducting ourselves in a socially responsible manner goes to the very heart of what we do. Our philosophy is that we should act in ways that ensure our employees are proud to say who they work for, our suppliers are keen to do business with us, and our customers choose Marston's beers and pubs for their value and quality.

The underlying principle that guides delivery of this philosophy is our aim to be '**FIT**' in our dealings with employees, customers, suppliers and the communities in which we operate. '**FIT**' represents the three fundamental behaviours practised throughout the business:

- **F**airness — Any action, decision or policy adopted within the Marston's Group should be both equitable and reasonable. It should not result in one particular group of stakeholders gaining an unjust advantage or benefit at the expense of another.
- **I**ntegrity — If a commitment is made it should be kept. If it cannot be delivered or circumstances change so that an alternative course of action is appropriate this should be clearly explained.
- **T**ransparency — Wherever there is the freedom to do so, the Group should act in a manner that is open to the scrutiny of our employees and the wider community.

To oversee our approach to Corporate Social Responsibility (CSR), the Group has an Environmental & CSR Committee chaired by Stephen Oliver. The Committee has day-to-day responsibility for the implementation of CSR policies within the Group and reports to the Board.

Community commitment

Community involvement and 'localness' are at the very core of our business. Where appropriate we source locally, recruit locally and we seek to be our customers' local choice. We see playing a positive part in our local communities as being the very essence of how we operate.

In November 2009, the devastating floods in Cockermouth, home of our Jennings brewery and beers, showed this commitment in action.

Within hours of the floods we made a clear commitment to our local employees that the brewery would be returned to full production as soon as possible. We supported our tenants and lessees with capital injections to rebuild and redecorate their premises, and provided rent concessions while they were unable to trade or their trade was severely restricted. To support the local community we donated 10p from every pint of Jennings beers sold in our pubs to the Cumbria Flood Relief Fund whilst these beers were temporarily being brewed at one of our other breweries. The result was the single biggest donation to the Fund of £178,497.

We were delighted to be recognised in the industry's Publican Awards 2010 when Jennings Brewery won the CSR award for community work described by the judges as '... nothing short of miraculous'.

Clearly, we hope that a problem on this scale will be a 'one-off'. Week in, week out, however, our pub staff and tenants raise significant sums of money for charitable causes through local pub-based activity, supported by contributions from Marston's Inns and Taverns Charitable Foundation, part of which comes from the division's other employees. Marston's Beer Company also makes prize donations for charitable activities run by its Free Trade customers and the Head Office supports a variety of charitable causes by way of donations.

Our employees also run their own Marston's Employee Charity Fund, which the Group is proud to support by matching their contributions. In the year to 31 July 2010, the fund donated over £8,000 to a range of local good causes nominated by our staff.

Our people

We employ about 12,000 people, offering opportunities throughout England and Wales. In addition, our lessees, Retail Agreement operators and tenants also employ significant numbers of people. Many of our staff work on a flexible part-time basis to suit their personal circumstances — offering excellent and growing opportunities for students and people returning to the work environment.

Corporate Social Responsibility CONTINUED

Around half of our workforce are women and about one third of employees with management responsibilities are women. We have a long history of excellent consultative and collective bargaining relationships with our trade unions. Employee representatives, both trade union officials and lay members, have a significant and recognised role to play in developing our business.

Marston's operates a full Equal Opportunities policy and a whistleblowing policy. Both of these can be seen on our website www.marstons.co.uk.

We are committed to staff training and development and have been continuously accredited with the Investor in People standard since 1995. While the range of academic and professional qualifications relevant to our business continues to increase, we also have a growing number of internal development programmes. These are designed to encourage staff who have been out of an academic environment for some time to reconsider their personal development potential. We also run an extensive range of courses for our tenants, lessees, Retail Agreement operators and our free trade and national account customers.

Health and safety

The Group has a health and safety policy endorsed by the Board. Health and Safety Committees, involving both managers and employees, are established throughout the Group to assist with its monitoring and implementation. The Board receives an annual presentation from the Group Health and Safety Manager giving detailed statistics on health and safety issues and the progress made in improving our performance where required. Year on year we aim to improve upon these statistics.

All managed pubs, breweries and supply chain sites undergo health and safety audits by external assessors. The measures by which we judge a satisfactory outcome are continually reviewed and where standards are recorded as consistently high we then amend the process to make the standard even tougher and so ensure that we continue to improve. This year, for example, our pub hygiene and safety audit was upgraded both as part of our continuous improvement process and to ensure the outcomes better complement the new National Food Hygiene Rating system.

Tenants and lessees of Marston's Pub Company are also provided with the opportunity to receive health and safety training, and can use our documentation in their own pubs. We also

provide assistance to tenants and lessees on important legal requirements such as fire risk assessments.

Alcohol awareness

The Group is a long-standing member of the British Beer and Pub Association (BBPA). We are committed to pursuing the BBPA's objectives of supporting the interests of the British pub and beer industry, including working closely with Government to promote responsible drinking.

Marston's also actively supports both the Drinkaware Trust and the industry's own alcohol awareness campaign 'Why let good times go bad?'. This 'Campaign for Smarter Drinking' represents a £100 million commitment by the industry over five years to funding the responsible drinking message and has the support of over 45 industry organisations.

Responsible retailing

We have made a significant investment in e-learning tools which all pub staff joining Marston's Inns and Taverns must complete. A core part of this programme is the identification of potential under-age drinkers. As well as running training to ensure tenants, lessees and Retail Agreement operators are aware of their responsibilities in this area, Marston's Pub Company runs a customised drinks and drugs awareness programme to assist operators in adopting a best practice approach.

Marston's actively supports the Challenge 21 initiative in both its managed and leased pub estate and maintains close links with licensing and other enforcement bodies to help ensure that our pubs operate in a responsible and considerate manner. Managed pubs monitor its use via the till system, recording each time service is refused. In addition, we operate our own 'test purchase' programme to further reinforce the compliance message.

Where Pubwatch and Best Bar None initiatives are in place we expect our pub managers to play an active part in these arrangements, and no pub within the managed or tenanted estate operates a 24 hour licence. We have established operating procedures and promotion policies within those pubs we manage to ensure that they comply with the Mandatory Code of Practice relating to the retailing and promotion of alcohol that came into force in 2010.



“We are determined to ensure that the goods we buy are produced ethically, and are socially and environmentally sustainable.”

Healthy eating

Food represents a significant area of growth for Marston's, particularly in Marston's Inns and Taverns. A core part of our strategy is offering healthier and more sustainable food choices without compromising quality or value for the customer.

Within Marston's Inns and Taverns, we promote food sustainability in a number of different ways:

- In the period we sold 266 tonnes of sustainably sourced fish, reducing the quantity of haddock and cod we use by 45% to allow these endangered stocks to replenish. The remaining haddock and cod used on our menus is sourced only from sustainable fisheries.
- We use Prep High Performance cooking oil which supports the production of sustainable palm oil via the Green Palm trading programme.
- We source 4,000 tonnes of chips from a responsible supplier who uses the potato remnants for animal feed, fertiliser and renewable energy.

Similarly, we are committed to offering customers healthier meals and in Marston's Inns and Taverns, for example:

- 74% of new products launched in 2009 met the Food Standards Agency's 2010 salt targets.
- Battered fish now meet Department of Health 2012 targets for sodium content, and saturated fat content has been reduced by 36%.
- All beefburgers now meet the 2012 sodium target.
- Hydrogenated vegetable oils have been removed from all products.
- Where vegetables are an accompaniment to a main meal they provide two portions of an adult's '5-a-day' requirement.
- We do not add salt to chips and we grill rather than fry our sausages.
- All of our meals are free from genetically modified ingredients and monosodium glutamate.

Food safety and supply

In 2010 we spent £45 million on purchasing food (2009: £45 million), sourcing over 1,200 lines from more than 70 suppliers. We are determined to ensure that the goods we buy are produced ethically, and are socially and environmentally sustainable.

All of our purchasing professionals abide by the Chartered Institute of Purchasing and Supply's Professional Code of Ethics Statement.

To maintain consistently high standards of food quality and hygiene, all of our suppliers are either British Retail Consortium approved, complete a self audit or are audited by an independent food hygiene company. As part of this process, suppliers must be able to demonstrate full traceability of all products supplied to all Marston's managed pubs.

One of the advantages of retaining local breweries within the Group is that it minimises the carbon footprint we generate in producing and distributing our beers. Similarly, by sourcing locally wherever possible and keeping our external suppliers under review we are able to minimise food and delivery miles.

Corporate Social Responsibility CONTINUED**Environmental impacts**

Marston's produces an Environment Report each year which is available on our corporate website (www.marstons.co.uk) together with our Environmental policy. We recognise that our activities affect the environment in a number of ways:

- Use of raw materials and agricultural products;
- Use of energy (gas, electricity, fuel) and water;
- Emission of greenhouse gases, odours and noise;
- Transportation, delivery and distribution of our products;
- Packaging waste (bottles, card, plastic), food waste, spent grains and waste yeast;
- Production, disposal, collection and processing of our waste solids and effluents.

**FTSE4Good****Key environmental data**

	Unit	2010	2009	
Gas	GWH	165.8	159.7	
Electricity	GWH	95.8	89.8	
Water (breweries)	'000 m³	659.2	660.8	
Fossil fuel* (diesel)	'000 gallons	465.3	526.9	
Emissions (CO₂)*	'000 tonnes	82.2	78.9	
Total Waste	'000 tonnes	36.9	43.5	
Waste Recycled	Percentage	65.3%	60.5%	

* Company car fuel usage is not currently measured and is excluded from the calculation of carbon dioxide emissions and fuel usage. The fuel figures shown are for the distribution fleet.



"Marston's is committed to minimising emissions by increasing the efficiency of its operations. Marston's encourages all parts of the business to ensure the efficient use of materials, energy and fuel, to reduce emissions where possible and to reuse and recycle wastes."

Pubs	Breweries
<p>Over two thirds of the Group's electricity and gas is consumed in our pubs. Control is enhanced by smart meters in the majority of pubs which give half-hourly meter readings. Our pub new-build programme includes design innovations for heat conservation, use of outside cooling for our cellars and low wattage lighting.</p>	<p>As part of the brewing industry's climate change agreement, Marston's is committed to reducing emissions by increasing the efficiency of its operations. This includes meeting energy efficiency targets which were split between the breweries as follows: Wolverhampton had to increase its efficiency by 32% from 1999 levels, Burton by 51% and Cockermouth by 2%, all by 2010.</p>
<p>Water usage is a key area of our pub environmental management system. It is addressed through engineering solutions for our washrooms and kitchens, and through staff training.</p>	<p>Burton uses up to 6.61 barrels of water for every one barrel of product brewed and bottled. This ratio is 2.93 at Wolverhampton and between 2.46 and 3.32 at the other three breweries. The difference in ratios is the result of a more modern brewing process at Wolverhampton, whereas Burton uses larger numbers of small oak barrels in our more traditional 'Burton Union System' process.</p>
<p>Our distribution vehicles cover over 4.3 million miles a year operating at 9.31 miles per gallon. Mileage and fuel efficiency is monitored monthly, routes are planned to optimise fuel usage and the vehicles are tracked via GPS. Where possible we have consolidated deliveries and collections to our pubs. Our draymen collect over 20,000 litres of cooking oil each week for recycling, part of which is turned into fuel for our retail vehicles.</p>	
<p>Marston's is registered under the Carbon Reduction Commitment Energy Efficiency Scheme. From 2011 the Group will report its energy usage within its pubs to the Environment Agency and have to acquire carbon allowances from 2012.</p>	<p>Production at our largest breweries in Wolverhampton and Burton complies with the requirements of the Integrated Pollution Prevention and Control (IPPC) permit, as regulated by the Environment Agency. The permit is given once a year and allows the sites to process, ferment and package beer and associated products. It sets out the authorised emissions to the air and sewers, and the controls expected to reduce any environmental impact.</p>
<p>In April 2010 Marston's was awarded the Carbon Trust Standard after taking action on climate change by measuring, managing and reducing its carbon emissions by 2% from October 2006 until September 2009.[†]</p>	
<p>The Carbon Trust Standard is the world's first award that recognises organisations for real carbon reduction. Based on a rigorous, independent assessment, it certifies that organisations have measured, managed and reduced their carbon emissions across their own operations, and are committed to reducing them year on year (www.carbontruststandard.com).</p>	
<p>[†] Comparing carbon footprint data from financial year 2009 to the average of the previous two financial years.</p> <p>From an initial trial involving 35 pubs three years ago, over 400 of our pubs now recycle glass, card and cooking oil.</p>	<p>96% of the waste from the breweries is recycled. After brewing, malt and hops are recycled as animal feed and other production waste such as glass, metals and card is collected by recycling contractors.</p>

DIRECTORS AND ADVISERS



DAVID THOMPSON †
CHAIRMAN

Joined the Company in 1977 and appointed to the Board in 1980. Appointed Managing Director in 1986, Chairman in 2001 and Non-executive Chairman in 2002. He is Chief Executive of Anglia Maltings (Holdings) Limited and an executive Director of Raggleth Limited. He is also Non-executive Director of Persimmon Plc, Caledonia Investments plc and Smiths Flour Mills Limited and a former Non-executive Director of Tribal Group plc.



RALPH FINDLAY †
CHIEF EXECUTIVE

Appointed to the Board as Finance Director in 1996 becoming Chief Executive in 2001. He is currently Chairman of the British Beer and Pub Association. He previously worked as Financial Controller at Geest plc and Treasury Manager at Bass plc.



ANDREW ANDREA
FINANCE DIRECTOR

Joined the Company in 2002 as Divisional Finance Director for Marston's Beer Company and in 2006 he became Operations Director for Marston's Pub Company. He was appointed to the Board as Finance Director in March 2009. A qualified Chartered Accountant, he has previously worked in various financial and commercial roles with Guinness Brewing Worldwide, Bass Brewers Limited and Dollond & Aitchison.



DEREK ANDREW MBE
MANAGING DIRECTOR
MARSTON'S INNS AND TAVERNS

Joined the Company in 1980. Held a range of managerial positions within the Company including Managing Director of Camerons Brewery Company before being appointed to the Board in 1994. He became Managing Director of Marston's Inns and Taverns in 2001 and in the same year was awarded an MBE for services to the community and industry.



ALISTAIR DARBY
MANAGING DIRECTOR
MARSTON'S PUB COMPANY

Appointed to the Board in 2003 on his appointment as Managing Director of Marston's Beer Company. In 2008 he became Managing Director of Marston's Pub Company. During the year he became a Non-executive Director of Cask Marque.



STEPHEN OLIVER
MANAGING DIRECTOR
MARSTON'S BEER COMPANY

Joined the Company on the acquisition of Marston, Thompson & Evershed and became Managing Director of Marston's Pub Company on his appointment to the Board in 2001. In 2008 he became Managing Director of Marston's Beer Company. He is a Trustee of the Burton Breweries Charitable Trust and during the year became a Non-executive Director of George Bateman & Son Limited.

ADVISERS

Registrar and transfer office

Equiniti Registrars, Aspect House,
Spencer Road, Lancing,
West Sussex, BN99 6DA
Shareholder queries: 0871 384 2274
www.shareview.co.uk

Auditors

PricewaterhouseCoopers LLP,
19 Cornwall Street, Birmingham, B3 2DT

Merchant bankers

NM Rothschild & Sons Limited,
New Court, St Swithin's Lane, London,
EC4P 4DU

Solicitors

Freshfields Bruckhaus Deringer LLP,
65 Fleet Street, London, EC4Y 1HS

Wragge & Co LLP, 55 Colmore Row,
Birmingham, B3 2AS



ROSALIND CUSCHIERI * †
NON-EXECUTIVE DIRECTOR

Appointed to the Company in October 2006. She is Chief Executive of Lightbody Ventures Limited and former Commercial Director of Warburtons Limited. On 20 October 2010 she was appointed a Director of Genius Gluten Free Limited. She was previously responsible for the off-trade category marketing with Scottish & Newcastle plc.



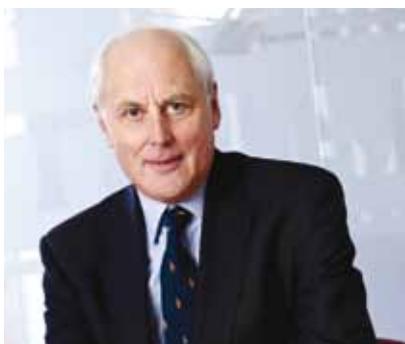
MILES EMLEY * †
NON-EXECUTIVE DIRECTOR

Appointed to the Company in 1998. He is Chairman of St Ives PLC. Former Director of NM Rothschild & Sons Limited and UBS Phillips & Drew.



NEIL GOULDEN * †
NON-EXECUTIVE DIRECTOR

Appointed to the Company in April 2008. He was Executive Chairman of the Gala Coral Group Limited until October 2010, and is a member of the Low Pay Commission. He has previously held Board positions at Ladbrokes plc, Compass Group PLC, Chef and Brewer and Allied Leisure PLC.



ROBIN HODGSON — THE LORD HODGSON OF ASTLEY ABBOTS CBE * †
NON-EXECUTIVE DIRECTOR

Appointed to the Company in 2002. He is Chairman of Nova Capital Management Limited and a Director of Nova Capital Group Limited, Johnson Brothers & Co Limited, Tenet Group Limited, EIS Optics Limited and RFIB Group Limited.



ROBIN ROWLAND
NON-EXECUTIVE DIRECTOR

Appointed to the Company in 2010. He is Chief Executive of YO! Sushi Limited. He formerly held executive Board positions at City Centre Restaurants plc and Scottish & Newcastle plc — Retail Division.



ANNE-MARIE BRENNAN
COMPANY SECRETARY

Joined the Company in 1998 as Group Tax Manager. A qualified Chartered Accountant and Chartered Secretary. She was appointed Company Secretary in 2004.

* Member of the Remuneration and Audit Committees
† Member of the Nomination Committee

REGISTERED OFFICE

Marston's House, Brewery Road,
Wolverhampton, WV1 4JT
Telephone: 01902 711811

Stockbrokers
Numis Securities Limited,
The London Stock Exchange Building,
Paternoster Square, London, EC4M 7LT

JP Morgan Cazenove Limited,
20 Moorgate, London, EC3R 6DA

DIRECTORS' REPORT FOR MARSTON'S PLC

The Directors present their report, together with the audited financial statements of the Group, for the 52 week period ended 2 October 2010.

The Company registration number is 31461.

Principal activities

The Group's principal activities are operating managed, tenanted and leased public houses, brewing beer and wholesaling beer, wines and spirits.

Business Review

The Chairman's Letter on page 6 and the Business Review on pages 8 to 25 provide detailed information relating to the Group and its strategy, the operation of its divisions and the results and financial position for the financial period ended 2 October 2010.

Details of the principal risks and uncertainties facing the Group are set out in the Corporate Governance Report on pages 31 to 36.

All of the above are incorporated by reference in (and shall be deemed to form part of) this report.

Dividends

An interim dividend of 2.10p per ordinary share was paid on 30 June 2010. The Directors recommend a final dividend of 3.7p per ordinary share to be paid on 1 February 2011 to those shareholders on the register on 17 December 2010. This would bring the total dividend for the period ended 2 October 2010 to 5.8p per ordinary share (2009: 7.14p). The payment of the final dividend is subject to shareholder approval at the Annual General Meeting (AGM).

Preference shares

The preference shares carry the right to a fixed cumulative preferential dividend. Further details are given in note 17 on page 74.

Research and development

The Group undertakes research and development in-house, and through support for the British Beer and Pub Association and Brewing Research International. During the period, the Group has invested in the research and development of its **fastcask™** technology, details of which are set out on page 17.

Treasury management

The Group's policy on the use of financial instruments is set out in note 20 to the financial statements on page 75.

Capital structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the period, are shown in note 27 to the financial statements on page 88. The Company has one class of ordinary shares and one class of preference shares. On a poll vote, ordinary and preference shareholders have one vote for every 25p of nominal value of share capital held, in relation to all circumstances at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 26 to the financial statements on page 85. Shares held by the Employee Benefit Trust abstain from voting.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Under the Articles of Association, the Directors have authority to issue up to an aggregate nominal amount of £2,104,127 of the Company's share capital as set at the AGM held on 29 January 2010.

Change of control

There are a number of agreements that take effect after, or terminate upon, a change of control of the Company, such as commercial contracts, bank loan agreements, property lease arrangements and employee share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Directors

Membership of the Board and biographical details of the Directors serving on the Board are set out on pages 26 and 27.

Further details relating to the Board are set out on page 31. All the Directors will offer themselves for election or re-election at the AGM. Details of their service agreements or terms of engagement are set out in the Directors' Remuneration Report on pages 37 and 38.



The Directors' interests in the shares of the Company are shown on page 40.

To the extent permitted by law and its Articles of Association, the Company has executed deeds of indemnity for the benefit of each Director or other officer of the Company to indemnify them in respect of the costs of defending claims against them in their role as Directors and officers of the Company or any of its subsidiaries. These were in place throughout the period ended 2 October 2010. The Company also purchased and maintained throughout the same period Directors' and Officers' liability insurance in respect of itself and all its Directors.

Substantial shareholdings

As at 2 December 2010, the Company had been notified under the Disclosure and Transparency Rules and, for the preference shares, with reference to the Register of Members, of the following voting interests:

Ordinary shares of 7.375p each		
Shareholder	Number	%
Prudential plc	40,854,095	7.16
Newton Investment		
Management Limited	28,901,389	5.06
Artemis Investment		
Management Ltd	28,748,591	5.04
Henderson Global Investors Ltd	26,195,149	4.59
Legal & General Group Plc	22,441,741	3.93
<i>Preference shares</i>		
Shareholder	Number	%
Fiske Nominees Ltd	34,048	45.40
Mr A W R Medlock	10,407	13.88
George Mary Allison Ltd	5,500	7.33
Mrs A Somerville	5,500	7.33
Wealth Nominees Ltd	4,356	5.81
Mrs N R Southall	2,855	3.81

Employees

The average number of employees within the Group is shown in note 5 to the financial statements on page 65.

The Company operates a full Equal Opportunities policy, a copy of which is available on www.marstons.co.uk, which ensures that all employees receive equal treatment regardless of their sex, sexual orientation, age, marital status, nationality, race, religious beliefs, origin, membership or non-membership of a trade union, spent convictions or disability.

Further details of arrangements relating to employees are described in the Corporate Social Responsibility report on pages 21 to 22.

