Making Marston's The Place to Be

Marston's PLC
Annual Report and Accounts 2018

A Snapshot of 2018

- Record revenue and underlying profit growth achieved; fifth consecutive year of like-for-like pub sales growth.
- Strong growth in Brewing with own and licensed brands exceeding 330 million pints.
- Net Asset Value increased and supported by £2 billion estate valuation.
- Full year dividend maintained at 7.5 pence per share. Dividend cover at 1.9 times.
- Clear plans for growth in 2019.
- Earnings per share reflects the equity issuance in May 2017.

Underlying* revenue (£m)

1,140.4m
↑14.9%

2018	1,140.4
2017	992.2
2016	905.8
2015	845.5
2014	787.6

Underlying* operating profit (£m)

182.5m
↑4.6%

2018	182.5
2017	174.5
2016	172.7
2015	165.4
2014	156.1

Underlying* profit before tax (£m)

104.0m
↑3.9%

2018	104.0
2017	100.1
2016	97.3
2015	90.9
2014	82.9

Underlying* earnings per share (p)

13.9p
↓2.1%

2018	13.9
2017	14.2
2016	13.9
2015	12.8
2014	11.7

Total dividend per share (p)

7.5p
⟷

2018	7.5
2017	7.5
2016	7.3
2015	7.0
2014	6.7

Statutory reporting

* The underlying results reflect the performance of the Group before exceptional and other adjusting items. The Directors consider that these figures provide a more appropriate indication of the underlying performance of the Group.

On a statutory basis, profit before tax was £54.3 million (2017: £100.3 million) and earnings per share were 7.1 pence per share (2017: 14.2 pence per share), reflecting the non-cash impact of the estate valuation during the year. A reconciliation between the underlying results and the statutory numbers can be found in the Group Income Statement on page 74.

Statutory profit before tax

2018	£54.3m
2017	£100.3m
2016	£80.8m
2015	£31.3m
2014	(£59.2m)

Strategic Report approval

The Strategic Report, outlined from the inside front cover to page 38 incorporates: A Snapshot of 2018, Our Investment Case, At a Glance, Chairman's Statement, Our Business Model, Resources and Relationships underpinning our Business Model, Our Marketplace, Chief Executive's Statement, Our Strategy, Our Key Performance Indicators, Group Operating and Financial Review, Non-Financial Information Statement, Risks and Risk Management, Our Principal Risks and Uncertainties, and Corporate Responsibility.

By order of the Board

Ralph Findlay
Chief Executive Officer

21 November 2018

Our ambition is to make Marston's The Place to Be...

We're hugely proud of our heritage but a lot has changed since we started running pubs and brewing beer over 180 years ago. As markets and customer needs continue to evolve and change, we're adapting with them so that our products, services and teams continue to be the best they can possibly be.

Our business has grown over time and we now own a wide range of industry-leading assets – from pubs to brands – which are the result of investment decisions that deliver sustainable growth and maximise return on capital.

We have more than 14,000 employees at around 1,600 pubs, inns, breweries, depots and offices across the UK with a culture that is focused on delivering a great customer experience.

We are a people-powered business that continues to strive to inspire, engage and enable our people to work together, to the same high standards, to make Marston's 'The Place to Be'.

Our people

We aim to recruit, retain and develop the best people in the industry.

Our customers

We want our customers to visit us and then come back time and time again.

Our shareholders

We want to attract long-term investors who believe in and support our business.

More online

This year we have incorporated material information on our community involvement and our people into our main narrative report. More case studies about Marston's 'The Place to Be' and additional Corporate Responsibility information can be found on our website.

www.marstons.co.uk/investors/strategy
www.marstons.co.uk/responsibility

For a full year end press release, preliminary results presentation and webcast, visit:
www.marstons.co.uk/investors

Contents

Our Investment Case

What makes us different?

Our unique culture is what makes Marston's different: we're passionate about our business and proud of its heritage. We're able to build on our traditional strengths and look for new ideas to further the growth of our business. We take pride in doing things properly and we recognise our responsibilities to all of our stakeholders.

Our people

Our people are engaged, enabled and proud to work for Marston's.

Good track record

Profit per pub continues to increase and our share of the beer market is growing.

We create value through our use of capital and we have a stable dividend payout.

Clear and consistent strategy

Our pubs business operates across all segments of the market, catering for a broad range of customers.

Our beer business has evolved to be a market leader in premium ale with a lager and craft licensed portfolio and a leading service business.

14.9%

Increase in total underlying revenue

55%

Increase in average profit per pub since 2012

Valuable assets and secure financing

Our estate has been externally valued at £2.2 billion and 93% of that estate is freehold.

The financing of our business is supported by a long-term structure, a bank facility in place to 2023 and fixed charge cover of 2.5 times.

Future growth plans

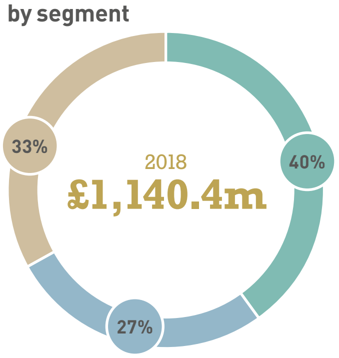
- Continued investment in our pub estate and rooms business: ten new pub-restaurants and bars and five lodges planned; growth capital investment of £30 million within Destination and Premium; and the acquisition of 15 pubs into our Taverns estate.
- Within Brewing, £10 million investment in a state of the art canning line in Burton and a new distribution centre located in Thurrock.
- Flexibility over the allocation of expansionary capital between development of sites within Destination and Premium, Taverns, and Brewing.
- Developing our pub estate to meet changing consumer and regulatory demands and challenges.

At a Glance

The Place to Be... across the nation

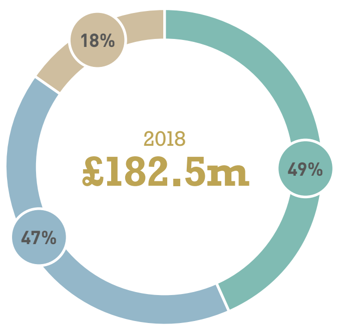
We have four operating segments, as set out below, which reflect different customer profiles, flexible operating models, products and services. More detailed information about each reporting segment can be found in Our Strategy on pages 16 to 21 and Group Operating and Financial Review on pages 24 to 26.

Underlying revenue by segment



Destination and Premium
Taverns
Brewing

Underlying operating profit by segment*



Destination and Premium
Taverns
Brewing

*Group Services has a 14% (£25.0m) impact on underlying operating profit by segment.

Destination and Premium

406 · 1,551

- Larger food-led managed pubs, premium bars and restaurants, accommodation.
- Marston's Two for One, Heritage, Milestone Rotisserie, Milestone Carvery, Accent, Firebrand, Pitcher & Piano, Lost & Found, Foundry and Revere Country.
- Typical customers: value seekers or those looking for a premium experience.

Underlying revenue	£450.7m
Movement	+2.9%
2017	£438.0m
Underlying operating profit	£89.4m
Movement	+0.6%
2017	£88.9m

Taverns

1,139

- Community and independently run pubs, either managed, franchised or tenanted.
- Great pubs with a licensee who connects with their community or that maximise the abilities of skilled entrepreneurs.
- Typical customers: those wanting to enjoy a drink, socialise and be entertained with people from their community.