Supplier payment policy

The Group's payment policy follows the CBI's Prompt Payment Code for all suppliers. Copies of this Code can be obtained from the Company's registered office. Trade payables for the Group at the financial period end are estimated as representing 44 days' purchases (2009: 39 days' purchases). Trade payables for the Company were nil (2009: nil).

Contributions for political and charitable purposes

Donations to charitable organisations during the period amounted to £193,236 (2009: £9,000) including £178,497 to the Cumbria Flood Relief Fund with the balance made across the divisions to various local and national charities. Further details can be found in the Corporate Social Responsibility report on page 21. The Group's policy is not to make any donations for political purposes in the UK or to donate to EU political parties or incur EU political expenditure. Accordingly, neither the Company nor its subsidiaries made any political donations or incurred political expenditure in the financial period under review (2009: nil).

Environmental policy

Environmental policy is determined by the Board, and performance is reviewed regularly by a committee of the Board chaired by Stephen Oliver, Managing Director of Marston's Beer Company. Further details can be found in the Corporate Social Responsibility report on page 21 and in the 2010 Environment Report on www.marstons.co.uk.

Auditors

PricewaterhouseCoopers LLP has indicated its willingness to continue as Auditors and their re-appointment has been approved by the Audit Committee. Resolutions to reappoint them and to authorise the Directors to determine their remuneration will be proposed at the 2011 AGM.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business Review. The financial position of the Group is described on pages 19 to 20. In addition, note 20 to the financial statements on page 75 includes the Group's objectives, policies and processes for managing its exposures to interest rate risk, foreign currency risk, counterparty risk, credit risk and liquidity risk. Details of the Group's financial instruments and hedging activities are also provided in note 20.



The Board has a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements set out on pages 47 to 92 and 94 to 102 have been prepared on the going concern basis.

Annual General Meeting

The AGM of the Company will be held at Walsall Football Club, Banks's Stadium, Walsall at 12 noon on 28 January 2011. The notice convening the meeting and explanatory notes for each resolution is distributed separately to shareholders. It is also available on the Company's website: www.marstons.co.uk, where a copy can be viewed and downloaded.

The Company was given authority at its AGM in 2010 to make market purchases of ordinary shares up to a maximum number of 57,061,078 shares. Similar authority will again be sought from shareholders at the 2011 AGM.

By order of the Board

A handwritten signature in black ink, which appears to read 'Anne-Marie Brennan'.

Anne-Marie Brennan
Company Secretary
2 December 2010



Pictured: The Burnt Stump, Nottingham



Pictured: Hopwood House, Alvechurch

CORPORATE GOVERNANCE REPORT

Marston's PLC is subject to The Combined Code on Corporate Governance 2008 (the 'Code'). It reports here how it has applied the main principles throughout the accounting period and explains any variations. The Company has complied fully with the provisions of Section 1 of the Code, with one exception. Provision A.3.2 recommends that at least half of the Board, excluding the Chairman, should comprise independent Non-executive Directors. On 1 September 2010 the Company met this recommendation when the Board appointed Robin Rowland. Further details of his appointment are given under the Nomination Committee heading.

The Board

The Board is collectively responsible to shareholders for the long-term success of the Company. Its role is to provide entrepreneurial leadership while aiming to assess and manage risk through a framework of prudent and effective controls. It has a schedule of matters reserved for its approval, directly or on the recommendation of its committees, which include:

- Strategy, management and budget matters;
- Capital structure, dividend policy and financial controls;
- Public and shareholder announcements;
- Internal controls and the identification, monitoring and management of risk;
- Major capital expenditure, asset acquisitions and disposals;
- Board and committee membership and corporate governance arrangements;
- Remuneration of Directors and senior management; and
- Policies, including ethics, health and safety, environmental, charitable and corporate social responsibility.

Other responsibilities are given to committees of the Board by their terms of reference. Details are given under the sections relating to these committees. The Company Secretary advises the Board, through the Chairman, on all governance matters. All Directors have access to her advice and services.

Board and committee members are supplied with briefings on substantive issues in advance of meetings and there is a regular timetable of matters for consideration during the year. The Chairman agrees the agenda for each meeting in conjunction with the Chief Executive and Company Secretary. Regular reports include the Group's financial position, risk management, regulatory compliance and key business operations.

Directors may, in the performance of their duties, seek independent professional advice at the Company's expense. During the year the members of the Remuneration Committee sought advice from Deloitte LLP on a review of the Executive Directors' pension provision and on the share-based Long Term Incentive Plan.

The Directors

The Board comprises five Executive Directors, five independent Non-executive Directors and the Chairman. The Code calls for Non-executive Directors to be determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the Directors' judgement.

The Chairman was not independent on appointment, as required by the Code, having previously served as an Executive Director. The Board considers all its Non-executive Directors to be independent within the meaning of the Code. Miles Emley has more than nine years' service as a Non-executive Director of the Company, which is regarded as relevant under the Code when assessing a Director's independence. The Board remains of the opinion that he is independent in character and judgement and as such is regarded by the Board as an independent Director.

The Board believes that its current membership has the right balance of skills, experience, independence and knowledge of the Company to discharge its duties and responsibilities. It considers the balance of Executive and Non-executive Directors as appropriate, as it prevents any one group from dominating decision-making and is neither too large to be unwieldy, nor too small to run the risk of undue disruption if any member cannot attend.

In line with the Code, the Non-executive Directors met during the year without the Executive Directors.

The Articles of the Company require all Directors to be elected at the Annual General Meeting (AGM) following their appointment by the Board and to be re-elected at least once every three years. Owing to the tenure of Miles Emley, his appointment is subject to annual re-election. In recognition of the new UK Corporate Governance Code (the 'New Code') which was introduced in June 2010, although not applicable until the 2010/11 financial year, the entire Board will stand for re-election at the forthcoming AGM. All Non-executive Directors are appointed for terms of three years, subject to the requirement to stand for annual election.

The Chairman and Chief Executive

There is a clear division of responsibility between the roles of the Chairman and the Chief Executive which are carried out by David Thompson and Ralph Findlay respectively. The Chairman is responsible for the leadership and effectiveness of the Board and ensures adequate time is available for Board meetings to consider agenda items, especially strategic matters.



The Chief Executive, supported by the other Executive Directors, is responsible for the performance of the Group in line with the strategies and objectives established by the Board and the powers delegated by it. He ensures that the Board is supplied with timely and relevant information to support its strategic role and he leads the Executive Directors and senior management in dealing with the operational requirements of the business.

Senior Independent Director

Lord Hodgson is the Senior Independent Director and served in this capacity throughout the year. Where necessary, he acts as a sounding board for the Chairman and as an intermediary for the other Directors. He is available to shareholders if they have concerns which have not been resolved through normal channels, or in circumstances where those channels are inappropriate. As the Senior Independent Director, Lord Hodgson leads the Board's annual assessment of the Chairman's performance and he would also lead any discussions on the appointment of a new Chairman.

Board effectiveness

The Chairman, assisted by the Company Secretary, led the annual performance evaluation of the Board, committees and individual Directors and reported his findings to the Board. The process was based on questionnaires and one-to-one meetings by the Chairman with each Director and the Company Secretary. Each standing committee also discussed, and reported to the Board on, its own performance. The Non-executive Directors, led by the Senior Independent Director, met without the Chairman to appraise his performance.

The New Code requires such evaluation to be externally facilitated at least every three years. In September 2010, the Board appointed Blackwood Recruitment LLP ('Blackwood') to facilitate an independent evaluation of the Board, its committees and Directors. Blackwood has no other connection with the Company. Through a combination of questionnaires and face-to-face interviews with each member of the Board, Blackwood produced their own assessment.

The results and observations of internal meetings and the external assessment were summarised by the Chairman in a report to the Board. Each Committee and the Board concluded that it was satisfied overall with its own effectiveness and the contribution and commitment of each of its Directors. In addition, the Board agreed actions to further enhance its effectiveness and, as a result, the Board agendas and meeting timetable will be updated to reflect the feedback received.

Training and development

Each Director takes responsibility for ensuring that he or she remains up to date in his or her skills and knowledge of the Company and this is reviewed in the annual appraisal and evaluation meetings with the Chairman. Where appropriate, the Company provides the resources to meet Directors' development requirements. All Directors have regular opportunities to meet senior management in the pubs and brewery divisions to maintain and deepen their understanding of the business.

Each Director has had a tailored induction programme on joining the Board. Following his appointment in September, Robin Rowland joined the Board and was given an initial series of briefings that covered the Company, the industry, governance arrangements and the operations of the Group. His induction remains ongoing with site visits and meetings with senior management to be held in the coming months.

During the year the Board held a number of its meetings off-site to allow its Directors to visit a number of pubs and meet local management in order to gain an understanding of operational matters.

Conflicts of interest

The Articles of Association allow the Board to authorise potential conflicts of interest and to impose such limits or conditions as it thinks fit. There is a procedure in place, whereby actual and potential conflicts of interest are regularly reviewed and the appropriate authorisation is sought prior to the appointment of any new Director or if a new conflict arises. This procedure was in place during the year and operated prior to the appointment of Robin Rowland.

The Chairman is a Director of Ragleth Limited — the controlling shareholder of Anglia Maltings (Holdings) Limited and a supplier to the Company. All contracts are concluded on ordinary commercial terms without the Chairman being present in contract negotiations or in the event of any consideration of these by the Board. The Chairman has no controlling interest in Ragleth Limited and consequently the transactions between the Group and Ragleth Limited are not Related Party Transactions as defined by International Financial Reporting Standards.



Communication with shareholders

An investor relations programme is in place between the Executive Directors and institutional investors, fund managers and analysts. Matters such as strategy, performance, management and governance are discussed within the constraints of information already made publicly available.

The Board considers it important to understand the views of shareholders and issues which concern them. It receives feedback from analysts and institutional shareholders on their meetings with Executive Directors. During the year the Chairman and Senior Independent Director were available to meet with the Company's major institutional investors who are also offered the opportunity to meet with newly appointed Directors.

The Company Secretary oversees communication with private shareholders on behalf of the Board. All material information reported to the regulatory news services is simultaneously published on the Company's website affording all shareholders full access to Company announcements. There is an ongoing programme of encouraging shareholders to receive Company information by electronic means. As a result the Company's website has become the primary method of communication for the majority of its shareholders. Details of other information available for shareholders on the website include comprehensive share price information, results presentations and financial calendars.

The AGM is an opportunity for the Board to communicate with all shareholders. Recent trading performance and developments in the business are explained prior to the formal business of the meeting. Shareholders are invited to ask questions during the meeting, which is followed by an opportunity to meet with the Directors on an informal basis. There will be separate voting on each substantial resolution. The Company will release the results of voting to the London Stock Exchange and publish the results on its website on the next business day.

Board meetings and attendance

The Board and Committee attendance record of Directors during the period is set out below. There were 11 scheduled Board meetings, of which 5 were held away from Head Office. In addition, a day was spent considering Group strategy.

Name	Board	Rem	Nom	Audit
David Thompson	11/11	—	5/5	—
Robin Hodgson	11/11	5/5	5/5	3/3
Rosalind Cuschieri	11/11	5/5	5/5	3/3
Miles Emley	11/11	5/5	5/5	3/3
Neil Goulden	11/11	5/5	5/5	3/3
Robin Rowland*	1/1	—	—	—
Ralph Findlay	11/11	—	5/5	—
Andrew Andrea	11/11	—	—	—
Derek Andrew	11/11	—	—	—
Alistair Darby	11/11	—	—	—
Stephen Oliver	11/11	—	—	—

* Robin Rowland was appointed on 1 September 2010.

Board committees

The terms of reference of the Audit, Remuneration and Nomination Committees comply with the provisions of the Code and are available for inspection, on the Company's website www.marstons.co.uk. They are also available on written request from the Company Secretary at the registered office.

Nomination Committee

The Nomination Committee is chaired by the Chairman, David Thompson, and its other members are Miles Emley, Ralph Findlay, Lord Hodgson, Rosalind Cuschieri and Neil Goulden. Other Executive Directors, senior management and external advisers may be invited to attend meetings. The Committee has responsibility for considering the size, structure and composition of the Board, retirements and appointments of additional and replacement Directors, succession planning and for recommending potential candidates who will maintain an appropriate balance of skills and experience on the Board. In doing so, the Committee considers, amongst other factors, the benefits of diversity, including gender diversity.

The Committee held five meetings during the year. It reviewed the balance of skills, knowledge and experience on the Board and the independence of each Non-executive Director. These reviews provide a background to succession planning, future composition and the re-election of each Director. No Director was involved in any decision regarding his or her own re-appointment. Following the reviews, the Committee recommends that each Director, in offering to stand for re-election, be proposed by the Board for re-appointment at the forthcoming AGM.

During the year, the Committee considered the appointment of a new Non-executive Director. Using the review procedures referred to above, the specification for the role was identified and a shortlist of candidates was drawn up. The Committee did not consider it appropriate to appoint an external search consultancy or use advertisements, given the suitability of candidates generated by this process. Following meetings with the Chairman and Chief Executive, the other Directors met with the shortlisted candidates before the Committee recommended the appointment of Robin Rowland to the Board. Biographical details for Robin Rowland can be found on page 27.

Remuneration Committee

The Remuneration Committee comprises Lord Hodgson (Chairman), Miles Emley, Rosalind Cuschieri and Neil Goulden. Ralph Findlay attends if required. It met five times in the period to consider and determine, on behalf of the Board, service contract terms, remuneration and benefits, including bonuses, for Executive Directors. It monitors the level and structure of remuneration for senior managers and approves their bonus payments. It is also responsible for the granting of LTIP awards and share options.

Further information on the activities of the Remuneration Committee is given in the Directors' Remuneration Report on pages 37 to 44. A resolution to approve the Remuneration Report will be proposed at the AGM.

Audit Committee

Composition

The Audit Committee comprises Miles Emley, Lord Hodgson, Rosalind Cuschieri and Neil Goulden. The Board considers them to have relevant financial experience. Miles Emley served as Chairman throughout the financial period and until 3 December 2010 when Neil Goulden will take over the Chairmanship of the Committee. The Board regards Neil Goulden as having recent and relevant financial experience given his recent roles as Executive Chairman and acting Chief Executive of Gala Coral Group.

Other individuals, such as the Chief Executive, Finance Director and Corporate Risk Manager, are usually invited to attend all or part of the Committee's meetings. The Corporate Risk Manager reports to each meeting and has the right to approach the Committee direct. At least once a year, the external Auditors meet the Committee without any Executive Director present.

Role

The Committee's main responsibilities cover corporate reporting, risk management, internal controls and the relationship with the external Auditors. It makes an annual assessment of the cost-effectiveness, objectivity and independence of PricewaterhouseCoopers LLP, the Company's external Auditors. It accepts that some non-audit work is most appropriately undertaken by the Auditors. Where such work is expected to be in excess of a specified amount, the Chairman of the Audit Committee must approve the work. Below that amount, the Group's Finance Director has authority to approve such work once he is satisfied that the Auditors are the most appropriate providers. There is an annual review of the provision of, and fees for, non-audit services as part of the Committee's evaluation of the adequacy and objectivity of the Auditors.

Activities

During the year the Committee met three times to consider and review the risks to the Group, the internal control and risk management systems and to assess the annual internal audit plan. It considered and recommended for Board approval the Annual Report, Interim Results and the preliminary announcement.

In assessing the work of the external Auditors, the Committee found itself satisfied with the scope of their work, their effectiveness, independence and fee proposal and recommended their re-appointment to the Board. The Committee is satisfied that adequate safeguards are in place to protect the independence and objectivity of the service provided by the external Auditors. The Group has used other accounting firms for non-audit work. In each case, consideration was given to the need for value for money, experience and objectivity required in the particular circumstances.

In addition, the Committee reviewed a number of standing items including the Group's whistleblowing policy and arrangements therein, matters arising from internal audits and compliance and legal developments.

Internal controls

The Board retains overall responsibility for the Group's systems of internal control and risk management whose implementation is the responsibility of the Executive Directors. Such systems are designed to manage rather than eliminate risk and by their nature can provide only a reasonable and not absolute defence against material errors, losses, fraud or breaches of the law.

An overview of the principal risks and uncertainties surrounding the Company is given in this report. To manage these and other risks the Company has an established risk management programme to identify, assess and mitigate them.



Control environment

The key features of the systems of internal controls include:

- a clearly defined management structure operating within a framework of policies and procedures covering authority levels, responsibilities and accountabilities;
- a detailed formal budgeting process for all Group activities, with the annual Group budget and projections for future years being formally approved by the Board;
- established procedures for planning, approving and monitoring capital expenditure and major projects;
- Board approval being needed for all major investment, divestment and strategic plans and programmes;
- a review at each Board meeting of financial and non-financial progress towards the Group's goals; and
- an internal audit function that scrutinises internal controls and conducts audits on controls associated with key risks of the business, and which recommends improvements.

The Board's review of the effectiveness of the Group's risk management and internal control systems occurs annually and is co-ordinated by the internal audit function. The Board also receives reports from the Audit Committee on that Committee's regular reviews of internal controls and risk management systems.

The review this year confirmed that there is a clear link between the key risks of the business and the controls used to manage those risks. Ownership of the controls by the managers within the business is well defined and there are no significant weaknesses that require remedial actions to take place.

Risk management system

There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This operated during the year and up to the date of signing this report. The Group's risk management and governance framework is designed to support the identification, assessment, monitoring, management and control of risks that are significant to the achievement of the Group's business objectives. The Chief Executive meets regularly with the Corporate Risk Manager to review the risks faced by the Group and the Board reviews risk annually. These reviews cover strategic, financial, operational and compliance risks.

Managers are required to identify the key internal controls for each of the risks they are responsible for and to identify the control owners. These risks are then classified and recorded in the Group's risk register. The Corporate Risk Manager reviews and analyses the outcome of this process and reports the results to the relevant divisional Managing Directors, who prioritise the key risks for their management teams. The Group's risk register is reported at each Audit Committee meeting.

The internal audit strategy takes into account the key business risks of the Group and provides assurance to the Audit Committee on the effectiveness of the internal control environment in mitigating the risks to an acceptable level. The risk management strategy provides vital information to ensure that internal audit provides sufficient coverage of the key internal controls.

Principal risks and uncertainties

The following represents, in the opinion of the Board, the principal risks of the business. It is not a complete list of all the risks and the priority, impact and likelihood of the risks can change over time.

Economic Risk

Economic conditions in the UK continue to have an impact upon customer behaviour in all market sectors including leisure. Marston's is reliant upon consumer levels of discretionary spend. There is a risk that the UK's economic recovery will be slow, or even that the economy could dip into recession.

The Government has announced significant cuts in public spending and welfare payments. This is already influencing consumer behaviour and could significantly constrain spending. The planned increase in the VAT rate to 20% on 4 January 2011 could further dampen consumer spending.

Economic conditions are leading to an increase in industrial action compared to recent years. How widespread this will be in the next year is not known. Industrial action by staff within the public sector could affect Marston's objectives where there is a degree of reliance on those services. Suppliers to Marston's could be severely disrupted by strikes, although Marston's seeks to mitigate this through avoiding an over-reliance upon any one supplier and by contingency plans.

The tenants and free trade customers with whom Marston's trade are in essence small businesses prone to risks similar to many other small businesses in the UK. Factors such as the ability to obtain credit, property values, taxation, and inflation could all affect the profitability of these businesses and in turn Marston's own performance.

Reputation Risk

Marston's has invested heavily in a visible and national brand. Its reputation is central to its relationship with investors, customers, staff, suppliers and regulatory authorities. There is a risk that Marston's reputation could be damaged if it is not properly protected.

For investors, financial performance is key. The rights issue in July 2009 committed Marston's to development and performance targets which, if not met, could affect its standing amongst its investors.

For others, such as customers, employees and suppliers, Marston's reputation is maintained by having excellent levels of customer service, quality of customer experience, quality of products, continuity of supply, safety and professionalism. The Group's reputation amongst regulatory bodies has to be maintained with vigilance through legal compliance, sound corporate responsibility and internal governance.

Legislation Risk

There is continued focus by the Government upon, as well as media and public interest in, health concerns associated with alcohol. Cheap alcohol made widely available in supermarkets has in particular received a lot of criticism from lobby groups. How the Coalition Government will tackle these issues remains unclear. There is a risk that legislation is introduced restricting further the sale of alcohol which could affect the operation of our licensed premises, or those of our tenants and free trade customers.

The beer tie, which creates a contractual obligation for a tenant to purchase drink from a brewing entity, is under pressure from lobby groups. In 2009 the Business Enterprise Select Committee produced a report on the pub industry calling for a series of recommendations to be met by June 2011, or face a possible referral to the Competition Commission and legislation. It is difficult at this stage to predict the outcome of any future Competition Commission inquiry.

Marston's new-build programme is reliant upon projects receiving local authority planning permission. Approval times vary. Marston's seeks to mitigate the impact of this variation by having sufficient projects submitted at any one time. The Government's Spending Review may affect approval times and the planning system generally. In addition, planning regulations are becoming more demanding, especially for the eco-efficiency of buildings.

Operational Control Risk

Financial Control

The need for control of treasury risks and for operational compliance with banking and securitisation covenants is explained in the Financial Review. Internal controls are in place for financial transactions, and to guard against any misstatement of results. Risks are mitigated by the use of appropriate authority levels for transaction approval, segregation of duties and the production of detailed financial reports throughout the year.

IT

The Group's operational activities are heavily reliant upon IT. Marston's communications network should process management information, conduct financial transactions, place supplier orders and receive customer orders without delay or interference. The IT infrastructure is designed to have sufficient capacity to meet needs and is protected behind robust firewalls. Business continuity controls are regularly rehearsed to improve the chances of recovery of data within acceptable tolerances.

Pension

The funding of the final salary pension scheme (the 'Scheme') and the management of its deficit is explained in the Financial Review. Investment returns, as well as the assumptions taken regarding future salaries and longevity all affect the valuation of the Scheme and its future liabilities. Uncertainty around these variables is reduced by triennial valuations of the Scheme, by the recent appointment by the pension trustees of an Investment Subcommittee, and mitigated by setting the Group's top-up contributions at an appropriate level, and by changes to the Scheme.

DIRECTORS' REMUNERATION REPORT

This report has been prepared by the Remuneration Committee and approved by the Board. It has been written in accordance with the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the 'Regulations'), the Combined Code on Corporate Governance 2008 (the 'Code') and the Listing Rules of the FSA.

Membership

The Remuneration Committee is appointed by the Board and comprises Lord Hodgson (Chairman), Miles Emley, Rosalind Cuschieri and Neil Goulden, all of whom are regarded as independent Non-executive Directors by the Board.