Underlying revenue	£312.0m
Movement	+3.6%
2017	£301.3m
Underlying operating profit	£86.1m
Movement	+2.4%
2017	£84.1m

Brewing

6

- Six breweries producing a wide portfolio of cask, keg and packaged beers.
- Key brands: Pedigree, Hobgoblin, Wainwright and Bombardier and licensed brands including Estrella Damm.
- Local provenance in regional markets with Banks's, Jennings, Mansfield, Ringwood, Brakspear and Eagle.
- Typical customers: discerning and knowledgeable drinker at home and away from home (in pubs, clubs and bars).

Underlying revenue	£377.7m
Movement	+49.3%
2017	£252.9m
Underlying operating profit	£32.0m
Movement	+25.5%
2017	£25.5m

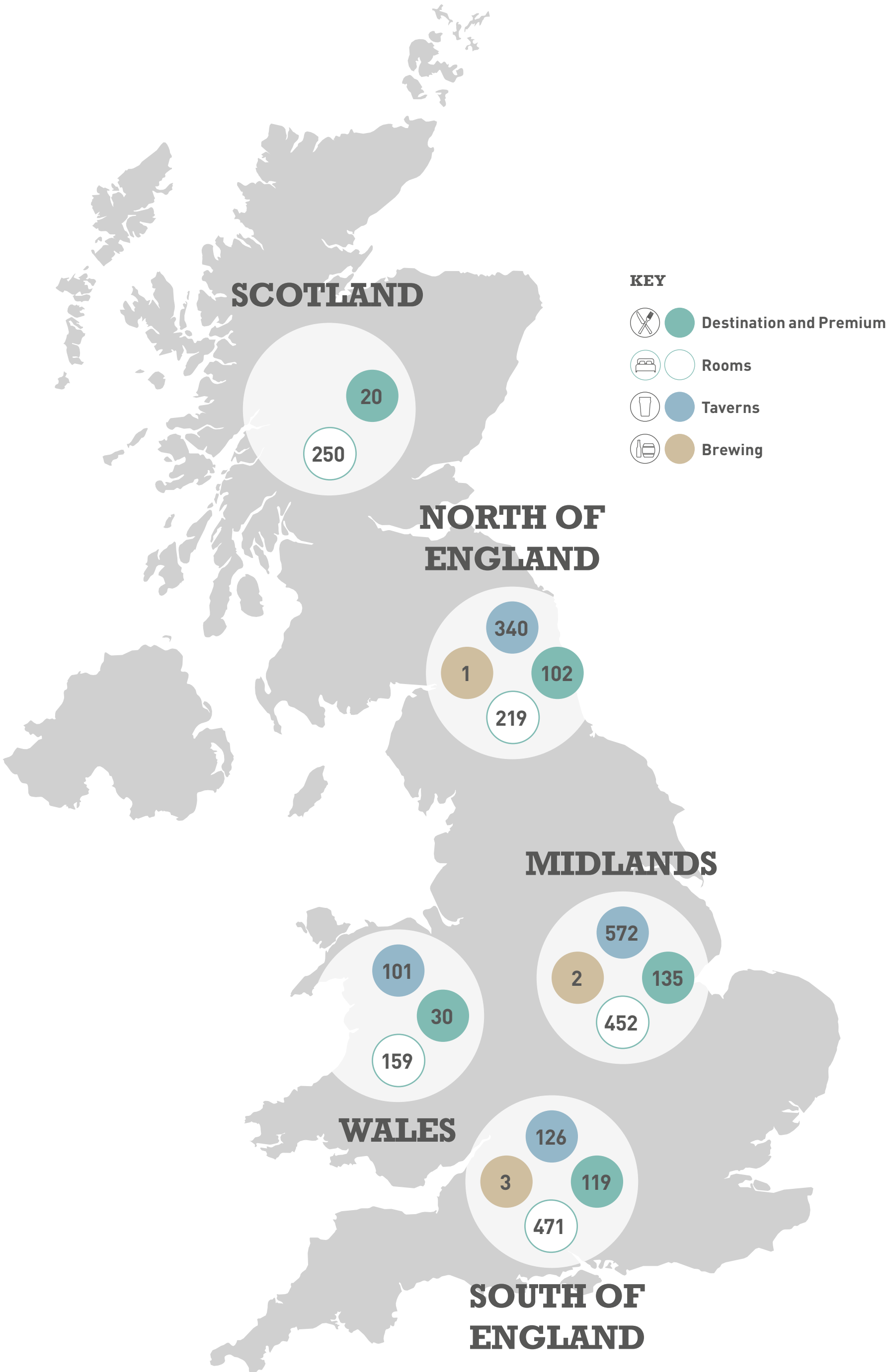
Group Services

- Our Group Services team provides a range of functional services that support and connect the wider business, including IT, HR, Finance, Retail Systems, Company Secretariat, Legal, Risk and Compliance.

National coverage with a growing high quality estate

We operate across the UK and are focused on expanding a high quality estate, which we continue to strengthen through organic development of pub-restaurants, bars and franchise-style pubs, including new-build pubs, investment in lodges and bars that widen our appeal. Our six breweries and 13 delivery depots provide national coverage to supply and distribute a wide portfolio of beers to our estate, supermarkets and other pub and leisure businesses across the nation.

Marston's estate in 2018



Chairman's Statement

William Rucker
Chairman

Marston's is a strong business with a high quality estate and market leading brewing business. In 2018, in a difficult market, we delivered record underlying revenue, 15% higher than the previous year.

This is my first report to you as Chairman, having joined the Board on 1 October 2018. Marston's is a very well established company with a strongly embedded down to earth culture, great brands and pubs, and a heritage which has been built up over 180 years of trading. I am proud to be Chairman of Marston's and to have the opportunity to help deliver value to shareholders, communities and employees.

Our strategy, which has been implemented successfully since 2009, has generated good growth and contributed to the development of a better, higher quality business. However, we recognise we cannot stand still and need to evolve and adapt for the future. I bring to the Company a critical eye and experience of many other businesses and hope to be able to bring those skills to bear.

We are operating in a testing market. For Marston's, this brings challenges but also opportunity. The Board is determined to navigate the best path to deliver further value to all and I look forward to working with the team in taking the Group forward.

Results

Marston's is a strong business with a high quality estate and market leading brewing business. In 2018 it performed well in a difficult market, delivering record underlying revenue of £1.1 billion, 15% higher than last year, and underlying profit before taxation up 4% to £104 million. Underlying earnings per share were 13.9 pence per share (2017: 14.2 pence per share) reflecting the equity issuance in 2017.

On a statutory basis, profit before taxation was £54.3 million (2017: £100.3 million) and earnings per share were 7.1 pence per share (2017: 14.2 pence per share). The principal difference between the underlying and statutory results were property revaluation adjustments recognised in the first half year.

Dividend

The Board recommends a final dividend per share of 4.8 pence per share, bringing the full year dividend per share to 7.5 pence per share, unchanged compared to 2017. Dividend cover is maintained at 1.9 times.

Brexit and market

The political and economic agenda continues to be dominated by Brexit, contributing to increased uncertainty. Our business is almost entirely within the UK, and the principal risks to us relate to continuity of supply in respect of food and drink from Europe for which there are alternative sources elsewhere. We are appropriately vigilant but these risks are manageable.

Challenges in the casual dining and restaurant sector over the last year or so have been well documented. We continue to see good opportunities for growth, but a degree of caution is appropriate. We have reduced our openings programme in 2019 to ten pubs and bars and five lodges, which will cut our capital spend by around £30 million this year.