Role of the Remuneration Committee

The Committee is responsible for:

- setting the framework and policy for the remuneration of the Executive Directors, which it reviews annually for appropriateness and relevance;
- determining the specific elements of the Executive Directors' remuneration, their contractual terms and compensation arrangements;
- monitoring the level and structure of remuneration for senior management and approving their bonus payments;
- overseeing any major changes in employee benefit structures throughout the Group.

The Terms of Reference of the Committee can be found in the Investors' section of the Group's website at www.marstons.co.uk.

In setting policy and compensation levels, the Remuneration Committee has due regard to the Code.

Activities of the Committee

During the year the Committee met to consider a range of issues including:

- a review of Executive Directors' and senior managers' salaries and bonus arrangements;
- a review of the pension arrangements for Executive Directors;
- a review of and adjustments to the Long Term Incentive Plan (LTIP);
- a review and approval of awards under the Save As You Earn (SAYE) share option scheme;
- a review of its terms of reference.

Advisers to the Committee

The Committee took advice during the period from the Chief Executive, Ralph Findlay, except in matters relating to his own remuneration. Deloitte LLP are retained by the Group to provide independent advice with regard to general remuneration levels and comparator group information for Executive Directors. During the year they undertook a review of the LTIP and alternatives to the existing pension provision. Deloitte LLP was also independently appointed by the Company to assist with specific internal audit projects, as directed by the Corporate Risk Manager, and ad hoc tax projects.

Remuneration policy

The Group's remuneration policy is to ensure that the remuneration of Executive Directors is sufficiently competitive to enable the Group to retain and motivate existing Directors and attract high quality performers in the future. The Committee undertakes an annual review of market practice and considers the remuneration levels of directors in companies of similar size from within and outside the industry sector. When setting the level of Executive Director pay, the Remuneration Committee also takes into account the level and structure of remuneration for other employees and the overall increase in pay throughout the Group. The Group aims to reward all employees fairly according to their role, performance, the economic environment and the financial performance of the Group. Executive Directors are incentivised and rewarded in a way that is consistent with the Group's strategic objectives and aligns the interests of the Directors with those of shareholders. To achieve this, the Executive Directors' total remuneration comprises both fixed remuneration and variable reward, the latter reflecting both Group performance and individual achievement. The main fixed and variable elements of remuneration for Executive Directors are set out below. Only the basic salary element is pensionable.

Fixed	% of salary
● basic salary;	
● benefits in kind (detailed in the notes to the Directors' emoluments table on page 41);	
● pension benefits (may be taken as a cash allowance).	
Variable	
● annual award of share options under the LTIP, vesting after three years, subject to performance conditions being met;	up to 100%
● annual bonus related to Group performance.	up to 100%

The Group's remuneration policy in respect of Non-executive Directors is to pay annual fees which reflect the responsibilities and duties placed upon them, whilst also having regard to market practice.

Service contracts

The Group's policy is that all Executive Directors' contracts are on a rolling 12 month basis. They are subject to 12 months' notice when terminated by the Group and 6 months' notice when terminated by the Executive Director. David Thompson has a 6 month rolling contract. The table overleaf details the Executive Directors' and David Thompson's service contracts.

Payments to Directors upon termination of their contracts will be equal to the Director's basic salary for the duration of the notice period. For new Directors, including Andrew Andrea, any payment of salary during their notice period will be reduced by any amount earned in that period from alternative employment. There is



no reduction for mitigation or for early payment for the other Executive Directors listed below as the Remuneration Committee has taken the view that as long-standing employees of the Group they would merit full compensation in the event of unilateral termination of their employment by the Group.

With the exception of David Thompson, the Non-executive Directors do not have a service contract and their appointments may be terminated without compensation at any time. All Non-executive Directors have letters of appointment and their appointment and subsequent re-appointment is subject to approval by shareholders.

The Committee has reviewed these arrangements in the light of current market practice and the relevant provisions of the Code and considers that they are appropriate and in the interests of shareholders, the Group and the individuals concerned.

Date of Contract	Notice Period (Group)	Notice Period (Director)
Andrew Andrea	31 Mar 2009	12 months
Derek Andrew	22 July 2004	12 months
Alistair Darby	16 May 2003	12 months
Ralph Findlay	15 Aug 2001	12 months
Stephen Oliver	15 Aug 2001	12 months
David Thompson	24 Jan 2002	6 months

Salaries

When reviewing the Executive Directors' base salaries the Committee considers:

- salary levels for similar jobs in appropriate comparator companies;
- the performance, experience and relative responsibilities of the individual;
- the balance between fixed and variable reward; and
- relative remuneration levels and pay awards throughout the organisation.

Salaries for Executive Directors were reviewed as at 1 October 2009. Having regard to the economic environment, uncertain outlook and pay and conditions elsewhere in the Group, no Director has received a salary increase since 1 October 2007, with the exception of Andrew Andrea whose salary was increased to £240,000 as part of a two-step adjustment to reflect his increased duties and contributions to the Group following his internal appointment in March 2009.

With the exception of Andrew Andrea, and with effect from 1 October 2010, salaries for Executive Directors have been increased by an average of 5.95% which the Committee considers to be appropriate and comparable with those being applied elsewhere in the Group. In the final step adjustment,

Andrew Andrea's salary has been increased to £285,000, an increase of 18.75%, which the Committee regards as an appropriate level in recognition of his position as Finance Director.

External appointments

With the exception of Stephen Oliver, no Executive Director serves as a paid director of any other company outside the Group. The fees earned by Stephen Oliver, in respect of his Non-executive Directorship at George Bateman & Co Limited, are invoiced by and paid to the Group.

Bonuses

The Remuneration Committee approved an extension to the bonus payment arrangements put in place the previous year whereby the level of payment made to any individual is based solely on the level of Group profit achieved, and is determined by the Remuneration Committee who retain discretion over the level of payout. This aligns bonus payments with the Group's objectives of delivering profit. All non-operational bonus arrangements now follow the same structure and payout mechanism.

Of the 100% maximum bonus payout to Directors for 2009/10, 40% is payable if the Group achieves its profit target, with 100% payable if the Group exceeds its profit target by at least 10%. Bonuses for the 2009/10 year are payable in December 2010.

Whilst the Committee cannot disclose the actual profit target because it is regarded as commercially sensitive, it is satisfied that this remains appropriately challenging.

For 2009/10, 40% of the maximum payout for each Director was awarded following the Remuneration Committee's consideration of the Group's performance for the period.

For 2010/11, the bonus objectives for all bonus schemes have been changed so that one-third of the maximum entitlement for any employee (including Directors) is contingent on the Group achieving its return on capital targets. The remaining two-thirds will continue to be based on the achievement of Group profit targets. In all other respects the terms and conditions for bonus payments are unchanged from previous periods.

Share incentive schemes

The Group operates executive share option schemes, an LTIP and an SAYE share option scheme.

The only change from the previous year to the terms and conditions of any of the Company's share incentive schemes is the minor amendment to the LTIP set out below.

Executive share options

The Company has a 2004 Executive Share Option Scheme which was approved by shareholders at the Annual General Meeting (AGM) held on 23 January 2004. Executive share options are granted at the prevailing market rate on the date of grant. Options are normally exercisable between three and ten years after grant and upon the achievement of stated performance criteria.



No executive options have been granted since 2003 and the Committee does not currently intend to grant options under this scheme, although it has the ability to do so should it wish to in the future.

Long Term Incentive Plan (LTIP)

The Group introduced the LTIP following shareholder approval at the AGM in January 2004. Both Executive Directors and senior managers are eligible to participate and the maximum annual conditional award of nil cost options that can be made to an individual is equivalent to 100% and 35% of salary respectively. The options granted during a period will only become exercisable (vest) if the performance conditions are met and the participant satisfies the minimum shareholding requirement. Once the options have vested the participant may choose to exercise the option at any time thereafter (in the case of awards granted on or after 1 July 2010, up to no later than the tenth anniversary of the date of grant) provided they remain an employee of the Group.

Participants will usually be required to hold shares in the Company with a cost equal to at least one times salary. Spouse holdings are taken into account in satisfying this requirement. This shareholding guideline is scaled down to 35% of salary for participants below Board level.

The options will vest to the extent that the Group's growth in EPS exceeds the growth in RPI over a period of three years. Awards vest, on a sliding scale between each step, as follows:

% of total award vesting	Annual EPS growth required above RPI
35%	3%
100%	9%

The LTIP options granted in 2007, which had completed the three year performance period and were available for vesting during the period, lapsed as the performance conditions had not been met.

During the period, the Committee reviewed the LTIP performance metrics and vesting ranges for the 2010 grant cycle to ensure they remain appropriately stretching for the 2010–2013 performance period. The Committee concluded that the current performance metrics were appropriate.

During the period, a minor amendment was made to the rules of the LTIP to enable participants to benefit from UK tax efficiencies under the HM Revenue & Customs (HMRC) approved Company Share Option Plan legislation. As such, awards made in 2010 are structured as Approved Performance Share Plan ('APSP') awards and comprise an HMRC approved option (in respect of the first £30,000 worth of an award) and an unapproved LTIP award for amounts in excess of this HMRC limit. A further share award is also provided to enable participants to fund the exercise of the approved option. This linked award is satisfied by a number of

shares from the Company's employee benefit trust which are used to fund the approved option exercise price. These shares are then retained by the trust and not delivered to the participant.

APSP awards are set out in the table on page 42.

The Remuneration Committee does not intend to make awards under both the LTIP and the 2004 Executive Share Option Scheme in the same period.

Save As You Earn Share Options (SAYE)

The Group also operates an HMRC approved SAYE plan which is open to all eligible employees, including the Executive Directors, on the completion of two years' service.

Invitations are usually offered annually for a savings contract of three, five or seven years subject to the maximum monthly savings limit of £250. Options are granted at a discount of 20% to the market value of the Company's share price at the date of invitation, subject to the agreement of the Remuneration Committee. Their exercise is not subject to performance conditions.

Non-executive Directors' fees and benefits (audited information)

The fees for the Chairman and Non-executive Directors are determined by the Board as a whole and are normally reviewed every two years. In view of the economic climate the Non-executive Directors and Chairman deemed it inappropriate to receive an increase in their fees last year. Following a review by the Remuneration Committee and the Board respectively, fees for the Chairman and Non-executive Directors for 2010/11 have been set at the levels noted below.

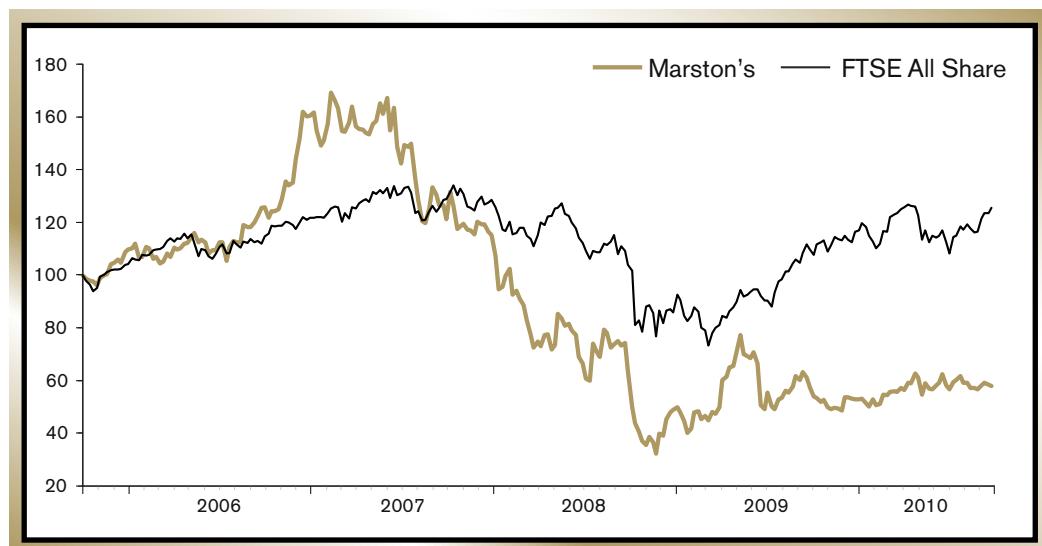
Fees paid per annum are as follows:

	2009/10	2010/11
● A basic fee	£34,000	£43,000
● Remuneration Committee Chairman	£5,000	£5,000
● Audit Committee Chairman	£6,000	£6,000
● Senior Independent Director	£5,000	£5,000
● Chairman	£132,000	£145,000

The Non-executive Directors do not participate in any of the Group's share incentive plans, nor do they receive any benefits or pension contributions from the Group, with the exception of David Thompson whose benefits are as set out on pages 41 and 43.

DIRECTORS' REMUNERATION REPORT CONTINUED

Total shareholder return graph



The graph shows the comparative Total Shareholder Return (TSR) performance of the Company against the FTSE All Share Index during the previous five financial years. The FTSE All Share Index has been selected as a comparator because the Group believes it is the most meaningful market index of which the Company is a member. The Group believes it would have been less meaningful to use a narrower index such as the Leisure and Hotels Index for comparison purposes. The TSR indices used in the chart have been calculated in accordance with the Regulations relative to a base date at the end of September 2005.

Interests of Directors

The beneficial interests of the Directors and their immediate families in the ordinary share capital of the Company at 2 October 2010 were:

	Ordinary Shares of 7.375p	
	2 October 2010	3 October 2009
Executive Directors		
Andrew Andrea	77,959	42,959
Derek Andrew	900,335	841,335
Alistair Darby	196,384	196,384
Ralph Findlay	758,646	758,646
Stephen Oliver	229,417	229,417
Non-executive Directors		
Rosalind Cuschieri	88,126	88,126
Miles Emley	74,020	74,020
Lord Hodgson	77,112	77,112
Neil Goulsen	168,000	168,000
Robin Rowland ⁽¹⁾	—	—
David Thompson ⁽²⁾	1,687,653	1,657,823

⁽¹⁾ Appointed 1 September 2010.

⁽²⁾ David Thompson's holding has changed mainly to reflect the underlying interests of his connected persons.



Directors' emoluments (audited information)

The emoluments of the Directors for their services as Directors of the Group for the period ended 2 October 2010 were:

	Salary/ Fees £	Bonus £	Non-cash benefits ⁽³⁾ £	Other cash benefits ⁽⁴⁾ £	2010 Total £	2009 Total £
Executive Directors						
Andrew Andrea	240,000	96,000	829	18,000	354,829	107,534
Derek Andrew	260,718	104,287	592	13,500	379,097	276,917
Alistair Darby	260,150	104,060	829	13,500	378,539	277,403
Ralph Findlay	434,720	173,888	829	16,200	625,637	451,890
Stephen Oliver	260,150	104,060	829	13,500	378,539	274,620
Paul Inglett	—	—	—	—	—	137,795
	1,455,738	582,295	3,908	74,700	2,116,641	1,526,159
Non-executive Directors						
Rosalind Cuschieri ⁽¹⁾	34,000	—	—	—	34,000	34,000
Miles Emley	40,000	—	—	—	40,000	40,000
Lord Hodgson ⁽¹⁾	44,000	—	—	—	44,000	44,000
Neil Goulden	34,000	—	—	—	34,000	34,000
Robin Rowland ⁽²⁾	2,833	—	—	—	2,833	—
David Thompson	132,000	—	829	16,200	149,029	148,893
	1,742,571	582,295	4,737	90,900	2,420,503	1,827,052

⁽¹⁾ The fees relating to the services of Lord Hodgson were paid to Johnson Brothers & Co Limited, and the fees relating to the services of Rosalind Cuschieri were paid to Warburtons Limited until 1 August 2010. Thereafter, Rosalind Cuschieri was paid through the Group's payroll.

⁽²⁾ Appointed 1 September 2010.

⁽³⁾ Non-cash benefits principally comprise private health cover.

⁽⁴⁾ Other cash benefits represent cash allowances paid in lieu of a company car and, for Andrew Andrea, salary supplement in lieu of pension.

SAYE Share Options (audited information)

	Date of Grant	At 04.10.09	Granted	Lapsed*	Cancelled	At 02.10.10	Option price p	Exercise period From	To
Ralph Findlay									
SAYE options	3 July 09	16,415	—	—	16,415	—	94.72		
SAYE options	25 June 10	—	20,302	—	—	20,302	76.10	01.09.2015	29.02.2016
Derek Andrew									
SAYE options	3 July 09	16,415	—	—	16,415	—	94.72		
SAYE options	25 June 10	—	20,302	—	—	20,302	76.10	01.09.2015	29.02.2016
Alistair Darby									
SAYE options	—	—	—	—	—	—	—		
Stephen Oliver									
SAYE options	26 June 02	18,081	—	—	18,081	—	99.39		
SAYE options	3 July 09	16,415	—	—	16,415	—	94.72		
SAYE options	25 June 10	—	20,302	—	—	20,302	76.10	01.09.2015	29.02.2016
Andrew Andrea									
SAYE options	25 June 10	—	11,826	—	—	11,826	76.10	01.09.2013	28.02.2014

* Stephen Oliver's 18,081 options at 99.39p per share expired on 1 February 2010.

† Ralph Findlay, Derek Andrew and Stephen Oliver cancelled their SAYE options granted under the 2009 invitation.

DIRECTORS' REMUNERATION REPORT CONTINUED

Long Term Incentive Plan (LTIP) (audited information)

	Date of grant	At 04.10.09	Granted *	Vested	Lapsed	At 02.10.10	Exercise period from†
Ralph Findlay							
	04.06.07	116,796			116,796	—	4 June 10
	02.06.08	272,561				272,561	2 June 11
	01.07.10		459,534			459,534	1 July 13
Derek Andrew							
	04.06.07	70,047			70,047	—	4 June 10
	02.06.08	163,465				163,465	2 June 11
	01.07.10		275,600			275,600	1 July 13
Alistair Darby							
	04.06.07	65,787			65,787	—	4 June 10
	02.06.08	153,523				153,523	2 June 11
	01.07.10		275,000			275,000	1 July 13
Stephen Oliver							
	04.06.07	69,895			69,895	—	4 June 10
	02.06.08	163,108				163,108	2 June 11
	01.07.10		275,000			275,000	1 July 13
Andrew Andrea							
	04.06.07	9,825			9,825	—	4 June 10
	02.06.08	22,821				22,821	2 June 11
	01.07.10		253,699			253,699	1 July 13

* The grant comprises an HMRC approved option over 31,712 shares with an exercise price of 94.6p and an unapproved award for the balance. A further share award over 31,712 shares is also provided to enable participants to fund the exercise of the approved option. This linked award is satisfied by shares from the Company's employee benefit trust which are used to fund the approved option exercise price. These shares are then retained by the trust and not delivered to the participant.

† Provided the required shareholding and the three-year performance conditions are met, options granted before 1 July 2010 under the LTIP will not expire until the end of the calendar year following the option holder's expected retirement date. Options granted on or after 1 July 2010 will expire on the tenth anniversary of the date of grant.

The performance condition to which awards under the LTIP are subject is set out on page 39.

At 2 October 2010, the total number of shares issued during the period on the exercise of options or the subject of such options remaining outstanding under the LTIP and Executive (discretionary) and SAYE share option schemes was 4.2 million and 6.1 million. This represents 0.74% of issued share capital in respect of discretionary schemes and 1.80% in respect of all schemes.

The mid-market ordinary share price range during the period was 82.7p to 105p.

The mid-market ordinary share price on 1 October 2010 was 94.25p (2 October 2010 being a Saturday).



Directors' pensions (audited information)

Defined contribution scheme

The Group makes contributions into the Group Personal Pension Plan (GPPP) on behalf of Andrew Andrea. Up to 30 April 2010, a rate of 10.5% of base salary was payable in return for the Director making a personal contribution of at least 7.5%. With effect from 1 May 2010, the Company contribution increased to 15% of base salary. For the period under review the Company contribution for Andrew Andrea was £29,700, which equates to £25,200 pension contribution and a salary supplement of £4,500 to reflect the increase in Company rate from 1 May 2010.

Defined benefit scheme

The following Directors accrued benefit under the Marston's PLC Pension and Life Assurance Scheme (the 'Scheme') provided by the Group. Pension entitlements and transfer values increased as follows:

	Change in accrued pension over Accrued pension at 2 October 2010		Change in Transfer Value over 2009/2010		Change in Transfer Value of the increase in the accrued pension	
	excluding increase for inflation	2010	Transfer Value at 2 October 2010	Transfer Value at 3 October 2009	net of members' contributions	the accrued pension
	£	£	£	£	£	£
Derek Andrew	146,712	(2,122)	2,383,484	2,195,084	188,400	72,461
Alistair Darby	69,506	3,166	875,581	773,267	102,314	59,642
Ralph Findlay	78,771	7,673	1,135,774	955,711	180,063	137,495
Stephen Oliver	72,754	4,657	1,244,716	1,089,244	155,472	111,500
David Thompson	155,066	(6,339)	2,473,506	2,330,155	143,351	15,747

Notes to the table

- 1 The accrued pension is the amount that the Director would receive annually on retirement based on service to the end of the year.
- 2 The change in accrued pension during the year reflects that inflation over the period has been 4.6%, being the measure of RPI to September 2010.
- 3 Derek Andrew and David Thompson's pensions have increased over the year, but by less than the 4.6% inflation increase and so their change in accrued pension net of inflation is negative.
- 4 The Transfer Values at 2 October 2010 are calculated in accordance with the cash equivalent transfer value basis adopted by the Trustees on 16 August 2009, after taking advice from the Scheme Actuary.
- 5 From 1 May 2010 Directors were provided with the option of a 25% salary supplement as an alternative to continued membership of the Scheme. No Director has yet taken this option.

The following additional information relates to Directors' pensions under the defined benefit scheme:

- (a) Normal retirement age is 60.
- (b) Until 1 May 2010 the normal contribution rate for Directors who are members of the Scheme was 7.5%, except Derek Andrew, paid by way of salary sacrifice. In line with all other members of the Scheme, the Directors were provided with the option of contributing an additional 6% of salary to maintain their entitlement — two thirds pensionable pay at age 60 for Directors (taking into account benefits earned under schemes from previous employments and FURBS, as referred to overleaf) — or, from 1 May 2010, move to a reduced accrual rate in line with other Scheme members as described overleaf. The normal contribution rate for Directors retaining existing benefits therefore became 13.5%, except for Derek Andrew whose contribution rate to retain existing benefits is 6%, paid by way of salary sacrifice.
- (c) On death before retirement a lump sum is payable equal to the Director's contributions (including those made via salary sacrifice). However, some or all of this lump sum may be used to provide a statutory minimum spouse's pension. On death after retirement the spouse's pension payable is two thirds of the member's pre-commutation pension for Derek Andrew and David Thompson, 60% of the member's pre-commutation pension for Ralph Findlay and Alistair Darby and, in respect of Stephen Oliver 60% of his post 1 January 2002 service and 50% of his pre 1 January 2002 service.
- (d) Early retirement can be taken from age 55 provided the Group gives its consent. The accrued pension will then be reduced to take account of its early payment.
- (e) There are no discretionary benefits.