Our people

Our people have worked extremely hard to achieve these results and have achieved much to be proud of. Having just joined Marston's, the dedication of our employees is evident to me and is a great strength. I thank them all for their commitment and continued support.

The Board

I am grateful to Roger Devlin, Chairman until May this year, who encouraged an open, constructive Board environment, and to Carolyn Bradley, Senior Independent Director, for chairing the Board prior to my appointment. Robin Rowland will step down from the Board at the end of this financial year having been a non-executive director for nine years and having brought his knowledge and experience of the wider sector to the Board. Matthew Roberts became Chair of Audit Committee in January 2018.

Outlook

Although the market has its challenges, Marston's is a well-managed company with great brands, assets and people, which will stand us in good stead. I am looking forward to the challenge of taking the business forward and demonstrating that we, together, can create genuine value for shareholders.

William Rucker
Chairman

Our Business Model

Our core business is running pubs and selling, brewing and delivering beer – something we have done for over 180 years – and whilst our business has grown and changed in that time it is still focused on delivering robust and sustainable long-term returns from offering customers a great experience.

A Balanced Business Model

We operate in a fast-moving and fiercely competitive market so we need to stand out from the crowd. Our competitive advantage comes from our people and our unique culture, and how we use our property and brands, our innovation and insight and our disciplined approach to finance.

Different operating models within our pub portfolio provide flexibility to maximise the return from each pub and our range of formats and menus cater for all occasions. Investment in accommodation reflects the growing importance of this revenue stream. In addition to our own portfolio of beers, we brew beer on behalf of other businesses and offer a variety of other products and services from the exclusive supply of top world beers, to a national supply and distribution service. All of this is underpinned by our investment in our people and our approach to the way that we work.

We maintain a strong financial discipline across the business to ensure that our growth is sustainable and maximises long-term returns from our assets. All of our activities are supported by our Group Services who are focused on setting the strategic, financial and governance framework to deliver growth to investors, our people and the communities in which we operate.

How we generate revenue

Destination and Premium

Our biggest contributor of profit comes from the sites under our direct management: from the sale of food and drink, accommodation and gaming machine income. We offer family dining in a relaxed pub environment to more premium offers in attractive, often iconic locations. Food accounts for 57% of sales in our Destination pubs and 31% of sales in Premium pubs & bars.

Taverns

Aimed at meeting local customers' needs, our community-based pubs provide a more traditional pub ambience. Typically drinks-led, food accounts for 15% of sales. The leased estate offers distinctive pubs with a high degree of independence. Different operating models provide flexibility to maximise the return from each of our pubs. For those managed externally, revenue can be generated from rental income from the property, drink sales and gaming machine income.

Brewing

We generate most of our earnings in the beer business from the sales of own beer and exclusive licensed brands. Premium beer accounts for 74% of the beer we brew and 89% of our beers are sold externally to other customers, of which over 50% is to major supermarkets. We also export our beers to over 61 countries. Building on our heritage and expertise, we have evolved our business and expanded into new markets: our successful contract services business brews and bottles ales on behalf of other businesses and our national distribution network delivers to over 10,500 customers across the UK.

Our Business Model
continued

How we add value

Beer

- Own-brewed beers reflect and strengthen our regional provenance, brand awareness and footfall into our pubs and bars
- Ability to offer a complete customer package for selling, brewing, bottling and distributing attracts major industry customers
- A wider range of licensed brands complements our own-brand portfolio to provide our sales teams with greater opportunities to grow our customer base
- Proven acquisition capability provides a platform for further opportunities

Food/Drink

- Economies of scale from Group buying power
- Continual assessment of consumer trends and preferences enables more responsive food and drink innovation
- Higher-margin premium and craft drinks development encourage increased spend per head

Pubs

- Different models provide flexibility in selecting the best way to operate each pub
- Market-leading pub-restaurant designs and offers tempt increased spend per head
- Flexibility of formats to suit customer demand
- Skilled property team identifies opportunities for expansion into new locations

Rooms

- Increased investment in rooms complements well-positioned pubs
- Room guests offer an increased contribution from drinking and eating in our pubs
- Evolving the design has reduced the cost of these well-appointed rooms at budget prices
- Premium rooms command higher room rates

How we measure value

MARKET SHARE OF PREMIUM ALE

NUMBER OF MAIN MEALS SERVED

NEW-BUILD PUB-RESTAURANTS AND LODGES COMPLETED

LIKE-FOR-LIKE SALES VERSUS MARKET (DESTINATION AND PREMIUM)

AVERAGE PROFIT PER PUB

EMPLOYEE ENGAGEMENT AND ENABLEMENT

CROCCE / FREE CASH FLOW (FCF) / UNDERLYING EARNINGS PER SHARE (EPS)

More on page 22

Resources and Relationships underpinning our Business Model

Our competitive advantage comes from the behaviours and skills of our people and the quality of the assets we invest in our business.

Our people – our most valuable asset

At Marston's we have a unique culture – where our people are highly engaged and highly enabled. Our people are proud to work for Marston's; consistently going above and beyond to do their very best to make our business a success. We never take this for granted.

We know that the key to unlocking the potential of our people is to engage, involve and motivate them, whilst also enabling them to make decisions, take action and play their part. It's a two-way contract, one where we need to invest in our people and their future, as much as they invest in Marston's. We devote time, effort and resources in making Marston's 'The Place to Be' for our employees, improving their day to day experience by investing in training, development, performance management, policies and processes.

As a result of the activity that began with the implementation of our People Strategy in 2016, we are seeing progress in all areas related to people. We have seen a significant improvement in employee feedback scores related to career and development opportunities, as well as the part our people play in delighting our customers and driving business success.

How this supports value creation

Quite simply by building employee engagement, we continue to develop and improve our customer experience. Engaged people delight our customers either first hand or through the quality of the beer they sell, brew and deliver.

Performance and development

We continue to develop and embed our Performance, Career and Development Review (PCDR) process to ensure our people have clarity about what they need to achieve and how they need to achieve it. Objective setting, a key area of focus, has improved and is driving an increase in the number and quality of performance conversations around our business.

Our PCDR process enables us to retain and develop existing talent. With our focus on succession planning, we are significantly improving our ability to identify and develop talent and our future leaders from across the business.

How this supports value creation

We encourage and recognise those behaviours that make a positive difference to our business results, whilst ensuring we retain a pipeline of talented people developing satisfying careers within our business.

1 in 3

employees received formal training

Attracting newcomers

To complement our work on internal talent development we are working on attracting fresh thinking into the business. We are able to access a more diverse talent pool through our new recruitment processes.

Critical to this talent pipeline is our positive approach to apprenticeships. We have more than 500 apprentices learning and developing through 13 different apprenticeship programmes, including: Engineering, Human Resources, Hospitality (at team member, supervisor and manager level), Credit Control, Driving and Operations Management.

In September 2018, we won the Macro Apprenticeship Employer of the Year at the West Midlands Regional Final of the National Apprenticeship Service Awards. These awards recognise excellence in businesses that grow their own talent with apprenticeships. One member of our team, Alex Fuller, also won the Most Outstanding Apprentice Award.

Under the banner of 'Loving Hospitality', we have joined forces with a number of hospitality organisations. Our mission is to change negative perceptions and promote the fantastic opportunities our sector provides to young people, to gain new skills and build a fulfilling career.