Prior to 6 April 2006, Ralph Findlay and Stephen Oliver were contributing to a FURBS arrangement. A new pensions regime came into force on 6 April 2006. Following a review of benefit provisions, contributions to the FURBS for Ralph Findlay and Stephen Oliver ceased with effect from 6 April 2006. From that date, pension benefits for these Directors and Alistair Darby are accrued on the basis of full salary (previously limited to the earnings cap) from the Scheme.

Pension arrangements

At the start of the year the Group operated one defined benefit (final salary) pension scheme (the Scheme), and ten defined contribution arrangements.

The Scheme was closed to new entrants from 29 September 1997. From 1 October 2009, the Group contributed 28.2% of pensionable payroll for those members who opted for the salary sacrifice arrangement introduced on 1 November 2007. For all other members the Group contributed, from 1 October 2009, 20.7% of pensionable payroll. Members contributed in accordance with the Rules. All employees in the Scheme have permanent health insurance and death-in-service life assurance cover to the value of four times their salary, subject to acceptance by insurers.

With effect from 1 May 2010, members were given the option to increase their contribution rate by 6% of pensionable pay (either directly or through salary sacrifice) to be able to maintain their existing accrual, maintain their contribution rate and move to an accrual rate of 80ths, or increase their contribution rate by 3% of pensionable pay (either directly or through salary sacrifice) and move to an accrual rate of 70ths.

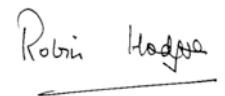
The Group introduced a GPPP for new entrants with effect from 29 September 1997 to which it contributes 7.0% of pensionable salary and members contribute a minimum of 3.5% of their pensionable salary.

Membership of the GPPP provides permanent health insurance and death-in-service life assurance cover to the value of between three and four times pensionable salary, subject to acceptance by insurers.

The funds of the Scheme are administered by trustees and are separate from the Group. An actuarial valuation of the Scheme was carried out as at 30 September 2008. This resulted in a long-term Group contribution rate of 28.2% of members' pensionable earnings for members who opted for the salary sacrifice and 20.7% of members' pensionable earnings for other members plus an annual contribution of £10 million, increasing by 5.75% each October. In 2009/10, the Company paid this contribution as a lump sum on 15 October 2009. From October 2010 the Company will pay the contribution monthly.

The assumptions that have the most significant effect on the funding position of the Scheme are those relating to the differences between the long-term rate of return on investments and the rates of increase in earnings and pension increases. The 30 September 2008 funding valuation for the Scheme assumed that: the long-term investment return before retirement would exceed salary increases by 2.1% per annum and price inflation by 2.6% per annum, and the long-term investment return after retirement would exceed post 6 April 1997 and pre 6 April 2006 pension increases by 1.6% per annum and price inflation by 1.6% per annum.

The market value of the Scheme assets was £273.9 million, which was sufficient to cover 72% of members' accrued benefits at 30 September 2008, after allowing for future increases in earnings at the long-term rate.



Lord Hodgson

Chairman, Remuneration Committee
2 December 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent Company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on pages 26 and 27 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Business Review on pages 8 to 25 includes a fair review of the development and performance of the business and the position of the Group, together with the Corporate Governance Report on pages 31 to 36, which sets out a description of the principal risks and uncertainties that it faces.

Disclosures of information to Auditors

The Directors who held office at the date of this statement confirm that, so far as they are each aware, there is no relevant audit information of which the Group's Auditors are unaware. Each Director has taken all the steps that he/she ought to have taken to make himself/herself aware of any relevant audit information and to establish that the Group's Auditors are aware of that information.



Ralph Findlay
Chief Executive
2 December 2010



Andrew Andrea
Finance Director



INDEPENDENT AUDITORS' REPORT

We have audited the Group financial statements of Marston's PLC for the period ended 2 October 2010 which comprise the Group income statement, the Group statement of comprehensive income, the Group cash flow statement, the Group balance sheet, the Group statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 45, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 2 October 2010 and of its profit and cash flows for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement in relation to going concern; and
- the part of the Corporate Governance Report relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matter

We have reported separately on the parent Company financial statements of Marston's PLC for the period ended 2 October 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.



Keith Harrington

(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
2 December 2010

GROUP INCOME STATEMENT

For the 52 weeks ended 2 October 2010

	Note	2010			2009		
		Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
		£m	£m	£m	£m	£m	£m
Revenue	2, 3	650.7	—	650.7	645.1	—	645.1
Operating expenses	3, 4	(502.0)	(16.3)	(518.3)	(497.7)	(37.0)	(534.7)
Operating profit	2	148.7	(16.3)	132.4	147.4	(37.0)	110.4
Finance costs	6	(75.7)	—	(75.7)	(78.0)	—	(78.0)
Finance income	6	0.5	—	0.5	0.9	—	0.9
Movement in fair value of interest rate swaps	4, 6	—	(4.7)	(4.7)	—	(11.9)	(11.9)
Net finance costs	6	(75.2)	(4.7)	(79.9)	(77.1)	(11.9)	(89.0)
Profit before taxation		73.5	(21.0)	52.5	70.3	(48.9)	21.4
Taxation	4, 7	(16.4)	11.4	(5.0)	(14.7)	9.7	(5.0)
Profit for the period attributable to equity shareholders		57.1	(9.6)	47.5	55.6	(39.2)	16.4
Earnings per share:							
Basic earnings per share	9			8.3p			3.9p
Basic earnings per share before exceptional items	9			10.0p			13.4p
Diluted earnings per share	9			8.3p			3.9p
Diluted earnings per share before exceptional items	9			10.0p			13.3p

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 2 October 2010

	Note	2010		2009
		£m	£m	£m
Profit for the period		47.5		16.4
Losses arising on cash flow hedges		(54.3)		(53.5)
Transfers to the income statement on cash flow hedges		22.3		14.2
Actuarial losses on retirement benefits		(1.0)		(7.6)
Unrealised surplus on revaluation of properties		3.3		3.0
Reversal of past revaluation surplus		(2.0)		(43.9)
Tax relating to components of other comprehensive income/(expense)	7	14.4		18.4
Other comprehensive income/(expense) for the period		(17.3)		(69.4)
Total comprehensive income/(expense) for the period		30.2		(53.0)



GROUP CASH FLOW STATEMENT

For the 52 weeks ended 2 October 2010

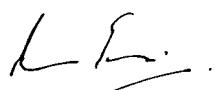
	Note	2010 £m	2009 £m
Operating activities			
Operating profit before exceptional items		148.7	147.4
Exceptional operating items	4	(16.3)	(37.0)
Depreciation and amortisation		39.9	44.4
EBITDA		172.3	154.8
Working capital and non-cash movements	29	26.4	15.7
Difference between defined benefit pension contributions paid and amounts charged		(11.8)	(11.2)
Income tax received/(paid)		2.4	(12.0)
Net cash inflow from operating activities		189.3	147.3
Investing activities			
Interest received		0.9	1.4
Sale of property, plant and equipment and assets held for sale		17.5	26.0
Purchase of property, plant and equipment and intangible assets		(83.5)	(56.1)
Movement in other non-current assets		2.7	2.8
Acquisition of subsidiaries, net of cash acquired		—	(5.3)
Net cash outflow from investing activities		(62.4)	(31.2)
Financing activities			
Equity dividends paid	8	(33.0)	(35.9)
Net proceeds of rights issue		—	165.6
Interest paid		(73.5)	(73.7)
Arrangement costs of new bank facilities		—	(5.0)
Repayment of securitised debt		(19.4)	(18.2)
Repayment of bank loans		(28.0)	(109.0)
Repayment of loan notes		(4.8)	(3.0)
Capital element of finance leases repaid		—	(0.1)
Net cash outflow from financing activities		(158.7)	(79.3)
Net (decrease)/increase in cash and cash equivalents	30	(31.8)	36.8
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash and cash equivalents in the period	30	(31.8)	36.8
Cash inflow from movement in debt		52.2	130.3
Change in debt resulting from cash flows	30	20.4	167.1
Net debt acquired with subsidiaries		—	(0.3)
Non-cash movements and deferred issue costs	30	(3.3)	2.0
Movement in net debt in the period		17.1	168.8
Net debt at beginning of the period	30	(1,099.3)	(1,268.1)
Net debt at end of the period	30	(1,082.2)	(1,099.3)

GROUP BALANCE SHEET

As at 2 October 2010

	Note	2 October 2010 £m	3 October 2009 £m
ASSETS			
Non-current assets			
Goodwill	10	224.2	224.2
Other intangible assets	11	24.6	23.9
Property, plant and equipment	12	1,930.2	1,894.4
Deferred tax assets	22	65.5	59.4
Other non-current assets	13	19.2	21.9
Derivative financial instruments	18	—	0.1
		2,263.7	2,223.9
Current assets			
Inventories	14	17.2	17.3
Trade and other receivables	16	65.3	79.3
Cash and cash equivalents	30	59.5	91.3
		142.0	187.9
Assets held for sale	15	16.0	19.5
LIABILITIES			
Current liabilities			
Borrowings	17	(16.9)	(21.4)
Derivative financial instruments	18	(20.8)	(16.1)
Trade and other payables	21	(115.7)	(109.6)
Current tax liabilities		(25.2)	(24.0)
		(178.6)	(171.1)
Non-current liabilities			
Borrowings	17	(1,124.8)	(1,173.5)
Derivative financial instruments	18	(108.9)	(77.0)
Pension commitments	25	(25.0)	(35.3)
Deferred tax liabilities	22	(171.3)	(173.3)
Other non-current liabilities	23	(0.3)	(0.7)
Provisions for other liabilities and charges	24	(32.3)	(17.2)
		(1,462.6)	(1,477.0)
Net assets		780.5	783.2
Shareholders' equity			
Equity share capital	27	44.3	44.3
Share premium account		332.5	332.5
Merger reserve	28	41.5	41.5
Revaluation reserve		401.7	396.0
Capital redemption reserve	28	6.8	6.8
Hedging reserve		(79.5)	(55.4)
Own shares	28	(130.9)	(130.9)
Foreign exchange reserve		0.2	0.2
Retained earnings		163.9	148.2
Total equity		780.5	783.2

The financial statements on pages 47 to 92 were approved by the Board on 2 December 2010 and signed on its behalf by:



Ralph Findlay
Chief Executive
2 December 2010

GROUP STATEMENT OF CHANGES IN EQUITY

For the 52 weeks ended 2 October 2010

	Equity share capital £m	Share premium account £m	Merger reserve £m	Revalua- tion reserve £m	Capital redemp- tion reserve £m		Hedging reserve £m	Foreign Own shares £m			Retained earnings £m	Total £m
								Own exchange reserve £m	Retained earnings £m			
At 4 October 2009	44.3	332.5	41.5	396.0	6.8	(55.4)	(130.9)	0.2	148.2	783.2		
Profit for the period	—	—	—	—	—	—	—	—	47.5	47.5		
Actuarial losses	—	—	—	—	—	—	—	—	(1.3)	(1.3)		
Tax on actuarial losses	—	—	—	—	—	—	—	—	0.3	0.3		
Post-retirement medical benefits	—	—	—	—	—	—	—	—	0.3	0.3		
Losses on cash flow hedges	—	—	—	—	—	(54.3)	—	—	—	(54.3)		
Transfers to the income statement on cash flow hedges	—	—	—	—	—	22.3	—	—	—	22.3		
Tax on hedging reserve movements	—	—	—	—	—	7.9	—	—	—	7.9		
Property impairment	—	—	—	(2.0)	—	—	—	—	—	(2.0)		
Property revaluation	—	—	—	3.3	—	—	—	—	—	3.3		
Deferred tax on properties	—	—	—	6.2	—	—	—	—	—	6.2		
Total comprehensive income/(expense)	—	—	—	7.5	—	(24.1)	—	—	46.8	30.2		
Share-based payments	—	—	—	—	—	—	—	—	0.1	0.1		
Disposal of properties	—	—	—	(1.6)	—	—	—	—	1.6	—		
Transfer to retained earnings	—	—	—	(0.2)	—	—	—	—	0.2	—		
Dividends paid	—	—	—	—	—	—	—	—	(33.0)	(33.0)		
Total transactions with owners	—	—	—	(1.8)	—	—	—	—	(31.1)	(32.9)		
At 2 October 2010	44.3	332.5	41.5	401.7	6.8	(79.5)	(130.9)	0.2	163.9	780.5		



	Equity share capital £m	Share premium account £m	Merger reserve £m	Revalua- tion reserve £m	Capital redemp- tion reserve £m		Hedging reserve £m	Foreign			Retained earnings £m	Total £m			
								Foreign							
					redeem- tion reserve £m	Own shares £m		exchange reserve £m							
At 5 October 2008	22.3	188.9	41.5	436.1	6.8	(27.1)	(134.5)	0.2	172.7	706.9					
Profit for the period	—	—	—	—	—	—	—	—	—	16.4	16.4				
Actuarial losses	—	—	—	—	—	—	—	—	—	(7.5)	(7.5)				
Tax on actuarial losses	—	—	—	—	—	—	—	—	—	2.1	2.1				
Post-retirement medical benefits	—	—	—	—	—	—	—	—	—	(0.1)	(0.1)				
Losses on cash flow hedges	—	—	—	—	—	(53.5)	—	—	—	—	(53.5)				
Transfers to the income statement on cash flow hedges	—	—	—	—	—	14.2	—	—	—	—	14.2				
Tax on hedging reserve movements	—	—	—	—	—	11.0	—	—	—	—	11.0				
Property impairment	—	—	—	(43.9)	—	—	—	—	—	—	(43.9)				
Property revaluation	—	—	—	3.0	—	—	—	—	—	—	3.0				
Deferred tax on properties	—	—	—	5.3	—	—	—	—	—	—	5.3				
Total comprehensive income/(expense)	—	—	—	(35.6)	—	(28.3)	—	—	10.9	(53.0)					
Share-based payments	—	—	—	—	—	—	—	—	(0.4)	(0.4)					
Disposal of properties	—	—	—	(4.4)	—	—	—	—	4.4	—					
Transfer to retained earnings	—	—	—	(0.1)	—	—	—	—	0.1	—					
Net rights issue proceeds	22.0	143.6	—	—	—	—	—	—	—	—	165.6				
Cancellation of own shares	—	—	—	—	—	—	3.6	—	(3.6)	—					
Dividends paid	—	—	—	—	—	—	—	—	(35.9)	(35.9)					
Total transactions with owners	22.0	143.6	—	(4.5)	—	—	3.6	—	(35.4)	129.3					
At 3 October 2009	44.3	332.5	41.5	396.0	6.8	(55.4)	(130.9)	0.2	148.2	783.2					

Further detail in respect of the Group's equity is provided in notes 27 and 28 to the financial statements.

NOTES

For the 52 weeks ended 2 October 2010

1 ACCOUNTING POLICIES

Basis of preparation

These financial statements for the 52 weeks ended 2 October 2010 (2009: 52 weeks ended 3 October 2009) have been prepared in accordance with IFRS and International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC) interpretations adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain items, principally land and buildings, derivative financial instruments, pension commitments and share-based payments.

New standards, interpretations and accounting developments

The new accounting standards and interpretations which were effective in the current period and have impacted, or are likely to have a future impact on, the financial statements are as follows:

IFRS 2 'Share-based Payment'

The adoption of the amendment to IFRS 2 'Share-based Payment' in respect of vesting conditions and cancellations requires the Group to take non-vesting conditions into account when determining the fair value of its share-based payments. In addition, all cancellations of share-based payments, whether by the Group or by employees, are accounted for in an identical manner and require the immediate acceleration of any costs unrecognised at the date of cancellation. This amendment applies retrospectively, but the impact on previous periods has been assessed as immaterial and hence no prior period adjustment has been recorded.

IFRS 8 'Operating Segments'

The adoption of IFRS 8 'Operating Segments' requires the Group to present segment information on the same basis as that used for internal reporting purposes. There are no changes to the segments previously presented, as the operating segments set out in note 2 are consistent with the internal reporting provided to the chief operating decision maker.

IAS 1 'Presentation of Financial Statements'

The adoption of the revised IAS 1 'Presentation of Financial Statements' requires the Group to present a Statement of Comprehensive Income (rather than a Statement of Recognised Income and Expense) and a Statement of Changes in Equity.

IFRS 7 'Financial Instruments: Disclosure'

The adoption of the amendment to IFRS 7 'Financial Instruments: Disclosure' requires the Group to make enhanced disclosures about fair value measurement and liquidity risk.

IFRS 3 'Business Combinations'

The adoption of the amendment to IFRS 3 'Business Combinations' requires the Group to make a number of changes in how it accounts for any business combinations occurring on or after the start of the current period. These changes include the expensing of all acquisition-related costs, and recording all payments to purchase a business at fair value at the acquisition date, with contingent payments classified as debt and subsequently remeasured through the income statement.

The International Accounting Standards Board (IASB) and IFRIC 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 and therefore after the date of these financial statements:

IFRS 1	First-time Adoption of International Financial Reporting Standards	
	Amendments relating to oil and gas assets and determining whether an arrangement contains a lease	1 January 2010
	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	1 July 2010
IFRS 2	Share-based Payment	
	Amendments relating to Group cash-settled share-based payment transactions	1 January 2010
IFRS 9	Financial Instruments: Classification and Measurement	
	New accounting standard	1 January 2013
IAS 24	Related Party Disclosures	
	Revised definition of related parties	1 January 2011
IAS 32	Financial Instruments: Presentation	
	Amendments relating to classification of rights issues	1 February 2010



1 ACCOUNTING POLICIES (CONTINUED)

The IASB have also issued a number of minor amendments to standards as part of their Annual Improvements to IFRS.

The Directors do not anticipate that the adoption of any of the above amendments will have a material impact on the Group's reported income or net assets in the period of adoption. The Group continues to evaluate standards and interpretations and the impact on the financial statements.

The UK government recently announced its intention to change the measure of inflation for the purposes of statutory minimum rates at which pensions must increase for public and private sector defined benefit schemes. This change would reference the consumer prices index ('CPI') as the measure of inflation rather than the retail prices index ('RPI') as is currently the case. The UITF has reached a draft consensus that recognition of the change depends on whether there is a legal or constructive obligation to pay pensions with increases based on at least RPI or more generally to inflation linked increases. The Group is currently considering the implications of this change with regards to its defined benefit pension scheme.

Basis of consolidation

The consolidated financial statements incorporate the audited financial statements of Marston's PLC and all of its subsidiary undertakings. The results of new subsidiary undertakings are included in the Group accounts from the date on which control transferred to the Group or, in the case of disposals, up to the effective date of disposal. Transactions between Group companies are eliminated on consolidation.

The Group has applied the purchase method in its 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. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised immediately in the income statement.

The consolidated financial statements also incorporate the results of Marston's Issuer PLC, a company set up with the sole purpose of issuing debt secured on assets owned by the Group. The Directors of Marston's PLC consider this company meets the definition of a special purpose entity under SIC 12 'Consolidation — Special Purpose Entities' and hence for the purpose of the consolidated financial statements it has been treated as a subsidiary undertaking. Details of this company are provided in note 32.

Revenue and other operating income

Revenue represents the value of goods (principally drink and food) and services (principally accommodation and gaming machines) supplied to customers, and rents receivable from licensed properties. Revenue for drink, food and accommodation is recognised at the point at which the goods or services are provided. Gaming machine income is recognised as earned. Rental income is recognised in respect of the period to which it relates. Revenue is recorded net of discounts, intra-Group transactions, VAT, and excise duty relating to the brewing and packaging of certain products. Other operating income comprises mainly rents receivable from unlicensed properties, which is recognised in respect of the period to which it relates.

Operating segments

For segment reporting purposes the Group is considered to have four distinguishable operating segments, being Marston's Inns and Taverns, Marston's Pub Company, Marston's Beer Company and Marston's Group Services. This mirrors the Group's internal organisation and management structure, and reflects the different risk profiles to which the business is exposed. An element of Marston's Group Services costs is allocated to each of the trading divisions.

The operating segments set out in note 2 are consistent with the internal reporting provided to the chief operating decision maker. For the purposes of IFRS 8 the chief operating decision maker has been identified as the Executive Directors.

Acquired businesses are treated as separate reporting segments, where material, until they have been fully integrated with the Group's trading divisions.

Exceptional items

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

NOTES **CONTINUED**

For the 52 weeks ended 2 October 2010

1 ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and any impairment losses. Intangible assets arising on acquisition of subsidiaries are recognised separately from goodwill if the fair value of these assets can be identified separately and measured reliably.

Amortisation is calculated on a straight-line basis over the estimated useful life of the intangible asset. Where the useful life of the asset is considered to be indefinite no annual amortisation is provided but the asset is subject to annual impairment reviews. Impairment reviews are carried out more frequently if events or changes in circumstances indicate that the carrying value of an asset may be impaired.

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

Acquired brands	Indefinite
Lease premiums	Life of the lease
Computer software	5 to 10 years
Development costs	10 years

Any impairment of carrying value is charged to the income statement.

Research and development expenditure

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

Development costs are recognised as an intangible asset when the following conditions are met:

- It is technically feasible to complete the intangible asset so that it will be available for use;
- Management intends to complete the asset and use or sell it;
- There is an ability to use or sell the asset;
- It can be demonstrated how the asset will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the asset are available; and
- The expenditure attributable to the asset during its development can be reliably measured.

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.

Goodwill

Goodwill arising on acquisitions is capitalised and represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets and liabilities acquired. Goodwill is not amortised but is instead reviewed for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Any impairment is recognised immediately in the income statement.

For the purposes of impairment testing, goodwill is allocated at operating segment level.

Property, plant and equipment

- Freehold and leasehold properties are initially stated at cost and subsequently at valuation. 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 of the assets less residual value over their useful lives.
- Freehold and long leasehold buildings are depreciated to residual value over 50 years.
- Short leasehold properties are depreciated over the life of the lease.
- Plant and machinery and fixtures, fittings, tools and equipment are depreciated over periods ranging from 3 to 15 years.
- Own labour and interest costs directly attributable to capital projects are capitalised.
- Land is not depreciated.