How this supports value creation

Recognising and rising to the challenge of the talent shortage, attracting more people into our industry and being able to offer award winning development enables us to deliver the very best business results by being 'The Place to Be' for our customers and our people.

Developing a diverse and inclusive workforce

Marston's is proud to have signed up to the Diversity in Hospitality, Travel and Leisure Charter: Women in Hospitality 2020. This cross-industry group aims to create an environment of collaboration where diversity and inclusion are embraced and embedded.

We have also signed up to the Armed Forces Covenant. Through this written commitment we promise to support the armed forces community through the employment of veterans and their spouses and partners, supporting employees who choose to be members of the Reserve Forces and promoting our job opportunities as potential future careers for service men and women.

How this supports value creation

The diversity of our people and our thinking means we are better placed to meet the many and diverse needs of our existing and potential future customers.

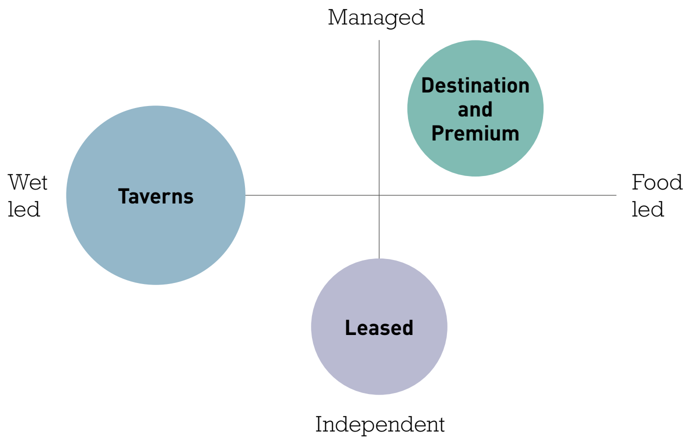
Resources and Relationships
continued

High quality freehold pub estate

Our balanced business model is underpinned by our pub estate, six breweries and 13 distribution depots. New-build pub and lodge designs have evolved to minimise unnecessary costs and maximise customer experience.

How this supports value creation

- Higher quality of earnings
- Improved profit per pub
- Enhanced customer experience



Valued and recognised brands

We have an extensive portfolio of local and national brands offering cask, keg and craft beers. We have added a range of world and licensed beers.

How this supports value creation

- Broad appeal with focus on the growth areas of the market
- Ability to offer differential ranging to national customers – the right product for the right venue
- National trading footprint
- Value-adding partnerships in licensed brands and supply chain

Innovation and insight

We use consumer insight to monitor market and customer trends to identify opportunities to evolve our food, drink and service offering.

Collaborations between pub and beer teams are aimed at maximising the customers' experience.

How this supports value creation

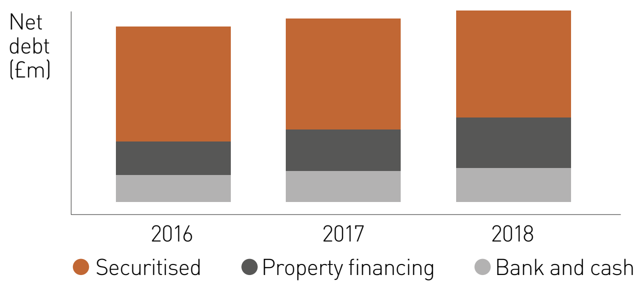
- Increased ranges (including healthy and vegan) retains and attracts customers
- Collaborations enhance customer experiences and encourage increased spend per head

Financial capital

We have a mix of long-term debt and equity together with the availability of asset-backed financing for new-build sites.

How this supports value creation

- 93% freehold estate provides attractive security for funding providers at competitive rates
- Flexibility to invest in assets to maximise long-term returns without covenant reporting obligations



Our business model also depends on strong relationships with key stakeholders that help create and share in the value.

The values and expectations of our stakeholders shape our performance and success, influencing the way we make decisions. Long-term value creation is about more than just financial results alone – we recognise that we need to act responsibly in partnership with our key stakeholders to build a sustainable business.

Our Corporate Responsibility section on page 35 expands on our approach to and relationship with our customers, our people, our suppliers, our communities and our environmental impact.

Customers

We keep our customers at the heart of all we do by striving to exceed their expectations and offer them choice and value as well as a great experience. We focus on providing great experiences whilst offering value for money and aim to provide market-leading support, advice and innovation for our partners.

Suppliers

We look to build long-term relationships that provide security for investment and expansion. We encourage innovation and development, often working in collaboration with our partners, and we operate fair and transparent terms and conditions.

We issue a food supply charter setting out our expectations to suppliers, including accreditations and audit.

Community

We provide employment in local communities, creating nearly 700 new roles this year, and contribute to local social initiatives – sponsoring 'Pub is the Hub' and supporting the 'Long Live the Local' campaign through our membership of the BBPA. As producers and retailers of alcohol we act responsibly in all our marketing campaigns and are members of Drinkaware, supporting its national campaigns to Drink Responsibly. We encourage our pubs and breweries to engage with their local communities and support their involvement in local charities through matching fundraising at a local level to participation in charitable activities.

Investors

Our strategy is to target sustainable growth, increasing return on capital invested and reducing leverage over time. This then supports a progressive dividend policy. Since 2009, return on capital has increased from 9.8% to 10.3% and profit before tax is around 50% higher. The estate is over 90% freehold.

The environment

We aim to operate a sustainable and responsible business, reducing our environmental impact through investment in energy-saving technology and recycling. This year our pubs have achieved zero waste to landfill.

Government

We collect and pay a wide range of taxes. Our total tax contribution was £530.9 million (2017: £431.0 million).

As a responsible business, we engage with government health initiatives and are signed up to UK Government Public Health.

Our Marketplace

We operate in a competitive marketplace, which presents both immediate challenges and long-term opportunities. Our market and consumer insight helps to support our strategic and investment decisions.

Drink

Our pubs offer a broad range of alcoholic and non-alcoholic drinks, including beers, wines and soft drinks to suit all customer occasions.
Our breweries produce a varied portfolio of cask beers that appeal to all types of drinkers.

Trends

- Experience – consumers are looking for memorable experiences when visiting our pubs and in how they drink our beers at home.
- Premiumisation – consumers are drinking less but they are seeking more premium products and are prepared to spend more on these.
- Authenticity – consumers are looking for products with heritage and provenance.
- Health – consumers are changing their purchasing habits and looking to moderate consumption of alcohol and/or high sugar products.

Challenges

- Providing a balanced range of drinks that meets the needs of consumers looking for healthier options whilst still providing breadth of choice for consumers who want to treat themselves.
- Delivering compelling reasons to visit our pubs, providing customers with experiences that are better than they can create at home.
- Consistent delivery of premium products that justify the increased price for customers.
- Engaging consumers around our range of local and regional beers to enjoy both in pub and at home.

Eat

Our pubs offer something for everyone, from traditional favourites to healthy options and emerging culinary trends.

Trends

- Authenticity and provenance of ingredients: there is a growing desire to know the story behind where our food comes from.
- Balance and wellbeing is prevailing over restrictive diets but an occasional treat is still a key driver when choosing to dine out.
- Vegan and casual vegetarian diets are in growth and research shows this is strongly linked to improving health and weight loss.
- Eating out has become less formal with customers looking for more interactive and social dining experiences with increased snacking and customisable options.
- Broadening customer spectrum with a growth in younger consumers who eat out most frequently but are less loyal to one brand.

Challenges

- Childhood obesity is on the rise. Our menus provide healthy and nutritious options as well as something fun and exciting to eat.
- The government has cast its spotlight on the nation's heath. Sugar and salt reduction and calorie capping are all areas of focus, in particular calorie counting on menus is under consultation.
- Developing dishes that appeal to a wide range of restrictive diets, and understanding the preparation of those dishes within commercial kitchens where there is a potential risk of cross-contamination.
- Appealing to a multi-generational customer base without resorting to discounting.
- Customers expect more from a food and drink occasion. Experience is not just entertainment, but service style and communication.
- Tailoring communications to customers based on their preferences, without holding unnecessary personal data.

Stay

Marston's Inns provide great value accommodation in convenient locations adjacent to our pubs.

Trends

- Undersupply of branded operators in secondary towns. Other major operators have all announced room-stock expansion in recent market announcements.
- In 2018 the weak pound saw a second annual consecutive increase in overseas visitor growth. Visit Britain reports a forecast of 40.9 million visitors, up 1.7 million on 2017 which was in itself a record year.
- Technology becomes more important – keyless entry, 'one-click' payment and instant response are becoming standard.
- As Millennials become a larger part of the market the need for 'experience' over 'function' grows.

Challenges

- Attracting international visitors to regional towns and budget hotel chains.
- Appealing to both business and leisure guests.
- Maintaining technological pace with sole-hotel operators.
- Finding new ways to communicate with guests in the absence of uninvited direct-marketing.
- GDPR regulation makes it harder to direct-market so experience and reputation are key drivers of growth.

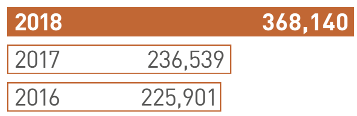
Opportunities

- Diversifying our range of drinks to include a broader range of choices in premium soft, coffee and lower alcohol drinks to tempt customers to increase spend per visit.
- Developing the range of alcohol free beers in our portfolio and developing 'free from' beers to tap into changing consumer tastes.
- Operating the best pubs in the area for our customers to visit, providing genuinely engaging experiences in relaxed and enjoyable surroundings.
- Working with all our on-trade customers to train their teams to deliver a perfect pint of cask ale.
- Leveraging Marston's expertise in brewing to ensure that we have the best offer in the market place, delivered by passionate and knowledgeable teams.

Our response

- Working with our brand partners, we offer a market leading portfolio of low and alcohol free beers to all of our customers both on and off-trade.
- Leveraging our drinks portfolio and relationship with suppliers to create drinks-led events for consumers, such as real ale festivals and gin tastings.
- An increasing number of our beers are available in mini-kegs, multipacks and mixed packs, allowing customers to create an in-pub experience at home.
- We have increased the range of premium products that we offer in our pubs and ensured the right range of ales are available in each pub to encourage increased spend per visit.

Premium packaged ales (own ale)
(Composite barrels)



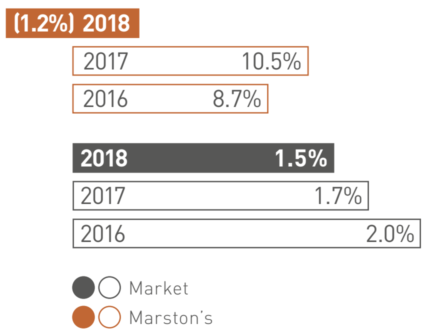
Opportunities

- To offer everyday value within our core menu pricing.
- Identifying the core customers and occasions for different pub types to appeal to the next generation of pub goers.
- Informality in eating, less strict meal times with more snacking and grazing.
- Improving our in-pub and out of pub communications to encourage premiumisation and deliver richer experiences.
- Customers who receive communications that are tailored to them are twice as likely to interact with that brand as they are with generic communications.
- By understanding our customers and why they visit different types of pubs we can deliver an appropriate range of dishes giving them more choice and options.

Our response

- All the food we procure and develop meets the Marston's Food Charter.
- All menus feature a range of lower calorie dishes, healthy switches and we ensure each menu category has a range of vegan and vegetarian dishes.
- Marston's will not include any allergen ingredients in its dishes unless they provide a benefit to the final product. Our internal processes, training and testing are focused on ensuring this remains the case.
- Each menu has a unique web address for customers to seek further nutritional and dietary information and we are continually looking at how we can improve nutritional values in our products.
- Our menus focus on delivering pub classics alongside more adventurous and specialist dishes, and emerging culinary trends.
- All marketing campaigns consider what value can be included to reward our customers.

Eating-out sales growth



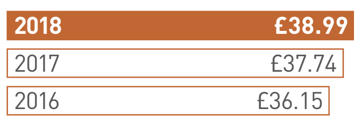
Opportunities

- Increasingly partnering with online travel agents that have a major presence in other countries.
- Being later to market allows us to choose locations predicted to grow or near new commercial or residential activity.
- Maximising an excellent pub occasion as part of the experience for the guest.
- Using the 'local' approach to speak to guests that we understand so well from our pub and brewing heritage.

Our response

- We have developed a thriving partnership with Expedia in 2018. This gives us access to their considerable overseas booking client base through Expedia, Trivago, Hotels.com and Egencia.
- Our new, more traditional and homely, room design has debuted in our latest three lodges and three refurbishments resulting in RevPAR growth in each of them.
- Our new website with improved look and functionality arrived in November.
- We will launch a communications platform to guests that wish to participate through social media and email by December.

Revenue per available room (RevPAR)



Chief Executive's Statement

Marston's balanced business model has stood us in good stead, delivering record sales and underlying profits with revenue exceeding £1.1 billion for the first time. Our community pubs and market-leading brewing business had an outstanding year. The outlook for good pubs and brewing remains attractive and we are well placed to leverage the opportunity this presents with our high quality, well invested estate, leading brands and great people.

Ralph Findlay
Chief Executive Officer

Our ambition, purpose and strategy

Our ambition is to make Marston's 'The Place to Be'. We want there to be no better place for our people to work, customers to enjoy themselves and shareholders to invest.

This is why our core purpose is focused on helping people to feel good. We know that if our employees can use their strengths and skills to make a positive difference, they'll enjoy working at Marston's. This 'feel good factor' will then be passed onto our customers and stakeholders through our quality products, inspiring environments and great service.

By helping our people to feel good, we start a chain reaction that ultimately results in people buying more of our products and returning to experience our hospitality time and time again. This in turn helps us to meet our key Group strategic and financial objectives and makes our investors feel good.

These objectives highlight the areas we intend to focus on both now and in the future to make our business a success and to meet our employee, customer, investor and other stakeholder needs.

Group overview

This has been an extraordinary year which has been characterised by weather extremes, together with one-off events such as the World Cup. Our balanced business model has stood us in good stead and smoothed trading to achieve revenue and profit growth in each of our trading divisions. Our Taverns and Brewing businesses both had particularly strong performances and clearly benefited from the warm summer weather and England's extended run in the World Cup.

Group strategy

Our Group strategy is focused on offering customers a great experience through both our pubs and our beer. There are two key objectives to achieving our strategy:

1. Operating high quality pubs and lodges offering great places to drink, eat and stay.
2. Operating a 'best in class' beer business with a wide range of premium and local brands and great service.

This is described in further detail in the Our Strategy pages that follow.

Financial overview

Total underlying revenue increased by 14.9% reflecting the rollover benefits of the acquisition of the Charles Wells Beer Business ('CWBB') from last year, new distribution contracts in Brewing, the positive impact of new openings and pub acquisitions, together with positive like-for-like sales in our pub business.