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

1 ACCOUNTING POLICIES (CONTINUED)

Valuation of properties — Properties are revalued by qualified valuers on a sufficiently regular basis using open market value so that the carrying value of an asset does not differ significantly from its fair value at the balance sheet date. Substantially all of the Group's properties have been externally valued in accordance with the Royal Institution of Chartered Surveyors' Red Book and these valuations are performed directly by reference to observable prices in an active market or recent market transactions on arm's length terms. Internal valuations are performed on the same basis.

The estate is 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 revaluation reserve to the extent that a previous gain has been recorded, and thereafter to the income statement. Surpluses on revaluation are recognised in the revaluation reserve, except where they reverse previously charged impairment losses, in which case they are recorded in 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. Any element of the revaluation reserve relating to the property disposed of is transferred to retained earnings at the date of sale.

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, including goodwill. The recoverable amount is the higher of value in use and fair market value less costs to sell. If 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. 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.

Acquired brands are reviewed for impairment on a portfolio basis.

Leases

Leases are 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 are classified as operating leases.

The cost of the 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.

Other non-current assets

Other non-current assets represent trade loans. In common with other major brewers the Group makes trade loans to publicans who purchase the Group's beer. These trade loans are classified as loans and receivables and are recognised initially at fair value and subsequently at amortised cost less provision for impairment. Significant trade loans are secured against the property of the loan recipient.

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.

NOTES **CONTINUED**

For the 52 weeks ended 2 October 2010

1 ACCOUNTING POLICIES (CONTINUED)

Assets held for sale

Assets, typically properties, 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, the Group must be committed to the sale and the 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.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits on call with banks. Bank overdrafts are shown within borrowings in current liabilities. For the purpose of the cash flow statement, cash and cash equivalents are as defined above, net of outstanding bank overdrafts.

Financial instruments

The Group classifies its financial instruments in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of the Group's financial instruments at initial recognition.

(a) 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 hedge relationship. The Group holds no other financial instruments at fair value through profit or loss.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade receivables, other receivables, trade loans and cash and cash equivalents in the balance sheet.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial instruments at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Non-derivative financial liabilities are classified as other financial liabilities.

Gains or losses arising from changes in the fair value of financial instruments at fair value through profit or loss are presented in the income statement within exceptional finance costs or income in the period in which they arise.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired.

Borrowings

Borrowings are recognised initially 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.

Preference shares are classified as liabilities. The dividends on these preference shares are recognised in the income statement as finance costs.

Borrowing costs are recognised as an expense in the period in which they are incurred, except for gross interest costs incurred on the financing of major projects which are capitalised until the time that the projects are available for use.

Derivative financial instruments

The only derivative financial instruments that the Group enters into are interest rate swaps. The purpose of these transactions is to manage the interest rate risks arising from the Group's operations and its sources of finance.



1 ACCOUNTING POLICIES (CONTINUED)

Derivatives are initially recognised at fair value on the date a 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 Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group 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.

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 within exceptional finance income or costs.

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. Accrued interest is recognised separately in current liabilities.

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 within exceptional finance income or costs.

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

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

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. A provision for impairment of trade receivables and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade or other receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within other operating charges. When a trade or other receivable is uncollectable, it is written off against the allowance account for trade or other receivables. Subsequent recoveries of amounts previously written off are credited against other operating charges in the income statement.

Trade payables

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

Employee benefits

Pension costs for the Group's defined benefit pension scheme are determined by the Projected Unit Credit Method, with actuarial calculations being carried out at each period end date. Costs are recognised separately as operating and finance costs in the income statement. Operating costs comprise the current service cost, any income or expenses on settlements or curtailments, and past service costs where the benefits have vested. Finance items comprise the interest on scheme liabilities and the expected return on scheme assets.

Actuarial gains or losses comprising differences between the actual and expected return on scheme assets, changes in scheme liabilities due to experience and changes in actuarial assumptions are recognised in full in the period in which they occur in the statement of comprehensive income.

NOTES **CONTINUED**

For the 52 weeks ended 2 October 2010

1 ACCOUNTING POLICIES (CONTINUED)

The liability recognised in the balance sheet for the defined benefit pension scheme is the present value of scheme liabilities less the fair value of scheme assets. Pension costs for the Group's defined contribution pension schemes are charged to the income statement in the period in which they arise.

Post-retirement medical benefits are accounted for in an identical way to the Group's defined benefit pension scheme.

Key management personnel

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

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 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 the Group 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. The key assumptions used in the discounted cash flow calculation are the market rents and vacant periods of the properties together with the discount rate.

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. The Group has taken advantage of the transitional provisions contained within IFRS 2 'Share-based Payment' and has only applied this accounting policy to equity-settled awards granted after 7 November 2002. Awards granted prior to 7 November 2002 are not charged to the income statement.

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

Own shares

Own shares consist of treasury shares, shares held within a Long Term Incentive Plan (LTIP) and shares held within an Executive Share Option Plan (ESOP), which are used for the granting of shares to applicable employees.

Own shares are recognised at cost as a deduction from shareholders' equity. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds and the original cost being taken to equity. No income or expense is recognised in the performance statements on treasury share transactions.

1 ACCOUNTING POLICIES (CONTINUED)

Dividends

Dividends proposed by the Board but unpaid at the period end are recognised in the financial statements when they have been approved by the shareholders. Interim dividends are recognised when paid.

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.

Key assumptions and significant judgements

IFRS requires the Group 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 Group's key assumptions and significant judgements are in respect of property, plant and equipment, impairment, pension liabilities, financial instruments, property lease provisions and share-based payments. Details of these assumptions and judgements are set out in the relevant accounting policy and detailed note to the financial statements as set out below:

Property, plant and equipment

- Valuation of properties (see accounting policy).
- Assets' useful lives and residual values (see accounting policy).

Impairment

- Assumptions made in the value in use calculation, in particular the pre-tax discount rate applied to cash flow projections and the growth rate used to extrapolate projected cash flows beyond one year budgets (notes 10 and 11).

Pension liabilities

- Actuarial assumptions, which include discount rates, rates of increase in pensionable salaries, rates of increase in pensions, inflation rates, expected returns on scheme assets, and life expectancies (note 25).

Financial instruments

- Valuation of financial instruments that are not traded in an active market (note 20).

Property lease provisions

- Assumptions made in the discounted cash flow calculation, in particular market rents, vacant periods and discount rates (see accounting policy).

Share-based payments

- Inputs to the Black–Scholes option-pricing model, which include dividend yield, expected volatilities, and risk free interest rates (note 26).



NOTES CONTINUED

For the 52 weeks ended 2 October 2010

2 SEGMENTAL REPORTING

For segment reporting purposes the Group is considered to have four distinguishable business segments as follows:

Segment	Division	Revenue
Marston's Inns and Taverns	Managed house	Food and drink sales, accommodation and gaming machine income
Marston's Pub Company	Tenanted	Drink sales, rent from licensed properties and gaming machine income
Marston's Beer Company	Brewing and wholesale	Drink sales
Marston's Group Services	Central activities	

Transfer prices between operating segments are on an arm's length basis.

52 weeks ended 2 October 2010

	Marston's Inns and Taverns £m	Marston's Pub Company £m	Marston's Beer Company £m	Marston's Group Services £m	Group £m
Income statement					
Revenue	373.8	170.8	136.9	—	681.5
Less: sales to other segments	—	—	(30.8)	—	(30.8)
	373.8	170.8	106.1	—	650.7
Operating expenses before exceptional items	(308.7)	(92.0)	(89.9)	(11.4)	(502.0)
Operating profit before exceptional items	65.1	78.8	16.2	(11.4)	148.7
Exceptional items	(11.4)	(3.6)	(0.3)	(1.0)	(16.3)
Operating profit	53.7	75.2	15.9	(12.4)	132.4
Finance costs					(75.7)
Finance income					0.5
Movement in fair value of interest rate swaps					(4.7)
Profit before taxation					52.5
Taxation					(5.0)
Profit for the period attributable to equity shareholders					47.5
Balance sheet					
Segment assets	976.3	1,105.2	180.4	34.8	2,296.7
Unallocated assets					
Deferred tax assets					65.5
Group cash and cash equivalents					59.5
Total assets					2,421.7
Segment liabilities	(74.2)	(17.0)	(32.0)	(25.1)	(148.3)
Unallocated liabilities					
Group borrowings					(1,141.7)
Current tax liabilities					(25.2)
Pension commitments					(25.0)
Deferred tax liabilities					(171.3)
Derivative financial instruments					(129.7)
Total liabilities					(1,641.2)
Other segmental information					
Capital expenditure					
Intangible assets	0.3	0.4	0.1	0.5	1.3
Property, plant and equipment	52.7	22.0	6.0	3.4	84.1
Amortisation of intangible assets	0.3	—	—	0.3	0.6
Depreciation of property, plant and equipment	19.2	9.6	8.7	1.8	39.3

2 SEGMENTAL REPORTING (CONTINUED)

52 weeks ended 3 October 2009

	Marston's Inns and Taverns £m	Marston's Pub Company £m	Marston's Beer Company £m	Marston's Group Services £m	Group £m
Income statement					
Revenue	367.8	175.8	131.6	—	675.2
Less: sales to other segments	—	—	(30.1)	—	(30.1)
	367.8	175.8	101.5	—	645.1
Operating expenses before exceptional items	(307.5)	(94.0)	(85.5)	(10.7)	(497.7)
Operating profit before exceptional items	60.3	81.8	16.0	(10.7)	147.4
Exceptional items	(34.2)	(2.8)	—	—	(37.0)
Operating profit	26.1	79.0	16.0	(10.7)	110.4
Finance costs					(78.0)
Finance income					0.9
Movement in fair value of interest rate swaps					(11.9)
Profit before taxation					21.4
Taxation					(5.0)
Profit for the period attributable to equity shareholders					16.4
Balance sheet					
Segment assets	939.6	1,107.3	189.6	39.7	2,276.2
Unallocated assets					
Deferred tax assets					59.4
Derivative financial instruments					0.1
Trade and other receivables					4.3
Group cash and cash equivalents					91.3
Total assets					2,431.3
Segment liabilities	(36.7)	(19.6)	(33.5)	(37.7)	(127.5)
Unallocated liabilities					
Group borrowings					(1,194.9)
Current tax liabilities					(24.0)
Pension commitments					(35.3)
Deferred tax liabilities					(173.3)
Derivative financial instruments					(93.1)
Total liabilities					(1,648.1)
Other segmental information					
Capital expenditure					
Intangible assets	—	—	—	0.9	0.9
Property, plant and equipment	28.0	19.7	5.6	2.2	55.5
Amortisation of intangible assets	0.3	—	—	0.2	0.5
Depreciation of property, plant and equipment	22.6	10.2	9.0	2.1	43.9

Geographical areas

Revenue generated outside the United Kingdom during the period was £2.2 million (2009: £2.0 million).

NOTES CONTINUED

For the 52 weeks ended 2 October 2010

3 REVENUE AND OPERATING EXPENSES

	2010	2009
	£m	£m
Revenue		
Goods	583.8	573.8
Services	66.9	71.3
	650.7	645.1

Revenue from services includes rents receivable from licensed properties of £35.7 million (2009: £39.7 million).

	2010	2009
	£m	£m
Operating expenses		
Change in stocks of finished goods and work in progress	0.2	0.7
Own work capitalised	(1.3)	(0.9)
Other operating income	(7.0)	(6.3)
Raw materials, consumables and excise duties	217.6	212.3
Depreciation of property, plant and equipment	39.3	43.9
Amortisation of intangible assets	0.6	0.5
Employee costs	141.8	136.5
Hire of plant and machinery	1.0	1.0
Other operating lease rentals	12.1	13.4
Income from other non-current assets	(0.4)	(0.6)
Impairment of freehold and leasehold properties	0.6	24.1
Recognition of onerous lease and other property related provisions	18.9	12.9
VAT refund	(4.7)	—
Other net operating charges	99.6	97.2
	518.3	534.7

Impairment of freehold and leasehold properties of £nil (2009: £24.1 million), recognition of onerous lease and other property related provisions of £18.9 million (2009: £12.9 million) and the VAT refund of £4.7 million (2009: £nil) have been recognised as exceptional items (note 4).

Exceptional costs of £2.1 million (2009: £nil) are included in other net operating charges.

	2010	2009
	£m	£m
PricewaterhouseCoopers LLP fees:		
Statutory audit fees — consolidated Group financial statements	0.2	0.2
Statutory audit fees — other entity financial statements	0.1	0.1
Corporate finance services	—	0.6
Tax advisory services	—	0.1
Other fees	—	0.1
	0.3	1.1

In the prior period corporate finance services costs of £0.6 million in respect of the rights issue were debited to the share premium account.

4 EXCEPTIONAL ITEMS

	2010 £m	2009 £m
Operating items		
Impairment of freehold and leasehold properties	—	24.1
Recognition of onerous lease and other property related provisions	18.9	12.9
Property related insurance claims	2.1	—
VAT refund	(4.7)	—
	16.3	37.0
Non-operating items		
Movement in fair value of interest rate swaps	4.7	11.9
	21.0	48.9

Recognition of onerous lease and other property related provisions

A review of the Group's leases during the period identified £18.9 million (2009: £12.9 million) of onerous leases requiring provision. This relates to an additional provision for some onerous leases recognised in the prior period where market conditions have deteriorated, and a provision for rent payments following the reversion of onerous leases to the Group in the current period.

Property related insurance claims

Property related insurance claim costs of £2.1 million have been incurred during the period, principally relating to flooding and fire claims. The Group's properties in the Lake District, including the Jennings Brewery and local pubs in particular, suffered significant flood damage during the period. A condition of the Group's insurance policy is that it is responsible for a portion of the claims.

VAT refund

During the period a refund of £5.1 million was received from HM Revenue & Customs in relation to VAT on gaming machine income. It followed Tribunal/Court of Appeal hearings involving The Rank Group Plc. Points raised during the Rank case have been referred to the European Court of Justice and are due to be heard in 2011. HM Revenue & Customs have issued protective assessments to recover the repayment in the event they are successful with their appeal. The Group has appealed against these protective assessments, but if HM Revenue & Customs are successful upon appeal, the Group would be required to repay the £5.1 million plus interest. A gain of £4.7 million (net of associated fees) has been recognised as an exceptional item in the income statement, and the potential refund has been recorded as a contingent liability in note 34.

Movement in fair value of interest rate swaps

The interest rate swaps are revalued to fair value at each balance sheet date and the movement is recognised in the income statement unless hedge accounting is applied. The movement of £4.7 million (2009: £11.9 million) in the fair value of swaps, where hedge accounting has not been applied, is shown as an exceptional item.

Impact of taxation

The current tax credit relating to the above exceptional items amounts to £7.8 million (2009: £0.2 million). The deferred tax credit relating to the above exceptional items amounts to £1.5 million (2009: £9.5 million). In addition, £2.1 million (2009: £nil) has been credited as exceptional in relation to the change in corporation tax rate (note 7).

Prior period exceptional items

Two impairment exercises were undertaken during the prior period. The first review predominantly focused on tenanted pubs let on non-substantive agreements and the second review predominantly focused on leasehold town centre pubs. These categories of pubs were considered to be those most affected by the weakened UK economy.

The total impairment identified was £68.0 million which was taken either to the income statement as an exceptional item or, where the impairment reversed a previous upwards valuation, to the revaluation reserve.



NOTES **CONTINUED**

For the 52 weeks ended 2 October 2010

4 EXCEPTIONAL ITEMS (CONTINUED)

The impact of the impairments described above was as follows:

	2009 £m
Income statement:	
Impairment of other intangible assets (note 11)	0.2
Impairment of property, plant and equipment (note 12)	19.7
Impairment of assets held for sale (note 15)	4.2
	24.1
Revaluation reserve:	
Reversal of past revaluation surplus — property, plant and equipment (note 12)	43.2
Reversal of past revaluation surplus — assets held for sale (note 15)	0.7
	43.9
Total impairment	68.0

The total impairment analysed by business segment was as follows:

	2009 £m
Marston's Inns and Taverns	32.6
Marston's Pub Company	35.1
Marston's Group Services	0.3
	68.0

In determining whether there is a trigger for impairment the Group considers the performance of groups of pubs with similar risk profiles and characteristics. Where these are identified the impairment calculations are performed at an individual pub level.

The Group estimated the above impairments on the basis of fair market value less costs to sell. Pubs which were being marketed for sale had been transferred to assets held for sale (note 15) as appropriate. The key assumptions in determining the level of impairment were the estimated market value (based on specialist advice) and the timeframe within which those pubs could be sold.

As part of the overall review of properties, a full assessment of property provisions was undertaken to reflect the most recent circumstances and expectations. A number of onerous lease and other property related provisions were identified during the review and these were recognised in provisions for other liabilities and charges. These were considered to be linked to the exceptional events which impacted the estate as noted above.

5 EMPLOYEES

	2010 £m	2009 £m
Employee costs		
Wages and salaries	127.8	123.7
Social security costs	9.6	9.4
Pension costs	4.3	3.8
Share-based payments	0.1	(0.4)
	141.8	136.5

Key management personnel

Directors' emoluments are set out in the Directors' Remuneration Report on pages 37 to 44. The total cost to the Group of the Directors' remuneration for the period was £2.7 million (2009: £1.7 million), including employers' national insurance and share-based payments.

	2010 No.	2009 No.
Average monthly number of employees		
Full-time	5,731	5,780
Part-time	6,221	6,209

6 FINANCE COSTS AND INCOME

	2010 £m	2009 £m
Finance costs		
Bank borrowings	11.5	13.0
Securitised debt	61.5	62.6
Other interest payable	2.5	1.3
Net finance cost in respect of retirement benefits	0.2	1.1
	75.7	78.0
Exceptional finance costs		
Movement in fair value of interest rate swaps	4.7	11.9
Total finance costs	80.4	89.9
Finance income		
Deposit and other interest receivable	(0.5)	(0.9)
Total finance income	(0.5)	(0.9)
Net finance costs	79.9	89.0

The movement in fair value of derivative financial instruments relates to the change in mark to market value of interest rate swaps in the period. Over the lives of the instruments the Group's cumulative fair value gain/loss on these financial derivatives will be £nil as it is the Group's intention to hold them to maturity. These financial instruments are categorised as at fair value through profit or loss (note 20).



NOTES CONTINUED

For the 52 weeks ended 2 October 2010

7 TAXATION

	2010 £m	2009 £m
Income statement		
Current tax		
Current period	16.0	20.5
Credit in respect of tax on exceptional items	(7.8)	(0.2)
Adjustments in respect of prior periods	(9.1)	(3.7)
	(0.9)	16.6
Deferred tax		
Current period	0.3	(3.6)
Adjustments in respect of prior periods	9.2	1.5
Exceptional credit in respect of the movement in fair value of interest rate swaps	(1.3)	(3.3)
Exceptional credit in relation to impairments and onerous lease provisions	—	(6.2)
Exceptional credit in relation to the change in tax rate	(2.1)	—
Credit in respect of tax on other exceptional items	(0.2)	—
	5.9	(11.6)
Taxation charge reported in the income statement	5.0	5.0
Statement of comprehensive income		
Losses on actuarial valuation of retirement benefits	(0.3)	(2.1)
Impairment and revaluation of properties	(3.3)	(5.3)
Losses on cash flow hedges	(8.6)	(11.0)
Deferred tax credit in respect of the change in tax rate	(2.2)	—
Taxation credit reported in the statement of comprehensive income	(14.4)	(18.4)

The actual tax rate for the period is lower (2009: lower) than the standard rate of corporation tax of 28% (2009: 28%). The differences are explained below:

	2010 £m	2009 £m
Tax reconciliation		
Profit before tax	52.5	21.4
Profit before tax multiplied by the corporation tax rate of 28% (2009: 28%)	14.7	6.0
Effect of:		
Adjustments to tax in respect of prior periods	0.1	(2.2)
Net deferred tax credit in respect of land and buildings	(4.2)	(2.4)
Costs not deductible for tax purposes	—	3.6
Change in tax treatment in respect of costs charged in the prior period	(3.5)	—
Impact of change in tax rate	(2.1)	—
Current period taxation charge	5.0	5.0

The June 2010 Emergency Budget Statement announced a reduction in the standard rate of corporation tax from 28% to 24% phased in over four years at 1% per annum from April 2011.

The change in the corporation tax rate from 28% to 27% with effect from 1 April 2011 was enacted in the Finance Act 2010. An exceptional deferred tax credit of £2.1 million (2009: £nil) has been recognised in the period in respect of this.

8 ORDINARY DIVIDENDS ON EQUITY SHARES

	2010 £m	2009 £m
Paid in the period		
Final dividend for 2009 of 3.70p per share (2008: 6.08p*)	21.0	22.9
Interim dividend for 2010 of 2.10p per share (2009: 3.44p*)	12.0	13.0
	33.0	35.9

A final dividend for 2010 of 3.70p per share amounting to £21.0 million has been proposed for approval at the Annual General Meeting, but has not been reflected in the financial statements.

This dividend will be paid on 1 February 2011 to those shareholders on the register at close of business on 17 December 2010.

* The prior period dividends per share have been adjusted retrospectively for the impact of the rights issue completed in July 2009.

9 EARNINGS PER ORDINARY SHARE

Basic earnings per share are calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the period, excluding treasury shares and those held in the Executive Share Option Plan and the Long Term Incentive Plan.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the weighted average market price of the Company's shares during the period.

Underlying earnings per share figures are presented to exclude the effect of exceptional items. The Directors consider that the supplementary figures are a useful indicator of performance.

	2010			2009		
	Earnings £m	Weighted average number of shares m	Per share amount p	Earnings £m	Weighted average number of shares m	Per share amount p
Basic earnings per share	47.5	569.3	8.3	16.4	415.8	3.9
Effect of dilutive options	—	2.0	—	—	1.9	—
Diluted earnings per share	47.5	571.3	8.3	16.4	417.7	3.9
Underlying earnings per share figures						
Basic earnings per share	47.5	569.3	8.3	16.4	415.8	3.9
Effect of exceptional items	9.6	—	1.7	39.2	—	9.5
Basic earnings per share before exceptional items	57.1	569.3	10.0	55.6	415.8	13.4
Diluted earnings per share	47.5	571.3	8.3	16.4	417.7	3.9
Effect of exceptional items	9.6	—	1.7	39.2	—	9.4
Diluted earnings per share before exceptional items	57.1	571.3	10.0	55.6	417.7	13.3



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For the 52 weeks ended 2 October 2010

10 GOODWILL

	£m
Cost	
At 4 October 2009 and 2 October 2010	225.3
Aggregate impairment	
At 4 October 2009 and 2 October 2010	1.1
Net book amount at 3 October 2009	224.2
Net book amount at 2 October 2010	224.2
Cost	£m
At 5 October 2008	225.0
Additions	0.3
At 3 October 2009	225.3
Aggregate impairment	
At 5 October 2008 and 3 October 2009	1.1
Net book amount at 4 October 2008	223.9
Net book amount at 3 October 2009	224.2

Impairment testing of goodwill

Goodwill has been allocated across the primary business segments, and the value of the recoverable amounts allocated to those segments has been estimated and compared to the carrying amounts. Recoverable amounts are determined based on the higher of value in use and fair value less costs to sell.