As anticipated, Group operating margins were 1.6% behind last year reflecting the dilution impact from the CWBB acquisition which operates at a lower margin than our existing beer business, the impact of distribution contracts in Brewing and the anticipated cost increases in our pub business.

Underlying operating profit was up 4.6% at £182.5 million (2017: £174.5 million).

Underlying profit before tax was up 3.9% to £104.0 million (2017: £100.1 million), principally reflecting the strong performance of Brewing and Taverns. Basic underlying earnings per share for the period of 13.9 pence per share (2017: 14.2 pence per share) were below last year, reflecting the impact of the equity issuance in May 2017.

On a statutory basis, revenue was up 15% to £1,141.3 million (2017: £1,011.3 million), profit before tax was £54.3 million (2017: £100.3 million) and earnings per share were 7.1 pence per share (2017: 14.2 pence per share), principally reflecting the non-cash impact of the estate valuation during the year.

Operating cash flow of £182 million is 1% higher than last year, after adjusting for the CWBB working capital settlement in 2017. The increase principally reflects the higher EBITDA generated during the period.

Net debt at the period end was £1,386 million (2017: £1,329 million), incorporating the financing of new site expenditure, the acceleration of pub brand conversions and investment in the new canning line in Burton. Net debt excluding property leases has reduced by £6 million in the period. A minor delay of some disposal activity in the second half year has resulted in this now falling into the first half of 2019 and as such we are increasing our disposals guidance for the current year to £45 million. Excluding property leases with freehold reversion entitlement, the ratio of net debt to underlying EBITDA was 4.6 times at the period end (2017: 4.8 times) which is expected to reduce further over time as the business grows and our long-term debt amortises. In addition, fixed charge cover remains strong at 2.5 times.

Cash Return on Cash Capital Employed (CROCCE) was 10.3% (2017: 10.7%) reflecting the performance of the Destination and Premium business as described later in the report. During the year, the external valuation of our property portfolio was completed confirming a value of £2.2 billion broadly in line with book value. At the period end net asset value (NAV) per share was £1.51 (2017: £1.47).

Financial strategy

Over the last ten years we have built over 180 pub-restaurants and bars, 21 lodges, and have a good pipeline of sites for future development. We have also made acquisitions consistent with our stated strategy: the acquisition of Thwaites brewing operations in 2015, CWBB in 2017 and a package of seven pubs from Whitbread in 2017 have contributed to growth in each of our operating segments.

We have set clear financial objectives: to target growth, increase return on capital and reduce leverage over time. Since 2009, revenue has grown by 77% (CAGR 7%), and underlying profit before taxation by 48% (CAGR 4%). CROCCE increased from 9.8% to 10.3% on assets of £2.2 billion. We have disposed of c.800 (mainly tenanted) pubs, realising £517.0 million and resulting in a go-forward pub estate which is fit for the future. Dividend payments to shareholders over this time have totalled £379.1 million.

Net bank and securitised debt of £1,022 million is £275 million lower than in April 2009. In addition, we have raised £364 million of long-term, secured funding, specific to individual new-build pubs. This debt has no associated reporting covenants.

In summary, compared to 2009 in the midst of the financial crisis, underlying profit before taxation is approximately 50% higher. We have transformed the quality of the estate with average profit per pub up 77%. In addition, our pub portfolio is 93% freehold and suited to long-term, secured debt. The debt structure has no short-term refinancing requirement and is effectively at fixed rates of interest.

Current trading and outlook

Trading has been solid and in line with our expectations for the first seven weeks of the current year with growth in both pub like-for-like sales and own and licensed beer volumes. As we have highlighted previously, the first quarter trading is heavily weighted to December and the Christmas period. However, we are confident our pubs are well prepared to maximise the opportunity which the Christmas and New Year trading period presents. We expect to make progress once again in the current financial year.

Since the year end we have secured the additional £40 million accordion facility that formed part of our bank refinancing in 2017. This increases the overall facility to £360 million to 2023 and provides us with additional financing flexibility for the medium-term.

Ralph Findlay
Chief Executive Officer

Our values

Our Ways of Working (WoW) are the behaviours we expect of our people. If the ambition, purpose and strategic objectives are 'what' we are striving to achieve, our WoW demonstrate 'how' we aim to achieve them.

WE ARE ONE TEAM We are one Marston's, one team – trusted to make the right decisions and play our part.

WE CELEBRATE We celebrate – when we do something really well, we shout about it and have fun celebrating.

WE CARE We care – we take time to listen, understand and do the right things for our customers and stakeholders.

WE DREAM BIG We dream big – together we strive to make Marston's 'The Place to Be' and always exceed expectations.

We are a people-powered business, so it's essential our people work together, care about each other, recognise a job well done and always strive to be the best.

Our Strategy

1 High quality pubs and lodges offering great places to drink, eat and stay

We operate across the breadth of the market, with flexible operating models targeting the growing UK eating-out and accommodation markets through new-build and format development. This helps to ensure we have the right consumer offer and operating model to maximise sales and profits for each individual pub. Our key segments are as follows:

Destination and Premium – 406 pubs

Our Destination pubs offer family experiences and great value in a relaxed pub environment. We aim to retain strong pub values whilst reflecting modern tastes and trends in a fast moving and competitive market.

In 2018 we opened 14 new pub-restaurants and seven lodges including our flagship 104 bedroom lodge in Ebbsfleet, Kent, and have opened over 180 pub-restaurants and 21 lodges in the last ten years. We have a good pipeline of sites for future development.

Our Pitcher & Piano bars, Revere bars (Lost & Found, Foundry) and Revere Country pubs offer premium food and drink in attractive, often iconic, town centre and suburban locations. In 2018 we had openings in Leeds and Bristol (both Lost & Found), and Godstone (Revere Country).

We target a CROCCE of 12-15% on freehold new-build investment.

Our medium-term strategy

Focus

- Estate development; high quality national estate.
- Offer a range of trading formats, brands and rooms.
- Customer focus on value for experience.

Objectives

- Continue to grow by at least ten sites per annum.
- Continue to develop formats and concepts.
- Continue to improve service and standards through investment in our pubs and our people.

Progress

- Over 180 pub-restaurants and 21 lodges opened since 2009.
- £50 million maintenance capital spent improving our existing pubs.
- Roll out of new EPOS system improving customer information, speed of service and margin control.

Priorities for 2018/19

- Developing our in-pub experiences and staying contemporary through more exciting drinks ranges and the traditional retail offerings.
- Extending the range of pub formats in our new-build programme and continuing the expansion of accommodation.
- Increasing our premium offers through the roll out of Accent and more premium retail offers.

Case study

The Foundry Project

From the industrial loft style 'Foundry Project', complete with the UK's first Estrella Damm tank, through to our Victorian inspired 'Lost & Found' cocktail bars, our Premium Bars & Restaurants team has developed our retail offer to satisfy demand on the modern high street.

The Lost & Found has previously been awarded two Restaurant & Bar Design Awards for our conversion of historic buildings, and our Foundry Project in Harrogate was shortlisted this year.

Whilst design is important it has to be matched by a quality range of products. The teams from our bars are the driving force behind everything we do, creating both our drink and food menus: from Josper charcoal steaks through to amazing burgers and pizzas, matched with an exciting cocktail menu and broad range of craft beer.