The carrying amount of goodwill has been allocated £115.2 million (2009: £115.2 million) to Marston's Inns and Taverns, £85.4 million (2009: £85.4 million) to Marston's Pub Company and £23.6 million (2009: £23.6 million) to Marston's Beer Company. Goodwill has been allocated to business segments based on the extent to which the benefits of acquisitions flow to that segment.

The key assumptions used in determining value in use are the pre-tax discount rate applied to the cash flow projections of 7.5% (2009: 9.0%) and the growth rate used to extrapolate the projected cash flows beyond the one year budgets of 2.0% (2009: 2.0%) in line with an expected long-term growth rate which is below the long-term average growth rate for the industry. Risk factors are considered to be similar in each of the Group's trading divisions.

Other commercial assumptions relate to market growth, market share and net selling prices. These assumptions are based on historic trends adjusted for management estimates of future prospects. These estimates take account of economic forecasts, marketing plans, political factors and assessments of competitors' strategy.

The above impairment tests demonstrated that the Group had substantial levels of headroom and as such no impairment of goodwill was required in the current or prior period.

11 OTHER INTANGIBLE ASSETS

	Acquired brands £m	Lease premiums £m	Computer Development software £m	costs £m	Total £m
Cost					
At 4 October 2009	19.3	2.0	4.9	—	26.2
Additions	—	—	1.2	0.1	1.3
At 2 October 2010	19.3	2.0	6.1	0.1	27.5
Amortisation					
At 4 October 2009	—	0.4	1.9	—	2.3
Charge for the period	—	0.1	0.5	—	0.6
At 2 October 2010	—	0.5	2.4	—	2.9
Net book amount at 3 October 2009	19.3	1.6	3.0	—	23.9
Net book amount at 2 October 2010	19.3	1.5	3.7	0.1	24.6

Acquired brands are initially recognised at their fair value on acquisition. Given the anticipated level of investment in acquired brands, and there being no legal or regulatory limits to their useful lives, they are regarded as having indefinite useful lives and no annual amortisation is provided.

Development costs constitute the expenditure incurred in developing the fastcash™ technology.

Lease premiums classified as intangible assets are those acquired with new subsidiaries.

	Acquired brands £m	Lease premiums £m	Computer Development software £m	costs £m	Total £m
Cost					
At 5 October 2008	19.3	2.0	4.0	—	25.3
Additions	—	—	0.9	—	0.9
At 3 October 2009	19.3	2.0	4.9	—	26.2
Amortisation					
At 5 October 2008	—	0.2	1.4	—	1.6
Charge for the period	—	0.1	0.4	—	0.5
Impairment	—	0.1	0.1	—	0.2
At 3 October 2009	—	0.4	1.9	—	2.3
Net book amount at 4 October 2008	19.3	1.8	2.6	—	23.7
Net book amount at 3 October 2009	19.3	1.6	3.0	—	23.9

The carrying value of acquired brands is split as follows:

	2010 £m	2009 £m
Wychwood	13.6	13.6
Jennings	2.8	2.8
Ringwood	2.9	2.9
Net book amount	19.3	19.3

Impairment testing of acquired brands

Acquired brands relate to Marston's Beer Company.

The carrying values of acquired brands are subject to annual impairment reviews on a value in use basis. The recoverable amount of each brand is calculated based on anticipated future income generated by that brand. The key assumptions used in the impairment testing of brands are a pre-tax discount rate of 7.5% (2009: 9.0%) and a long-term growth rate used to extrapolate cash flows beyond the cash flow projection period of one year of 2.0% (2009: 2.0%). These assumptions are based on historic trends adjusted for management estimates of future prospects, and take account of economic forecasts, marketing plans, political factors and assessments of competitors' strategy.

The above impairment tests demonstrated that the Group had sufficient levels of headroom and as such no impairment of acquired brands was required in the current or prior period.

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For the 52 weeks ended 2 October 2010

12 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation				
At 4 October 2009	1,715.7	37.1	347.4	2,100.2
Additions	49.7	1.6	32.8	84.1
Net transfers to assets held for sale and disposals	(6.8)	(0.4)	(29.6)	(36.8)
Revaluation	1.5	—	—	1.5
At 2 October 2010	1,760.1	38.3	350.6	2,149.0
Depreciation				
At 4 October 2009	12.4	16.8	176.6	205.8
Charge for the period	2.1	3.6	33.6	39.3
Net transfers to assets held for sale and disposals	(0.4)	(0.4)	(25.5)	(26.3)
At 2 October 2010	14.1	20.0	184.7	218.8
Net book amount at 3 October 2009	1,703.3	20.3	170.8	1,894.4
Net book amount at 2 October 2010	1,746.0	18.3	165.9	1,930.2

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation				
At 5 October 2008	1,769.6	35.0	345.8	2,150.4
Additions	28.1	2.1	25.3	55.5
Net transfers to assets held for sale and disposals	(23.2)	—	(23.7)	(46.9)
Revaluation	(58.8)	—	—	(58.8)
At 3 October 2009	1,715.7	37.1	347.4	2,100.2
Depreciation				
At 5 October 2008	13.0	13.0	148.5	174.5
Charge for the period	3.3	3.8	36.8	43.9
Net transfers to assets held for sale and disposals	(0.2)	—	(13.2)	(13.4)
Impairment/revaluation	(3.7)	—	4.5	0.8
At 3 October 2009	12.4	16.8	176.6	205.8
Net book amount at 4 October 2008	1,756.6	22.0	197.3	1,975.9
Net book amount at 3 October 2009	1,703.3	20.3	170.8	1,894.4

The impairment of fixtures, fittings, tools and equipment in the prior period was originally shown as a reduction in cost of £11.1 million and a reduction in depreciation of £6.6 million. This has now been restated such that the net impairment charge of £4.5 million is shown wholly within depreciation. A number of the fixtures, fittings, tools and equipment were transferred to or from assets held for sale subsequent to their impairment. The cost and depreciation lines for net transfers to assets held for sale and disposals for the prior period have been restated by £7.8 million to reflect this.

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

	2010 £m	2009 £m
Freehold properties	1,575.2	1,599.1
Leasehold properties over 50 years unexpired	140.6	76.5
Leasehold properties under 50 years unexpired	30.2	27.7
	1,746.0	1,703.3

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Cost or valuation of land and buildings comprises:

	2010 £m	2009 £m
Valuation	1,645.4	1,610.0
At cost	114.7	105.7
	1,760.1	1,715.7

If the freehold and leasehold properties had not been revalued, the historical cost net book amount would be £1,285.7 million (2009: £1,243.2 million).

Cost at 2 October 2010 includes £10.2 million (2009: £4.4 million) of assets in the course of construction.

Interest costs of £0.2 million (2009: £0.3 million) were capitalised in respect of the financing of major projects, using the Group's bank borrowings interest rate.

Capital expenditure authorised and committed at the period end but not provided for in the financial statements was £9.2 million (2009: £7.4 million).

Impairment

During the current and prior period various properties were reviewed for impairment. This review identified an impairment of £0.5 million (2009: £62.9 million) which has been taken either to the income statement or, where the impairment reverses a previous upwards revaluation, to the revaluation reserve. Full details of the impairment in the prior period are given in note 4.

Revaluation

The last major revaluation of the Group's freehold and leasehold properties was performed in 2007.

During the current and prior period a number of properties were revalued prior to their transfer to Marston's Pubs Limited (note 19). These revaluations generated an unrealised revaluation surplus of £3.3 million (2009: £3.0 million), a reversal of past revaluation surplus of £1.3 million (2009: £nil) and reversal of past impairments of £nil (2009: £0.3 million), a total increase in shareholders' equity/property, plant and equipment of £2.0 million (2009: £3.3 million).

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

	2010 £m	2009 £m
Income statement:		
Impairment	(0.2)	(19.7)
Reversal of past impairment	—	0.3
	(0.2)	(19.4)
Revaluation reserve:		
Unrealised revaluation surplus	3.3	3.0
Reversal of past revaluation surplus	(1.6)	(43.2)
	1.7	(40.2)
Net increase/(decrease) in shareholders' equity/property, plant and equipment	1.5	(59.6)

13 OTHER NON-CURRENT ASSETS

	2010 £m	2009 £m
Trade loans		
At beginning of the period	21.9	24.7
Additions	1.7	2.2
Disposals, repayments and impairments	(4.4)	(5.0)
At end of the period	19.2	21.9

Other non-current assets are shown net of a provision of £1.5 million (2009: £1.7 million).

NOTES CONTINUED

For the 52 weeks ended 2 October 2010

14 INVENTORIES

	2010 £m	2009 £m
Raw materials and consumables	3.8	3.7
Work in progress	0.3	0.7
Finished goods	13.1	12.9
	17.2	17.3

15 ASSETS HELD FOR SALE

	2010 £m	2009 £m
Properties	16.0	19.5

During the current and prior period various properties were reviewed for impairment. This review identified an impairment of £0.8 million (2009: £4.9 million), of which £0.4 million (2009: £4.2 million) has been taken to the income statement and £0.4 million (2009: £0.7 million) to the revaluation reserve.

16 TRADE AND OTHER RECEIVABLES

	2010 £m	2009 £m
Trade receivables	33.7	40.5
Prepayments and accrued income	15.9	18.9
Other receivables	15.7	19.9
	65.3	79.3

Trade receivables are shown net of a provision of £0.7 million (2009: £8.1 million). Other receivables are shown net of a provision of £11.1 million (2009: £0.4 million). During the period £7.0 million of the provision against trade receivables was transferred to other receivables along with the associated receivable balances.

The ageing analysis of trade receivables is as follows:

	2010 £m	2009 £m
Neither past due nor impaired	19.7	26.7
Less than 30 days	5.1	5.0
31 to 60 days	1.9	2.3
Greater than 60 days	7.0	6.5
	33.7	40.5

Included within other receivables is an amount of £10.1 million (2009: £13.2 million), net of provision, which relates to amounts due from tenants of licensed properties. A significant proportion of this balance is greater than 60 days old.

All of the Group's trade receivables are denominated in pounds sterling.

During the period the Group entered into a debt factoring arrangement in respect of a number of its customers.

Included within trade receivables are balances which are past due at the balance sheet date but have not been provided for, as these are considered to be recoverable. These balances relate to established customers for whom there is no recent history of default. Trade receivables that are less than three months past due are not generally considered impaired unless there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

At 2 October 2010 the value of collateral held in the form of cash deposits was £8.6 million (2009: £9.1 million).

17 BORROWINGS

	2010 £m	2009 £m
Current		
Unsecured bank borrowings	(1.5)	(0.7)
Securitised debt (note 19)	17.8	16.7
Unsecured loan notes	0.6	5.4
	16.9	21.4
Non-current		
Unsecured bank borrowings	94.2	125.0
Securitised debt (note 19)	1,030.5	1,048.4
Preference shares	0.1	0.1
	1,124.8	1,173.5

Unsecured bank borrowings due within one year represent unamortised issue costs expected to be charged to the income statement within 12 months of the balance sheet date.

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

Maturity of borrowings

The maturity profile of the carrying amount of the Group's borrowings at the period end was as follows:

	2010			2009		
	Gross borrowings £m	Unamortised issue costs £m	Net borrowings £m	Gross borrowings £m	Unamortised issue costs £m	Net borrowings £m
Due:						
Within one year	20.9	(4.0)	16.9	24.6	(3.2)	21.4
In more than one year but less than two years	21.4	(3.9)	17.5	20.4	(2.5)	17.9
In more than two years but less than five years	169.1	(3.5)	165.6	193.1	(3.9)	189.2
In more than five years	946.3	(4.6)	941.7	971.8	(5.4)	966.4
	1,157.7	(16.0)	1,141.7	1,209.9	(15.0)	1,194.9

Fair value of borrowings

The carrying amounts and fair value of the Group's borrowings are as follows:

	Carrying amount		Fair value	
	2010 £m	2009 £m	2010 £m	2009 £m
Unsecured bank borrowings	97.0	125.0	97.0	125.0
Securitised debt	1,060.0	1,079.4	945.2	821.3
Unsecured loan notes	0.6	5.4	0.6	5.4
Preference shares	0.1	0.1	0.1	0.1
	1,157.7	1,209.9	1,042.9	951.8



NOTES CONTINUED

For the 52 weeks ended 2 October 2010

17 BORROWINGS (CONTINUED)

Interest rates

Interest rates in respect of the Group's securitised debt are shown in note 19. Interest rates applicable to the Group's other borrowings are as follows:

	2010	2009
Unsecured bank borrowings	Variable*	Variable*
Unsecured loan notes	Variable*	Variable*
Preference shares	6.00%	6.00%

* Variable interest rates on unsecured bank borrowings and loan notes are all linked to LIBOR.

Preference shares

The Group has 75,000 (2009: 75,000) preference shares of £1 each in issue at the balance sheet date. The preference shares carry the right to a fixed cumulative preferential dividend at the rate of 6% per annum (they are also entitled to a non-cumulative dividend of 1% per annum provided that dividends of not less than £24,000 have been paid on the ordinary shares in that year). They participate in the event of a winding-up and on a return of capital and carry the right to attend and vote at general meetings of the Company, carrying four votes per share.

18 DERIVATIVE FINANCIAL INSTRUMENTS

	2010	2009
	£m	£m
Interest rate swaps		
Non-current assets	—	0.1
Current liabilities	(20.8)	(16.1)
Non-current liabilities	(108.9)	(77.0)
	(129.7)	(93.0)

Details of the Group's interest rate swaps are provided in note 20.

19 SECURITISED DEBT

On 9 August 2005, £805.0 million of secured loan notes were issued in connection with the securitisation of 1,592 of the Group's pubs held in Marston's Pubs Limited. On 22 November 2007, a further £330.0 million of secured loan notes (tranches A4 and AB1) were issued in connection with the securitisation of an additional 437 of the Group's pubs, also held in Marston's Pubs Limited. The loan notes are secured over the properties and their future income streams and were issued by Marston's Issuer PLC, a special purpose entity (note 32).

During the period ended 2 October 2010, 21 (2009: 52) of the securitised pubs were sold to third parties, and 20 (2009: 7) pubs were acquired from other members of the Group. The carrying amount of the securitised pubs at 2 October 2010 was £1,399.1 million (2009: £1,350.5 million).

The securitisation is governed by various covenants, warranties and events of default, many of which apply to Marston's Pubs Limited. These include covenants regarding the maintenance and disposal of securitised properties and restrictions on the ability to move cash to other companies within the Group.



19 SECURITISED DEBT (CONTINUED)

The securitised debt at 2 October 2010 consists of six tranches with the following principal terms:

Tranche	2010 £m	2009 £m	Interest	Principal repayment period — by instalments	Expected average life	Expected maturity date
A1	176.2	189.7	Floating	2010 to 2020	2 years	2012
A2	214.0	214.0	Fixed/floating	2020 to 2027	9 years	2019
A3	200.0	200.0	Fixed/floating	2027 to 2032	17 years	2027
A4	234.8	240.7	Floating	2010 to 2031	2 years	2012
AB1	80.0	80.0	Floating	2031 to 2035	2 years	2012
B	155.0	155.0	Fixed/floating	2032 to 2035	9 years	2019
	1,060.0	1,079.4				

Interest on the Class A1 notes is payable at three month LIBOR plus a margin of 0.55%, stepping up to three month LIBOR plus 1.375% from July 2012.

Interest on the Class A2 notes is payable at a rate of 5.1576% until July 2019 and thereafter at three month LIBOR plus a margin of 1.32%.

Interest on the Class A3 notes is payable at a rate of 5.1774% until April 2027 and thereafter at three month LIBOR plus a margin of 1.45%.

Interest on the Class A4 notes is payable at three month LIBOR plus a margin of 0.65%, stepping up to three month LIBOR plus 1.625% from October 2012.

Interest on the Class AB1 notes is payable at three month LIBOR plus a margin of 1.25%, stepping up to three month LIBOR plus 3.125% from October 2012.

Interest on the Class B notes is payable at a rate of 5.6410% until July 2019 and thereafter at three month LIBOR plus a margin of 2.55%.

All floating rate notes are hedged in full by the Group using interest rate swaps whereby all interest payments are swapped to fixed interest payable.

At 2 October 2010 Marston's Pubs Limited held cash of £44.5 million (2009: £47.9 million) which was governed by certain restrictions under the covenants associated with the securitisation.

20 FINANCIAL INSTRUMENTS

Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

At 2 October 2010	Loans and receivables £m	Total £m
Assets as per the balance sheet		
Trade receivables (before provision)	34.4	34.4
Other receivables (before provision)	26.8	26.8
Trade loans (before provision)	20.7	20.7
Cash and cash equivalents	59.5	59.5
	141.4	141.4

NOTES CONTINUED

For the 52 weeks ended 2 October 2010

20 FINANCIAL INSTRUMENTS (CONTINUED)

	Liabilities at fair value through profit or loss				Total £m	
	Derivatives used for hedging £m	£m	Other financial liabilities £m			
At 2 October 2010						
Liabilities as per the balance sheet						
Derivative financial instruments	108.9	20.8	—	129.7		
Borrowings	—	—	1,141.7	1,141.7		
Trade payables	—	—	43.7	43.7		
	108.9	20.8	1,185.4	1,315.1		
At 3 October 2009						
Assets as per the balance sheet						
Derivative financial instruments	0.1	—	—	0.1		
Trade receivables (before provision)	—	48.6	48.6			
Other receivables (before provision)	—	20.3	20.3			
Trade loans (before provision)	—	23.6	23.6			
Cash and cash equivalents	—	91.3	91.3			
	0.1	183.8	183.9			
At 3 October 2009						
Liabilities as per the balance sheet						
Derivative financial instruments	77.0	16.1	—	93.1		
Borrowings	—	—	1,194.9	1,194.9		
Trade payables	—	—	42.4	42.4		
	77.0	16.1	1,237.3	1,330.4		

Financial instruments at fair value through profit or loss were designated as such on initial recognition.

The fair value of financial instruments that are not traded in an active market, such as over-the-counter derivatives, is determined using valuation techniques. The Group obtains such valuations from counterparties who use a variety of assumptions based on market conditions existing at each balance sheet date.

The fair values of all financial instruments are equal to their book values, with the exception of borrowings (note 17). The carrying value less impairment provision of trade receivables, other receivables and trade loans, and the carrying value of trade payables, are assumed to approximate their fair values.

20 FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

IFRS 7 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:

Assets as per the balance sheet

	2010			Total £m	2009			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m		Level 1 £m	Level 2 £m	Level 3 £m	
Derivative financial instruments	—	—	—	—	—	0.1	—	0.1

Liabilities as per the balance sheet

	2010			Total £m	2009			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m		Level 1 £m	Level 2 £m	Level 3 £m	
Derivative financial instruments	—	129.7	—	129.7	—	93.1	—	93.1

There were no transfers between Levels 1, 2 and 3 fair value measurements during the current or prior period.

Financial risk factors

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

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

Market risk:

The Group's market risk is explained in detail in the Corporate Governance Report on pages 31 to 36.

Interest rate risk:

The Group's income and operating cash flows are substantially independent of changes in market interest rates, and as such the Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on the income statement of a defined interest rate shift. The scenarios are run only for liabilities that represent the major interest-bearing positions.



NOTES **CONTINUED**

For the 52 weeks ended 2 October 2010

20 FINANCIAL INSTRUMENTS (CONTINUED)

If interest rates had been 0.5% higher/lower during the period ended 2 October 2010, with all other variables held constant, post-tax profit for the period would have been £0.2 million higher/lower (2009: £0.4 million lower/higher) as a result of lower/higher (2009: higher/lower) interest expense.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional amounts.

The Group uses interest rate swaps to fix the interest rate payable on the floating rate tranches of its securitised debt (note 19). These derivative financial instruments have qualified for cash flow hedge accounting, and, as a result, changes in fair value are recognised in other comprehensive income for the effective portion of the hedge. The losses taken directly to other comprehensive income in the period totalled £30.8 million (2009: £39.3 million). The notional principal amounts of these interest rate swap contracts at 2 October 2010 totalled £491.0 million (2009: £510.4 million). The interest rate swaps, including borrowing margins, fix interest at 5.4% and 6.0%.

On 1 October 2007 the Group entered into two interest rate swaps of £70.0 million each to fix the interest rate payable on the Group's unsecured bank borrowings. These derivative financial instruments have not qualified for cash flow hedge accounting, and, as a result, changes in fair value are recorded in the income statement. The losses taken to the income statement in the period totalled £4.7 million (2009: £11.9 million) (note 4). The notional principal amounts of these interest rate swap contracts at 2 October 2010 totalled £140.0 million (2009: £140.0 million). The interest rate swaps fix interest at 5.5% and 5.6%.

On 20 May 2009 the Group entered into a further interest rate swap of £20.0 million to fix the interest rate payable on the Group's unsecured bank borrowings. This derivative financial instrument qualified for cash flow hedge accounting, and, as a result, changes in fair value have been recognised in other comprehensive income for the effective portion of the hedge. The gains taken directly to other comprehensive income in the period totalled £0.1 million (2009: losses of £0.1 million). The notional principal amount of this interest rate swap contract at 2 October 2010 totalled £nil (2009: £20.0 million). The interest rate swap fixed interest at 1.1%. This interest rate swap contract terminated on 8 August 2010.

On the same day the Group entered into a forward starting interest rate swap of £20.0 million to continue to fix the interest rate payable on the Group's unsecured bank borrowings. This derivative financial instrument has qualified for cash flow hedge accounting, and, as a result, changes in fair value are recognised in other comprehensive income for the effective portion of the hedge. The losses taken directly to other comprehensive income in the period totalled £1.3 million (2009: gains of £0.1 million). The notional principal amount of this interest rate swap contract at 2 October 2010 was £20.0 million (2009: £20.0 million). The interest rate swap fixes interest at 3.3%. This interest rate swap commenced on 9 August 2010 and terminates on 8 August 2013.