Average profit per pub

£113k

across our entire estate

Increased room investment

We operate over 1,500 rooms across our Destination and Premium pub estate. Accommodation acts as a complementary income stream, and the combination of pub-restaurant with rooms or adjacent lodge is attractive in the context of increasing business and leisure travel.

Organic room income has been consistently strong with double-digit sales growth for each of the last four years, with like-for-like RevPAR up 7% in 2018 to £41.25.

We target a CROCCE of 12% on freehold lodge investment.

Case study

The Spring River pub and lodge, Ebbsfleet

We acquired the site, located at the junction of the M2 and A2 and a mile east of Ebbsfleet International Rail Station, in January 2017. Nearby Ebbsfleet Garden City is a significant redevelopment with over 15,000 houses and associated commercial development. This site provided a great opportunity to build a significantly larger pub and lodge development than we had previously undertaken.

We opened discussions to acquire the gateway site (fronting the A2/M2) in 2016 and successfully secured it against competition from significant other branded hotels. As well as achieving best value, the vendor was keen to make sure that any buildings conformed with the wider design guide and to provide facilities for the growing local population. Essentially, the vendors wanted to provide a 'proper' pub.

This was a perfect fit for our approach. As an unbranded but format driven business we were able to design two buildings that were appropriate to the local area and we are the only pub operator able to develop such sites on this scale.

Construction commenced in early 2017 with the pub opening later that year and the lodge in early 2018: both on time and on budget.

As our largest hotel development to date (104 bedrooms), a dedicated openings team was located on site to ensure everything ran smoothly.

Initial trading has been ahead of expectations, despite being adjacent to a significant building site. Since opening, the site has generated over £1 million of room sales.

This has given us the confidence to acquire further sites for larger hotels adjacent to our pubs as part of our ongoing programme. We are confident that, in years to come, our largest hotel development to date may be deemed a little small for the latent demand!

TripAdvisor scores:

Restaurant: **3.5**

Hotels: **4.5**

Taverns – 1,139 pubs

Our community pubs are well located 'great locals' with a traditional pub ambience. We operate under managed, franchised and leased models offering flexibility for our licensees to run their pub under a business model that is best suited to their needs to develop a thriving, modern community pub business with growth potential.

As noted in the Chief Executive's Statement, since the end of the financial year we have agreed terms to acquire 15 well located community pubs with good potential from Aprirose which are highly complementary to our flexible business model. We expect to complete and lease fund this acquisition in the first half of 2019 and will invest approximately £4 million post acquisition with a target EBITDA of around £0.5 million in 2019 and at least £1 million in 2020.

Our medium-term strategy

Focus

- To operate the best community pubs in their areas.
- To improve customer experiences with innovation in drink, food, entertainment, service and design.
- To improve and grow our estate through strong investments.
- To attract the best partners – managed or self-employed.
- To enable our partners and employees to develop themselves, their teams and their businesses.

Objectives

- To amaze our customers – through market-leading offer development.
- To outperform the marketplace – clear focus on drinks and socialising.
- To build a stable and growing business through a balance of agreements – managed, franchised or leased.
- To target licensee stability rate at 90%.

Progress

- Like-for-like sales growth outperforming the market.
- Strong returns from investments: we target returns over 25%.
- Year-on-year improvements in licensee stability.
- Acquisition of 15 community pubs.

Priorities for 2018/19

- To drive footfall and improve customer experiences through offer development and capital investment.
- To develop the support and enhance the experience for our partners and employees.
- To build on our commitment to our local communities.

Our Strategy continued

Consumer experience: the right offer underpinned by value, quality and service

The wider sector has seen intense competition in recent years, and over-supply in certain areas. In the last five years, there has been a net increase of c.4,000 in the number of restaurants across the UK, mainly in high street locations in towns and cities. In our view, this has led to extensive discounting which, in a backdrop of tighter operating margins and increasing costs, is unsustainable.

To compete and maintain profitability against that backdrop:

- We operate pubs and bars, not just restaurants, and exploit our brewing heritage, drinks knowledge and experience.
- We have invested in pub ambience, service and technology to stay out of the price discounting trend seen across much of the sector. This has been at some detriment to like-for-like sales growth, but to the benefit of margins and longer-term sustainability. We have completed major investments in around 50 pubs to date and expect to complete our conversion programme within the next two years.
- In our Premium pubs and bars, a combination of excellent pub design, innovative drinks offers and a food menu utilising premium and local produce have contributed to a strong sales performance.
- In Taverns, the continuing development of the franchise-style model, pioneered by Marston's, has further enhanced our ability to respond quickly to consumer trends. In 2018, the growing appeal of craft drinks, the World Cup and a hot early summer highlighted the attractions of great community locals.
- We continue to improve our food offers, with our pizza offering being rolled out extensively across the estate, a greater choice of healthy options being offered and recently being first to market with the launch of the vegan Moving Mountains™ B12 Burger, with very strong initial sales and feedback. Our vegan menu was awarded 'best vegan menu' by PETA (People for the Ethical Treatment of Animals).

The trend in the on-trade for premiumisation continues across all categories. This plays to Marston's strengths and we are leveraging the benefits of our market-leading beer portfolio.

We continue to target service improvement with our operational teams incentivised on both customer satisfaction and EHO standards. During the year, we have continued to invest in training and development with one in three employees receiving formal training, over 70,000 e-learning modules completed and just under 35,000 learning resources accessed via our Talent Academy online covering a broad range of areas, from health and safety through to time management and delivering the 'perfect serve'. Communicating with our teams is also critical and we have developed new digital platforms and are in the process of developing further tools to communicate more effectively. In 2018, we were a regional winner in the National Apprenticeship Awards.

Technological development in 2018 included continuing the roll out of a new EPOS system and we are already starting to see operational benefits from a customer perspective, together with efficiency improvements in our back-of-house operations. The system provides improved product and customer information enabling us to respond to changing trends quickly.

NOMEAT Vegan Menu

Across our pubs we operate a number of different menu formats, each of which may be refreshed up to twice a year. The development stage takes an average 24 weeks from initial thinking through to launch and our approach to food development is to partner directly with our suppliers, enabling us to develop tailored and bespoke dishes that will excite our customers.

Our Product Development and Innovation Manager (a role new to the business) gathers insight on food innovation and market trends to understand what is right for our customers and how we can push boundaries without alienating them.

A key trend on the rise is veganism and we decided that now was the time to further explore this trend. Initially we ran a customer survey seeking to understand the key motivations for excluding meat, how often people are choosing to do this and their preferences on vegetarian and vegan food. Some of the key insights included:

- Almost one in three of our customers surveyed are cutting back the amount of meat they eat, often for health and weight loss reasons.
- Our customers would like to see more meat free dishes on menus, with the flexibility to add meat, fish or cheese to a core vegan dish.
- Our customers are more likely to choose a pub or restaurant where they know there will be something for everyone.
- The 'flexitarian' way of eating, for example, choosing to do 'meat free Monday', is more widely adopted than a pure vegan lifestyle.

These insights helped inform what dishes we should develop and how we might advertise the campaign. We agreed that we should prioritise a new range of dishes across both Destination and Taverns: one of the first campaigns to operate across both segments.

We decided early on that we needed a hero product to lead the 'NOMEAT' menu and agreed a plant-based burger would work well; burgers are a growth category across all of our menus and burgers are seen as being synonymous with pubs.