The interest rate risk profile, after taking account of derivative financial instruments, is as follows:

	2010			2009		
	Floating rate	Fixed rate	Total	Floating rate	Fixed rate	Total
	financial	financial		financial	financial	
Borrowings	£m	£m	£m	£m	£m	£m
	0.6	1,157.1	1,157.7	5.4	1,204.5	1,209.9

The weighted average interest rate of the fixed rate financial borrowings was 5.5% (2009: 5.5%) and the weighted average period for which the rate is fixed was seven years (2009: eight years).

Foreign currency risk:

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



20 FINANCIAL INSTRUMENTS (CONTINUED)

Counterparty risk:

The Group's counterparty risk in respect of its cash and cash equivalents is mitigated by the use of various banking institutions for its deposits.

There is no significant concentration of counterparty risk in respect of the Group'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 are regularly monitored.

A provision for impairment of trade receivables, other receivables and free trade loans has been estimated by management following a review of individual receivable accounts and is based on prior experience and known factors at the balance sheet date after taking into account collateral held in the form of cash deposits and fixtures and fittings. Receivables are written off against the provision for impairment when management considers that the debt is no longer recoverable.

The Group 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:

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

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

The table below analyses the Group'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 table are the contractual undiscounted cash flows.

	Between				Total
	Less than 1 year	1 and 2 years	2 and 5 years	Over 5 years	
At 2 October 2010					
Borrowings	62.7	65.3	308.6	1,589.1	2,025.7
Derivative financial instruments	27.1	23.9	41.9	53.5	146.4
Trade payables	43.7	—	—	—	43.7
	133.5	89.2	350.5	1,642.6	2,215.8

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For the 52 weeks ended 2 October 2010

20 FINANCIAL INSTRUMENTS (CONTINUED)

	Less than	Between	Between	Over 5	Total
	1 year	1 and 2 years	2 and 5 years	years	£m
At 3 October 2009					
Borrowings	93.3	90.0	389.5	1,745.2	2,318.0
Derivative financial instruments	19.5	10.7	13.4	43.4	87.0
Trade payables	42.4	—	—	—	42.4
	155.2	100.7	402.9	1,788.6	2,447.4

Over the life of the Group's derivative financial instruments the cumulative fair value gain/loss on those instruments will be £nil as it is the Group's intention to hold them to maturity.

21 TRADE AND OTHER PAYABLES

	2010	2009
	£m	£m
Trade payables	43.7	42.4
Other taxes and social security	17.1	15.8
Accruals and deferred income	37.9	34.9
Other payables	17.0	16.5
	115.7	109.6

22 DEFERRED TAX

Net deferred tax liability

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 27% (2009: 28%). The movement on the deferred tax accounts is shown below:

	2010	2009
	£m	£m
At beginning of the period	113.9	141.8
Charged/(credited) to the income statement	5.9	(11.6)
Charged/(credited) to equity		
Impairment and revaluation of properties	(6.2)	(5.3)
Hedging reserve	(7.9)	(11.0)
Retirement benefits	0.1	—
At end of the period	105.8	113.9

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the period are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Deferred tax liabilities

	Accelerated				Other	Total		
	capital	Revaluation	Rolled over	£m				
	allowances	of properties	capital gains					
At 4 October 2009	30.5	126.2	9.2	7.4		173.3		
Charged/(credited) to the income statement	8.1	(1.3)	(1.8)	(0.8)		4.2		
Credited to equity	—	(6.2)	—	—		(6.2)		
At 2 October 2010	38.6	118.7	7.4	6.6		171.3		

22 DEFERRED TAX (CONTINUED)

Deferred tax assets

	Pensions £m	Tax losses £m	Hedging reserve £m	Other £m	Total £m
At 4 October 2009	(9.9)	(23.3)	(21.5)	(4.7)	(59.4)
Charged/(credited) to the income statement	3.1	(0.1)	—	(1.3)	1.7
(Credited)/charged to equity	—	—	(7.9)	0.1	(7.8)
At 2 October 2010	(6.8)	(23.4)	(29.4)	(5.9)	(65.5)

Net deferred tax liability

At 3 October 2009					113.9
At 2 October 2010					105.8

Deferred tax liabilities

	Accelerated capital allowances			Revaluation of properties	Rolled over capital gains	Other £m	Total £m
	£m	£m	£m	£m	£m	£m	£m
At 5 October 2008	35.8			130.6	15.8	7.3	189.5
(Credited)/charged to the income statement	(5.3)			0.9	(6.6)	0.1	(10.9)
Credited to equity	—			(5.3)	—	—	(5.3)
At 3 October 2009	30.5			126.2	9.2	7.4	173.3

Deferred tax assets

	Pensions £m	Tax losses £m	Share-based payments £m	Hedging reserve £m	Other £m	Total £m
At 5 October 2008	(10.6)	(25.1)	(0.1)	(10.5)	(1.4)	(47.7)
Charged/(credited) to the income statement	0.7	1.8	0.1	—	(3.3)	(0.7)
Credited to equity	—	—	—	(11.0)	—	(11.0)
At 3 October 2009	(9.9)	(23.3)	—	(21.5)	(4.7)	(59.4)

Net deferred tax liability

At 4 October 2008					141.8
At 3 October 2009					113.9

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences where it is probable that these assets will be recovered.

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For the 52 weeks ended 2 October 2010

23 OTHER NON-CURRENT LIABILITIES

	2010 £m	2009 £m
Accruals and deferred income	0.1	0.3
Other liabilities	0.2	0.4
	0.3	0.7

24 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	2010 £m	2009 £m
Property leases		
At beginning of the period	17.2	6.0
Disposals	(0.7)	(1.2)
Recognition of onerous lease and other property related provisions (note 4)	18.9	12.9
Unwinding of discount	0.9	0.3
Utilised in the period	(4.0)	(0.8)
At end of the period	32.3	17.2

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

Payments are expected to continue on these properties for periods of 1 to 60 years (2009: 1 to 61 years).

25 PENSION COMMITMENTS

During the period the Group contributed to a funded defined benefit (final salary) pension scheme and ten defined contribution arrangements.

Defined contribution schemes

Pension costs for defined contribution schemes are as follows:

	2010 £m	2009 £m
Defined contribution schemes	2.1	1.2

Defined benefit scheme

An updated actuarial valuation of the Marston's PLC Pension and Life Assurance Scheme was performed by Mercer as at 2 October 2010 for the purposes of IAS 19. The principal assumptions made by the actuaries were:

	2010	2009
Discount rate	5.1%	5.6%
Rate of increase in pensionable salaries	3.6%	3.6%
Rate of increase in pensions — 5% LPI	3.1%	3.1%
Rate of increase in pensions — 2.5% LPI	2.3%	2.3%
Inflation assumption	3.1%	3.1%
Expected return on scheme assets	6.1%	6.1%
Life expectancy for active and deferred members from age 65		
Male	22.4 years	22.2 years
Female	25.7 years	25.0 years
Life expectancy for current pensioners from age 65		
Male	20.4 years	20.5 years
Female	23.6 years	23.4 years

The expected return on scheme assets is based on market expectation at the beginning of the period for returns over the entire life of the benefit obligation. Mortality assumptions are based on standard tables adjusted for scheme experience and with an allowance for future improvement in life expectancy.

Movement in scheme assets and pension obligations during the period:

	Scheme assets		Scheme liabilities		Net deficit	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
At beginning of the period	314.5	273.7	(349.8)	(311.6)	(35.3)	(37.9)
Current service cost	—	—	(2.8)	(2.6)	(2.8)	(2.6)
Interest cost on benefit obligations	—	—	(19.2)	(20.3)	(19.2)	(20.3)
Expected return on scheme assets	19.0	19.2	—	—	19.0	19.2
Employer contributions	14.0	13.8	—	—	14.0	13.8
Employee contributions	0.1	0.1	(0.1)	(0.1)	—	—
Benefits paid	(16.1)	(14.5)	16.1	14.5	—	—
Curtailment gain	—	—	0.6	—	0.6	—
Actuarial gains/(losses)	26.4	22.2	(27.7)	(29.7)	(1.3)	(7.5)
At end of the period	357.9	314.5	(382.9)	(349.8)	(25.0)	(35.3)



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For the 52 weeks ended 2 October 2010

25 PENSION COMMITMENTS (CONTINUED)

The major categories of scheme assets as a percentage of total scheme assets are as follows:

	2010	2009
Equities/Properties	65.0%	62.9%
Bonds/Gilts	34.8%	37.0%
Cash/Other	0.2%	0.1%

The actual return on scheme assets was a gain of £45.4 million (2009: gain of £41.4 million).

Pension costs recognised in the income statement

The amounts recognised in the income statement are as follows:

	2010	2009
	£m	£m
Current service cost	2.8	2.6
Interest cost	19.2	20.3
Expected return on scheme assets	(19.0)	(19.2)
Curtailment gain	(0.6)	—
Total expense recognised in the income statement	2.4	3.7

Of the total charge, £2.2 million (2009: £2.6 million) is included within employee costs (note 5) and £0.2 million (2009: £1.1 million) is included within finance costs and income (note 6).

Cumulative actuarial gains and losses recognised in the statement of comprehensive income

	2010	2009
	£m	£m
At beginning of the period	(17.9)	(10.4)
Net actuarial losses recognised in the period	(1.3)	(7.5)
At end of the period	(19.2)	(17.9)

Post-retirement medical benefits of £0.3 million (2009: £(0.1) million) have been included in the statement of comprehensive income.

History of experience gains and losses

	2010	2009	2008	2007	2006
Experience adjustments arising on scheme assets:					
Amount	£26.4m	£22.2m	£(54.8)m	£8.9m	£(6.6)m
Percentage of fair value of scheme assets	7.4%	7.1%	20.0%	3.0%	2.7%
Experience adjustments arising on scheme liabilities:					
Amount	—	£13.1m	—	—	£(24.6)m
Percentage of present value of scheme liabilities	—	3.7%	—	—	8.2%
Present value of scheme liabilities	£(382.9)m	£(349.8)m	£(311.6)m	£(340.1)m	£(298.2)m
Fair value of scheme assets	£357.9m	£314.5m	£273.7m	£301.5m	£245.1m
Deficit	£(25.0)m	£(35.3)m	£(37.9)m	£(38.6)m	£(53.1)m

The employer contributions expected to be paid during the financial period ending 1 October 2011 amount to £14.6 million.

26 SHARE-BASED PAYMENTS

During the period there were three classes of equity-settled employee share incentive plans outstanding:

- (a) Save As You Earn (SAYE). Under this scheme employees enter into a savings contract for a period of three to seven years and options are granted on commencement of the contract, exercisable using the amount saved under the contract at the time it terminates. Options under the scheme are granted at a discount of 20% to the market price of the shares at the time of the invitation and are not subject to performance conditions. Exercise of options is subject to continued employment.
- (b) Executive Share Option Plan (ESOP). Under this scheme executive share options are awarded at the prevailing market rate on the date of the grant. Options are normally exercisable between three and ten years after grant and upon the achievement of performance criteria in relation to earnings per share, as set out in the Directors' Remuneration Report on pages 38 to 39.
- (c) Long Term Incentive Plan (LTIP). Under this scheme nil cost options are granted that will only vest provided the participant satisfies the minimum shareholding requirement and performance conditions relating to earnings per share, as set out in the Directors' Remuneration Report on page 39, are met.

During the current period a minor amendment was made to the rules of the LTIP. As such, awards made in 2010 are structured as Approved Performance Share Plan ('APSP') awards and comprise an HM Revenue & Customs approved award (in respect of the first £30,000 worth of an award), and an unapproved LTIP award for amounts in excess of this HM Revenue & Customs limit. The approved options are granted at the market price of the shares on the date of grant whereas the unapproved options have a nil cost. To enable participants to fund the exercise of the approved option a further share award is also now provided. This linked award is a nil cost option granted over a flexible number of shares so that when it vests and is exercised, it delivers a value equal to the total exercise price of the approved options. This linked award is satisfied by a number of shares from the Company's employee benefit trust which are used to fund the approved option exercise price. These shares are then retained by the trust and not delivered to the participant. Under these amended rules the LTIP options are still issued at nil cost to the employee.

The tables below summarise outstanding options that were issued after 7 November 2002.

	Number of shares		Weighted average exercise price	
	2010 m	2009 m	2010 p	2009 p
SAYE:				
Outstanding at beginning of the period	4.5	4.4	109.7	138.5
Granted	4.0	2.8	76.1	94.7
Exercised	(0.1)	—	93.2	—
Expired	(2.4)	(2.7)	105.9	132.9
Outstanding at end of the period	6.0	4.5	92.3	109.7
Exercisable at end of the period	0.3	0.3	170.8	139.4
Range of exercise prices	76.1p to 265.5p	92.8p to 265.5p		
Weighted average remaining contractual life (years)	4.1	3.3		

	Number of shares		Weighted average exercise price	
	2010 m	2009 m	2010 p	2009 p
ESOP:				
Outstanding at beginning and end of the period	0.1	0.1	108.4	108.4
Exercisable at end of the period	0.1	0.1	108.4	108.4
Exercise price	108.4p	108.4p		
Weighted average remaining contractual life (years)	2.3	1.6		



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For the 52 weeks ended 2 October 2010

26 SHARE-BASED PAYMENTS (CONTINUED)

LTIP:	Number of shares		Weighted average exercise price	
	2010	2009	2010	2009
	m	m	p	p
Outstanding at beginning of the period	1.9	2.8	—	—
Granted	2.9	—	—	—
Expired	(0.7)	(0.9)	—	—
Outstanding at end of the period	4.1	1.9	—	—
Exercisable at end of the period	—	—	—	—
Exercise price	—	—	—	—

LTIP options granted before 1 July 2010 are exercisable until the retirement date of the holder. LTIP options granted on or after 1 July 2010 are exercisable no later than the tenth anniversary of the date of grant.

The fair values of the SAYE, ESOP and LTIP rights are calculated at the date of grant using the Black–Scholes option-pricing model. The significant inputs into the model for all schemes unless otherwise stated, were:

	2010	2009
Dividend yield %	6.5	8.4
Expected volatility %	39.5 to 55.7	36.5 to 50.9
Risk free interest rate %	1.5 to 3.0	2.4 to 3.3
Expected life of rights		
SAYE	3 to 7 years	3 to 7 years
ESOP	3 years	3 years
LTIP	3 years	3 years

The expected volatility is based on historical volatility over the expected life of the rights. The performance criteria of the ESOP and LTIP, as set out previously, are built into the pricing model.

The weighted average fair value of options granted during the period in relation to the SAYE was 18.2p (2009: 27.1p). The fair value of options granted during the period in relation to the LTIP was nil (2009: nil).

The weighted average share price for options exercised over the period was 93.6p (2009: 108.1p). The total charge for the period relating to employee share-based payment plans was £0.1 million (2009: credit of £0.4 million), all of which related to equity-settled share-based payment transactions. After tax, the total charge was £0.1 million (2009: credit of £0.3 million).

26 SHARE-BASED PAYMENTS (CONTINUED)

The table below summarises outstanding options that were issued prior to 7 November 2002 which have therefore not been charged to the income statement:

	SAYE				ESOP			
	Number of shares		Weighted average exercise price		Number of shares		Weighted average exercise price	
	2010	2009	2010	2009	2010	2009	2010	2009
	m	m	p	p	m	m	p	p
Outstanding at beginning of the period	0.1	0.1	99.4	99.4	0.1	0.3	98.6	101.1
Expired	(0.1)	—	99.4	99.4	(0.1)	(0.2)	92.6	102.8
Outstanding at end of the period	—	0.1	—	99.4	—	0.1	—	98.6
Exercisable at end of the period	—	0.1	—	99.4	—	0.1	—	98.6
Range of exercise prices		99.4p				92.6p to 102.9p		
Weighted average remaining contractual life (years)	—	0.2			—	1.4		

The LTIP was introduced in January 2004.



NOTES CONTINUED

For the 52 weeks ended 2 October 2010

27 EQUITY SHARE CAPITAL

Authorised	2010		2009	
	Number m	Value £m	Number m	Value £m
Ordinary shares of 7.375p each	800.0	59.0	800.0	59.0
Allotted, called up and fully paid				
Ordinary shares of 7.375p each:				
At beginning of the period	600.7	44.3	302.8	22.3
Allotted under share option schemes	0.1	—	—	—
Shares issued in respect of the rights issue	—	—	298.9	22.0
Cancellation of shares	—	—	(1.0)	—
At end of the period	600.8	44.3	600.7	44.3

In July 2009, the Company issued 298.9 million ordinary shares of 7.375p each at 59.0p per share by way of a rights issue. The rights issue was on the basis of 11 new shares for every 10 shares held on 1 July 2009. The net proceeds were £165.6 million.

A total of 0.1 million (2009: nil) ordinary shares were issued during the period ended 2 October 2010 pursuant to the exercise of ESOP and SAYE share options. The aggregate consideration in respect of these exercises was £nil (2009: £nil).

At 2 October 2010 there were 0.1 million (2009: 0.2 million) executive share options outstanding and 6.0 million (2009: 4.6 million) SAYE options outstanding at prices from 76.1p to 265.5p per share exercisable between 2010 and 2018. Details of the Group's LTIP and other executive share option schemes are included in the Directors' Remuneration Report on pages 38 to 39.

28 OTHER COMPONENTS OF EQUITY

The merger reserve of £41.5 million (2009: £41.5 million) was recognised on the acquisition of Burtonwood and reflects the difference between the nominal and fair value of the Company's shares issued as part of the consideration for the acquisition. Merger relief was taken, relieving the Group from the need to transfer this difference to the share premium account.

The capital redemption reserve of £6.8 million (2009: £6.8 million) arose on share buy-backs.

Own shares represent the carrying value of the investment in own shares held by the Group's ESOP and LTIP and in treasury shares as set out in the table below. ESOP and LTIP shares are held pursuant to the Company's executive share option schemes. The trustee of the ESOP is Banks's Brewery Insurance Limited, a wholly owned subsidiary of Marston's PLC. The trustee of the LTIP is Computershare Trustees (C.I.) Limited.

	2010		2009	
	Number of shares	Value £m	Number of	
			m	Value £m
ESOP	0.1	0.1	0.1	0.1
LTIP	1.3	4.1	1.3	4.1
Treasury shares	30.2	126.7	30.2	126.7
	31.6	130.9	31.6	130.9

The market value of own shares held is £29.7 million (2009: £29.5 million). Shares held by the LTIP represent 0.2% (2009: 0.2%) of issued share capital. Treasury shares held represent 5.0% (2009: 5.0%) of issued share capital.

Dividends on own shares have been waived.

Capital management

The Group considers its capital to comprise equity and debt financing. In managing its capital the primary objective is to ensure that the Group is able to continue to operate as a going concern and to maximise return to shareholders through a combination of capital growth and distributions. The Group seeks to maintain a ratio of debt to equity that balances risks and returns at an acceptable level and maintains sufficient funds to meet working capital targets, investment requirements and comply with lending covenants. The Board reviews the Group's dividend policy and funding requirements annually.

29 WORKING CAPITAL AND NON-CASH MOVEMENTS

	2010 £m	2009 £m
Income from other non-current assets	(0.4)	(0.6)
Decrease in inventories	0.1	1.7
Decrease/(increase) in trade and other receivables	5.9	(2.2)
Increase/(decrease) in trade and other payables and other non-current liabilities	2.8	(19.5)
Movements in respect of property, plant and equipment, assets held for sale and intangible assets	17.9	36.7
Share-based payments	0.1	(0.4)
Working capital and non-cash movements	26.4	15.7

Further details of movements in respect of property, plant and equipment, assets held for sale and intangible assets are given in notes 4, 11, 12 and 15.

30 ANALYSIS OF NET DEBT

	2010 £m	Cash flow £m	Non-cash movements and deferred issue costs £m	2009 £m
Cash and cash equivalents				
Cash at bank and in hand	59.5	(31.8)	—	91.3
	59.5	(31.8)	—	91.3
Trade and other receivables				
Prepaid issue costs	—	—	(4.3)	4.3
	—	—	(4.3)	4.3
Debt due within one year				
Loan notes	(0.6)	4.8	—	(5.4)
Bank loans	1.5	—	0.8	0.7
Securitised debt	(17.8)	19.4	(20.5)	(16.7)
	(16.9)	24.2	(19.7)	(21.4)
Debt due after one year				
Bank loans	(94.2)	28.0	2.8	(125.0)
Securitised debt	(1,030.5)	—	17.9	(1,048.4)
Preference shares	(0.1)	—	—	(0.1)
	(1,124.8)	28.0	20.7	(1,173.5)
	(1,082.2)	20.4	(3.3)	(1,099.3)

Included within cash at bank and in hand is an amount of £3.9 million (2009: £3.9 million), which relates to a letter of credit with Royal Sun Alliance Insurance, and an amount of £8.6 million (2009: £9.1 million), which relates to collateral held in the form of cash deposits. These amounts are considered to be restricted cash.

In addition, cash held in connection with the securitised business is governed by certain restrictions under the covenants associated with the securitisation (note 19).

Prepaid issue costs were in respect of the extension to the Group's bank facility that was agreed during the prior period. The new bank facility commenced in August 2010 and as such these issue costs are now offset against the associated debt.

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



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31 OPERATING LEASES

The Group as lessee

The Group leases various properties and 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:

Due:	2010		2009	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	14.3	0.5	15.4	0.8
In more than one year but less than five years	53.7	0.4	57.2	1.2
In more than five years	219.8	—	237.0	—
	287.8	0.9	309.6	2.0

The Group as lessor

The Group leases a proportion of its licensed estate and other non-licensed properties to tenants. The majority of lease agreements have terms of between 3 and 21 years and are classified as operating leases. Future minimum lease rentals receivable under non-cancellable operating leases are as follows:

Due:	2010		2009	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	39.5	—	28.8	—
In more than one year but less than five years	126.3	—	103.4	—
In more than five years	240.5	—	307.9	—
	406.3	—	440.1	—

32 SPECIAL PURPOSE ENTITY — MARSTON'S ISSUER PLC

The summarised financial statements of Marston's Issuer PLC are as follows:

	2010 £m	2009 £m
Income statement		
Finance costs	(58.9)	(60.1)
Finance income	58.9	60.1
Profit for the period attributable to equity shareholders	—	—

The profit for the period attributable to equity shareholders represents total comprehensive income for the period.

	2010 £m	2009 £m
Cash flow statement		
Net cash inflow from operating activities	—	—
Investing activities		
Interest received	59.3	60.4
Repayment of loans advanced	19.4	18.2
Net cash inflow from investing activities	78.7	78.6
Financing activities		
Interest paid	(59.3)	(60.4)
Repayment of securitised debt	(19.4)	(18.2)
Net cash outflow from financing activities	(78.7)	(78.6)
Net increase in cash and cash equivalents	—	—
 Balance sheet		
Assets		
Amounts due from Marston's Pubs Limited	1,060.0	1,079.4
Other receivables	120.8	90.4
Liabilities		
Securitised debt	(1,060.0)	(1,079.4)
Other payables	(120.7)	(90.3)
Total shareholders' equity	0.1	0.1



NOTES CONTINUED

For the 52 weeks ended 2 October 2010

33 PRINCIPAL SUBSIDIARY UNDERTAKINGS

Details of the Group's principal subsidiary undertakings are provided in note 4 to the Company financial statements.

34 CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

On 9 August 2005 the Group entered into a Tax Deed of Covenant, which was amended on 22 November 2007, the primary objective of which was to ensure that the Group did not trigger a de-grouping liability comprising Capital Gains Tax (CGT) and Stamp Duty Land Tax (SDLT). This would arise in the event of Marston's Pubs Limited being sold outside the Group, within six years of the relevant asset transfer date for CGT purposes, and within three years of the relevant asset transfer date for SDLT purposes. Due to the passage of time, and changes in the statutory rate of corporation tax, the total de-grouping liability now stands at £173.8 million, of which £163.6 million relates to CGT and £10.2 million relates to SDLT.

During the period a refund of £5.1 million was received from HM Revenue & Customs, in relation to VAT on gaming machine income. It followed Tribunal/Court of Appeal hearings involving The Rank Group Plc. Points raised during the Rank case have been referred to the European Court of Justice and are due to be heard in 2011. HM Revenue & Customs have issued protective assessments to recover the repayment in the event they are successful with their appeal. The Group has appealed against these protective assessments, but if HM Revenue & Customs are successful upon appeal, the Group would be required to repay the £5.1 million plus interest. The likelihood of such a repayment being required is not considered probable. A gain of £4.7 million (net of associated fees) has been recognised as an exceptional item in the income statement in note 4.

The Group has issued a letter of credit in favour of Royal Sun Alliance Insurance totalling £3.9 million (2009: £3.9 million) to secure reinsurance contracts. The letter of credit is secured on fixed deposit for the same amount.

The Group has also entered into a Deed of Guarantee with the trustees of the Marston's PLC Pension and Life Assurance Scheme ('the Scheme') whereby it guarantees to the Trustees the ongoing obligations of the Group to contribute to the Scheme, and the obligations of the Group to contribute to the Scheme in the event of a debt becoming due under section 75 of the Pensions Act 1995 on the occurrence of either a Group company entering liquidation or the Scheme winding up.

INDEPENDENT AUDITORS' REPORT

We have audited the parent Company financial statements of Marston's PLC for the period ended 2 October 2010 which comprise the parent Company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 45, the Directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 2 October 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial period for which the parent Company financial statements are prepared is consistent with the parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Marston's PLC for the period ended 2 October 2010.



Keith Harrington

(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
2 December 2010

COMPANY BALANCE SHEET

As at 2 October 2010

	Note	2 October 2010 £m	3 October 2009 £m
Fixed assets			
Tangible assets	3	209.4	247.6
Investments	4	281.4	281.4
		490.8	529.0
Current assets			
Assets held for sale	5	4.5	1.0
Debtors			
Amounts falling due within one year	6	905.2	883.7
Amounts falling due after more than one year	6	481.9	423.9
Cash at bank and in hand		48.4	79.1
		1,440.0	1,387.7
Creditors Amounts falling due within one year	7	(1,046.0)	(1,039.2)
Net current assets		394.0	348.5
Total assets less current liabilities		884.8	877.5
Creditors Amounts falling due after more than one year	7	(0.1)	(0.1)
Provisions for liabilities and charges	8	(14.2)	(7.9)
Net assets		870.5	869.5
Capital and reserves			
Equity share capital	10	44.3	44.3
Share premium account	11	332.5	332.5
Revaluation reserve	11	31.0	39.5
Capital redemption reserve	11	6.8	6.8
Own shares	11	(130.9)	(130.9)
Profit and loss account	11	586.8	577.3
Total shareholders' funds	12	870.5	869.5

The financial statements on pages 94 to 102 were approved by the Board on 2 December 2010 and signed on its behalf by:



Ralph Findlay

Chief Executive
2 December 2010

NOTES

For the 52 weeks ended 2 October 2010

1 ACCOUNTING POLICIES

Basis of preparation

The Company financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain freehold and leasehold properties, and in accordance with the Companies Act 2006 and applicable UK accounting standards.

Related party disclosures

The Company is exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Group.

Revenue and other operating income

Revenue represents rents receivable from licensed properties, which is recognised in respect of the period to which it relates. Other operating income comprises mainly rents from unlicensed properties.

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 recognised in respect of all timing differences that have originated but not reversed by the balance sheet date that give rise to an obligation to pay more or less tax in the future. Timing differences are differences between the Company's taxable profits and profits as stated in the financial statements. Deferred tax assets and liabilities are not discounted and assets are only recognised where recoverability is probable.

Fixed assets

- Freehold and leasehold properties are stated at valuation or at cost. Fixtures, fittings, plant and equipment are stated at cost.
- Depreciation is charged to the profit and loss account on a straight-line basis to provide for the cost of the assets less residual value over their useful lives.
- Freehold and long leasehold buildings are depreciated to residual value over 50 years.
- Short leasehold properties are depreciated over the life of the lease.
- Fixtures, fittings, plant and equipment are depreciated over periods ranging from 3 to 15 years.
- Own labour and interest costs directly attributable to capital projects are capitalised.
- Land is not depreciated.

Properties are revalued by qualified valuers at least once in each rolling five year period, on an existing use basis. When a valuation is below current carrying value, the asset concerned is reviewed for impairment. Impairment losses are charged to the revaluation reserve to the extent that a previous gain has been recorded, and thereafter to the profit and loss account. Surpluses on revaluation are recognised in the revaluation reserve, except where they reverse previously charged impairment losses, in which case they are recorded in the profit and loss account.

Assets held for sale

Assets, typically properties, 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, the Company must be committed to the sale and the 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.

Disposals of fixed assets

Profit/loss on disposal of fixed assets represents net sale proceeds less carrying value of the assets. Any element of the revaluation reserve relating to the fixed assets disposed of is transferred to the profit and loss reserve at the date of sale.



NOTES **CONTINUED**

For the 52 weeks ended 2 October 2010

1 ACCOUNTING POLICIES (CONTINUED)

Leases

Rental costs under operating leases are charged to the profit and loss account over the term of the lease. The cost of assets held under finance leases is included within tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned. The corresponding obligations under those leases are shown as creditors. The finance charge element of rentals is charged to the profit and loss account as incurred.

Investments in subsidiaries

Investments in subsidiaries are stated at cost, less any provision for diminution in value.

Provisions

Provisions are recognised in the balance sheet when the Company 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.

Dividends

Dividends proposed by the Board but unpaid at the period end are recognised in the financial statements when they have been approved by the shareholders. Interim dividends are recognised when paid.

Preference shares

Preference shares are treated as borrowings, and dividends payable on those preference shares are charged as interest in the profit and loss account.

Group undertakings

On 23 December 2008 the Company entered into an intra-group funding agreement with certain other members of the Group. The agreement stipulates that all amounts outstanding on any intercompany loan account between these companies are interest bearing at a prescribed rate.

No interest is payable on any amounts owed by/to Group companies who are not party to the intra-group funding agreement.

All amounts owed by/to Group undertakings are unsecured and repayable on demand.

2 AUDITORS' REMUNERATION

The Company's statutory audit fees for the financial statements were £0.1 million (2009: £0.1 million). Non-audit fees paid to the Company's Auditors totalled £nil (2009: £0.6 million).

3 TANGIBLE FIXED ASSETS

	Land and buildings £m	Fixtures, fittings, plant and equipment £m	Total £m
Cost or valuation			
At 4 October 2009	245.9	16.2	262.1
Additions	3.0	0.6	3.6
Net transfers to Group undertakings	(34.7)	—	(34.7)
Net transfers to assets held for sale and disposals	(4.3)	(1.5)	(5.8)
Revaluation	0.2	—	0.2
At 2 October 2010	210.1	15.3	225.4
Depreciation			
At 4 October 2009	10.1	4.4	14.5
Charge for the period	1.3	1.7	3.0
Net transfers to assets held for sale and disposals	—	(1.5)	(1.5)
At 2 October 2010	11.4	4.6	16.0
Net book value at 3 October 2009	235.8	11.8	247.6
Net book value at 2 October 2010	198.7	10.7	209.4

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

	2010 £m	2009 £m
Freehold properties	142.7	192.1
Leasehold properties over 50 years unexpired	39.0	26.7
Leasehold properties under 50 years unexpired	17.0	17.0
	198.7	235.8

Cost or valuation of land and buildings comprises:

	2010 £m	2009 £m
Valuation	176.8	194.9
At cost	33.3	51.0
	210.1	245.9

Cost at 2 October 2010 includes £0.6 million (2009: £0.4 million) of assets in the course of construction.

Capital expenditure authorised and committed at the period end but not provided for in the financial statements was £1.2 million (2009: £0.5 million).

During the prior period various properties were reviewed for impairment. This review identified an impairment of £11.8 million which was taken either to the profit and loss account or, where the impairment reversed a previous upwards revaluation, to the revaluation reserve.

During the current and prior period a number of properties were revalued prior to their transfer to Marston's Pubs Limited. These revaluations generated an unrealised revaluation surplus of £0.9 million (2009: £2.1 million), a reversal of past revaluation surplus of £0.7 million (2009: £0.7 million) and a reversal of past impairments of £nil (2009: £0.3 million).

If the land and buildings had not been revalued, the historical cost net book value would be £167.7 million (2009: £196.4 million).

NOTES CONTINUED

For the 52 weeks ended 2 October 2010

3 TANGIBLE FIXED ASSETS (CONTINUED)

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

	2010 £m	2009 £m
Profit and loss account:		
Revaluation loss charged as an impairment	—	(8.7)
Reversal of past impairment	—	0.3
	—	(8.4)
Revaluation reserve:		
Unrealised revaluation surplus	0.9	2.1
Reversal of past revaluation surplus	(0.7)	(3.8)
	0.2	(1.7)
Net increase/(decrease) in shareholders' funds/fixed assets	0.2	(10.1)

4 FIXED ASSET INVESTMENTS

	Subsidiary undertakings £m
Cost	
At 4 October 2009 and 2 October 2010	310.1
Impairments	
At 4 October 2009 and 2 October 2010	28.7
Net book value at 3 October 2009	281.4
Net book value at 2 October 2010	281.4

The principal subsidiary undertakings are:

Country of incorporation	Nature of business	% held	Class of share
Marston's Trading Limited	England	Pub retailer and brewer	100
Marston's Property Developments Limited	England	Property developer	100
Marston's Pubs Limited	England	Pub retailer	100
Marston's Estates Limited	England	Property management	100
Marston's Operating Limited	England	Pub retailer and brewer	100
Banks's Brewery Insurance Limited	Guernsey	Insurance	100

Details of the principal operating subsidiaries by type of business are set out above. All of these are held directly by Marston's PLC with the exception of Marston's Operating Limited, which is a wholly-owned subsidiary of Marston's Estates Limited, and Marston's Pubs Limited, which is a wholly-owned subsidiary of Marston's Pubs Parent Limited, an intermediate holding company. A complete list of subsidiary undertakings is available at the Group's registered office. All subsidiaries have been included in the consolidated financial statements.

The Group financial statements also include the consolidation of Marston's Issuer PLC, which the Directors consider to be a special purpose entity as set out in note 32 to the Group financial statements. The ultimate parent undertaking of Marston's Issuer PLC is Wilmington Trust SP Services (London) Limited, which holds the shares of the company's parent company under a charitable trust. Marston's Issuer PLC was set up with the sole purpose of issuing debt secured on the assets of Marston's Pubs Limited.

5 ASSETS HELD FOR SALE

	2010 £m	2009 £m
Properties	4.5	1.0

During the prior period various properties were reviewed for impairment. This review identified an impairment of £1.6 million, of which £1.5 million was taken to the profit and loss account and £0.1 million to the revaluation reserve.

6 DEBTORS

	2010 £m	2009 £m
Amounts falling due within one year		
Other debtors	0.4	1.1
Prepayments and accrued income	—	0.1
Amounts owed by Group undertakings	888.9	873.4
Interest owed by Group undertakings	15.9	9.1
	905.2	883.7
Amounts falling due after more than one year		
12.5% subordinated loan owed by Group undertakings	481.9	423.9

7 CREDITORS

	2010 £m	2009 £m
Amounts falling due within one year		
Unsecured loan notes	0.6	5.1
Amounts owed to Group undertakings	999.9	1,004.3
Interest owed to Group undertakings	36.7	21.0
Corporation tax	8.8	8.7
Accruals and deferred income	—	0.1
	1,046.0	1,039.2
Amounts falling due after more than one year		
Preference shares	0.1	0.1

The preference shares carry a right to a fixed preferential dividend. They participate in the event of a winding-up and carry the right to attend and vote at general meetings of the Company.

Interest is payable on the unsecured loan notes at a variable rate of interest linked to LIBOR.

Amounts owed to Group undertakings are unsecured and repayable on demand.

NOTES CONTINUED

For the 52 weeks ended 2 October 2010

8 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred tax £m	Property leases £m	Total £m
At 4 October 2009	4.8	3.1	7.9
Disposals	—	(0.4)	(0.4)
Recognition of onerous lease and other property related provisions	—	6.3	6.3
Unwinding of discount	—	0.2	0.2
Utilised in the period	—	(0.9)	(0.9)
Charged to the profit and loss account	1.1	—	1.1
At 2 October 2010	5.9	8.3	14.2

Deferred tax

	2010 £m	2009 £m
The amount provided in respect of deferred tax is as follows:		
Excess of capital allowances over accumulated depreciation	5.9	4.8

Deferred tax has been calculated at the tax rates expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted at the balance sheet date.

Property leases

When valuations of leasehold properties (based on future estimated discounted 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 for periods of 1 to 57 years (2009: 1 to 17 years).

9 OPERATING LEASE COMMITMENTS

At 2 October 2010 the Company had annual commitments under non-cancellable operating leases as follows:

	2010		2009	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Leases which expire:				
Within one year	—	—	0.3	—
Later than one year and less than five years	0.5	—	0.3	—
After five years	5.8	—	5.9	—
	6.3	—	6.5	—

10 SHARE CAPITAL

	2010		2009	
	Number m	Value £m	Number m	Value £m
Authorised				
Ordinary shares of 7.375p each	800.0	59.0	800.0	59.0
Allotted, called up and fully paid				
Ordinary shares of 7.375p each:				
At beginning of the period	600.7	44.3	302.8	22.3
Allotted under share option schemes	0.1	—	—	—
Shares issued in respect of the rights issue	—	—	298.9	22.0
Cancellation of shares	—	—	(1.0)	—
At end of the period	600.8	44.3	600.7	44.3

Further information on share capital is provided in note 27 to the Group financial statements.

11 RESERVES

	Share premium account	Revaluation reserve	Capital redemption reserve	Own shares	Profit and loss account	Total
	£m	£m	£m	£m	£m	£m
At 4 October 2009	332.5	39.5	6.8	(130.9)	577.3	825.2
Property impairment	—	(0.7)	—	—	—	(0.7)
Property revaluation	—	0.9	—	—	—	0.9
Disposal of properties	—	(8.5)	—	—	8.5	—
Transfer to profit and loss account	—	(0.2)	—	—	0.2	—
Profit for the financial period	—	—	—	—	33.8	33.8
Dividends paid	—	—	—	—	(33.0)	(33.0)
At 2 October 2010	332.5	31.0	6.8	(130.9)	586.8	826.2

As permitted by section 408(3) of the Companies Act 2006, no profit and loss account or statement of total recognised gains and losses has been presented for the Company. As permitted by section 408(2) of the Companies Act 2006, information about the Company's employee numbers and costs has not been presented.

The capital redemption reserve arose on share buy-backs.

Details of own shares are provided in note 28 to the Group financial statements.

NOTES CONTINUED

For the 52 weeks ended 2 October 2010

12 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2010 £m	2009 £m
Profit for the financial period	33.8	10.8
Dividends paid	(33.0)	(35.9)
Impairment/revaluation of properties	0.2	(1.8)
Net proceeds of rights issue	—	165.6
Net addition to shareholders' funds	1.0	138.7
Opening shareholders' funds	869.5	730.8
Closing shareholders' funds	870.5	869.5

13 CONTINGENT LIABILITIES

The Company has entered into a Deed of Guarantee with Marston's Trading Limited ('Trading') and the Trustees of the Marston's PLC Pension and Life Assurance Scheme ('the Scheme') whereby it guarantees to the Trustees the ongoing obligations of Trading to contribute to the Scheme and the obligations of Trading to contribute to the Scheme in the event of a debt becoming due under section 75 of the Pensions Act 1995 on the occurrence of either Trading entering liquidation or the Scheme winding up.

On 4 August 2010 the Company, together with a number of its subsidiary undertakings, entered into a Deed of Guarantee with Barclays Bank PLC whereby it guarantees the obligations of Marston's Trading Limited under the interest rate swaps it holds with Barclays Bank PLC. The maximum aggregate liability of the Guarantors under the deed as at 2 October 2010 was £30.0 million (2009: £nil).

FIVE YEAR RECORD

	2006 (52 weeks)	2007 (52 weeks)	2008 (53 weeks)	2009 (52 weeks)	2010 (52 weeks)
	£m	£m	£m	£m	£m
Revenue	595.5	652.8	666.1	645.1	650.7
Profit before exceptional items	101.5	98.0	85.1	70.3	73.5
Exceptional items	—	(3.3)	(8.9)	(48.9)	(21.0)
Profit before taxation	101.5	94.7	76.2	21.4	52.5
Taxation*	(28.2)	(12.4)	(14.4)	(5.0)	(5.0)
Profit after taxation	73.3	82.3	61.8	16.4	47.5
Capital employed	653.2	748.5	706.9	783.2	780.5
Earnings per ordinary share†	17.1p	20.0p	16.3p	3.9p	8.3p
Exceptional items†	—	(1.2)p	2.0p	9.5p	1.7p
Earnings per ordinary share before exceptional items†	17.1p	18.8p	18.3p	13.4p	10.0p
Dividend per ordinary share†	7.7p	9.2p	9.5p	7.1p	5.8p
Retail price index	100.0	103.9	109.1	107.6	112.6
Earnings per share performance	100.0	117.0	95.3	22.8	48.5
Earnings per share performance before exceptional items	100.0	109.9	107.0	78.4	58.5
Dividend performance	100.0	119.5	123.4	92.2	75.3

* Taxation includes the tax impact on exceptional operating items together with an exceptional credit of £2.1 million in 2010 in respect of the change in corporation tax rate, an exceptional charge of £1.4 million in 2008 relating to the phasing out of industrial buildings allowances, and an exceptional credit of £7.2 million in 2007 relating to the change in tax rate and abolition of balancing charges.

† Adjusted where appropriate to reflect the 4-for-1 share split on 9 January 2007 and the impact of the issue of new shares under a rights issue on 22 July 2009.

For comparative purposes the weighted average number of ordinary shares in issue in 2010 was 569.3 million compared to 415.8 million in 2009. Further details are provided in note 9 to the Group financial statements.



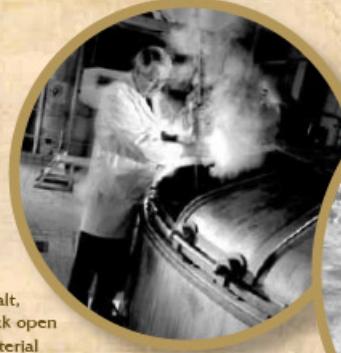
Visitor Centre

The Brewing Process



1. MALT MILL

In the mill the malted barley, or malt, is passed through the mill rollers to crack open the grains and expose the starchy material inside. The crushed malt or grist is then collected in a hopper or grist case.



2. MASH TUNS

The grist is mixed with hot water at a carefully controlled temperature in the **mash** tuns and this malt "porridge" is allowed to stand or **mash** for about an hour. This allows the natural enzymes in the barley the time to convert the starch into malt sugars. The resulting sugary liquid or **wort** is then extracted by spraying with hot water or **sparging** which takes about 4 hours.



3. COPPER WHIRLPOOL

The wort is boiled vigorously with hops in a copper for about an hour to add the characteristic bitterness and spicy aromas that balance the natural sweetness. The spent hop material is separated from the liquid by centrifugal force – the whirlpool effect – as it circulates around the copper and the liquid is cooled to 16-17°C. Yeast is then added to form **barm** – the creamy liquid that's ready for fermentation.

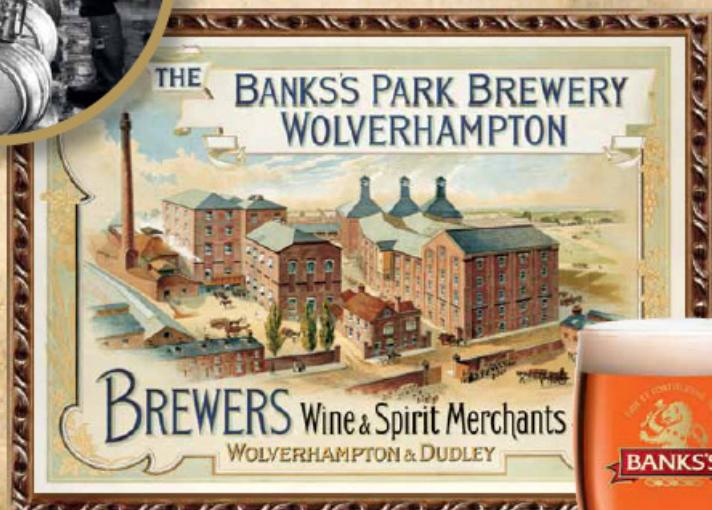


4. FERMENTING

The sugars are converted into alcohol in fermentation vessels, each of which holds 125 barrels (more than 35,000 pints). The fermentation process takes 7 days during which the CO₂ produced in the process is absorbed into the beer giving it a natural sparkle and the yeast, which grows during fermentation, is skimmed off to be used in subsequent brews.

5. CASKING

The beer is transferred into racking tanks in the racking cellar where it remains overnight before the casks are filled, or "racked". During filling a small amount of finings solution is injected into the beer to help the suspended yeast particles to settle on the bottom of the cask. After 24 hours left undisturbed in the cellar, the beer becomes star-bright. After a further period of conditioning, it will be ready for drinking.



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