We sourced a plant-based burger that emulated meat and had been extremely successful in the USA and was due to launch in the UK. We placed an order only to discover that the shipment would be delayed by several months. Through our network of suppliers, we found a UK based company, operating within a few niche London burger restaurants. Moving Mountains™ offers a plant-based burger and we love their story. Led by one man with a vision to create a burger that emulated meat without harming animals, he spent ten years creating the B12 burger that looks and tastes like beef. We seized the opportunity to be the first national pub company to offer this product to our customers.

The NOMEAT menu launched on 5 September 2018 in 418 pubs across our estate. Customers were excited to try the B12 burger alongside our other plant-based dishes such as tikka masala and cauliflower tacos. We received extensive media coverage and over 2,000 shares on social media. It was also announced recently that we have won PETA's best vegan menu award for 2018!

2 Brewing – 'best-in-class' beer business offering a wide range of premium and local brands and great service

Our Brewing business has a vision to be the UK's leading beer business. Its strategy is based around five strategic pillars of brands, service, supply chain, insight and innovation, and people that provide a framework for its forward-looking approach to customers and consumers.

Vision

'The UK's leading beer business'
Extend our No. 1 position with brands that are demanded and loved by our customers

Strategic pillars

Brands	Service	Supply chain	Insight and innovation	People
Sustainable long-term growth of local, national and global portfolio of brands	Recognised as best in class Lead with complete customer experience solution	Highest quality at optimal cost in brewing and logistics Contract relationships to drive consolidation and efficiencies	Insight-led category leadership and innovation	The team that differentiates us – talent, leadership, WoW

Forward looking approach focused on customers and consumers

Choice, provenance, taste and interest in craft are positive trends in the on and the off-trade. Innovation and investment in new brands and products has increased across the sector, which has stimulated further consumer interest.

The off-trade continues to see absolute growth and an increased share of the drinks market. In beer, the strongest growth is in premium bottled ale, canned craft beer and the rapid growth of mini-keg which we introduced several years ago. IPAs, including US craft beers, and more exciting keg beers, have seen increasing popularity. In both the on and the off-trade, the trends are towards a consumer preference for premium brands with higher value and reduced volume. There is increasing demand for non-alcoholic drinks; our range includes alcohol-free beers – such as Warsteiner and Erdinger Alkoholfrei – which saw volume growth of 226% in 2018.

Our strategy has anticipated many of these trends and evolved rapidly to meet the changing dynamics of the market. Our strategic development is a consequence of consistent investment in consumer insight, which has driven the following growth areas.

Development of market-leading ale portfolio

We have a 14% share of the total ale market, 20% of the premium ale market in the on-trade and 27% of the premium bottled ale market. We leverage our knowledge of the beer market to assist our customers to improve their offers – an example is the On-Trade and Off-Trade Beer Reports which we produce annually.

Our ale portfolio has been enhanced significantly through acquisitions. Wainwright, acquired in 2015, was our best selling cask ale in the summer; in 2017, the acquisition of Bombardier, Young's and Courage provided distribution opportunities in the south of England, as has McEwan's in Scotland. Together with our established range which includes Marston's, Banks's, Jennings, Wychwood and Ringwood beers, we have an unrivalled range of own ale brands.

Hobgoblin remains our biggest brand and the "unofficial Beer of Halloween". Hobgoblin IPA was recently awarded the 'best IPA in the world' in the World Beer Awards against some of the world's best known IPAs – a great endorsement of our brewing capability. Other brands in the portfolio received a total of 19 Gold, Silver or Bronze medals in 2018.

We have a track record of innovation, including the development of fast**cask**™, and the introduction of the mini-cask and mini-keg.

Development of a licensed brand portfolio

Marston's has exclusive UK licences for US craft beers including Shipyard and Founders; world lagers including Estrella Damm, Warsteiner and Kirin; and Kingstone Press Cider.

These brands have been an important growth driver. Estrella Damm is one of the fastest growing premium lagers in the market, up 41% in 2018; Shipyard – No. 2 craft beer in the UK on-trade – was up 34%.

Our Strategy continued

We distribute directly to around

1 in 4 pubs

across the UK

National and local marketing

Our priorities are digital, local and print media. Hobgoblin is one of the most followed ale brands on social media, being awarded the Digital and Social Media Campaign of the Year at the PRCA Dare Awards in 2017.

Local marketing includes event sponsorship such as the New Forest Show, Henley Regatta and the Keswick Jazz Festival. Our brewery tours at Wychwood and Ringwood both received tourist awards this year.

Sports sponsorship includes a five year extension to the beer supply into Lords Cricket Ground, which will include two Ashes tours and the completion of the new stand in 2020. This provides us with an excellent platform to showcase our brands in both London and on a national basis.

In 2018 we undertook brand relaunches with new imaging for Bombardier, Directors and McEwan's.

Export

Following the acquisition of CWBB we acquired an experienced and established export team. We now export 19 brands into 61 countries, and export volumes now account for 9% of our external ale volume, almost double the level from recent years.

We are making good progress in growing our six key markets: Russia, France, Italy, Germany, Canada and the USA.
Looking forward, we believe there are opportunities to expand our export operations into South America.

We export

19 brands

into

61 countries

Sector leading service

Our beer business provides brewing, packaging and distribution services for a wide range of customers, in addition to our own pubs. In 2018 we entered into new agreements to become the exclusive distributor to around 1,600 Punch, Hawthorn Leisure and Brakspear pubs, and we have now secured additional distribution agreements with New River Retail and Trust Inns. We recently completed an £8 million investment in a new canning line in Burton which will further improve our canning efficiency and open up more customer opportunities in addition to bottling; we currently package c.40% of the UK premium bottled ale market.

Marston's brewery (Burton upon Trent), the Eagle brewery (Bedford) and the Banks's brewery (Wolverhampton) are all British Retail Consortium 'A' rated or above. For the fourth year running we were awarded the Best Ale Supplier in the Morning Advertiser Readers Choice Awards and our customer services team has also achieved the highest 'excellent' rating from the G4S Customer Services awards.

We distribute directly to around one in four pubs across the UK. This extensive network is a strategic asset which enables us to offer distribution at scale for existing and acquired brands.

This strategy has delivered strong financial results. In the last ten years turnover has increased fourfold and profits have doubled, in a beer market which has declined by 13%. We have increased on-trade market share despite significant new competition, and we have increased our market share of the premium off-trade by 50%. In 2018 we sold over one million barrels of own and licensed brands and around 2.2 million barrels in total to around a quarter of the 46,000 on-trade outlets in the UK.

Our medium-term strategy

Focus

- Four national brands: Pedigree, Hobgoblin, Wainwright and Bombardier.
- Building on our local provenance in regional markets with Banks's, Jennings, Mansfield, Ringwood, Eagle and Brakspear.
- Innovation driven by independent consumer insight.
- Operational efficiency.

Objectives

- To be the UK's leading drinks supplier with leadership in premium packaged and draught beers.
- To continue to drive value from provenance and authenticity from our six regional breweries and our licensed world beers and ciders.

Progress

- Number one position in premium packaged and canned ale maintained and extended.
- Further expansion of craft portfolio.
- Winner of 'Best National Cask Ale Supplier' for the fourth successive year.
- Continuing partnership with Estrella Damm for the UK licence and a new four year deal with Marylebone Cricket Club.
- Further consolidation of CWBB and driving benefit from increased scale.

Priorities for 2018/19

- To build on market leadership in premium and draught beers.
- Class leading innovation driven by consumer insight.
- Operational and service excellence.

Case study

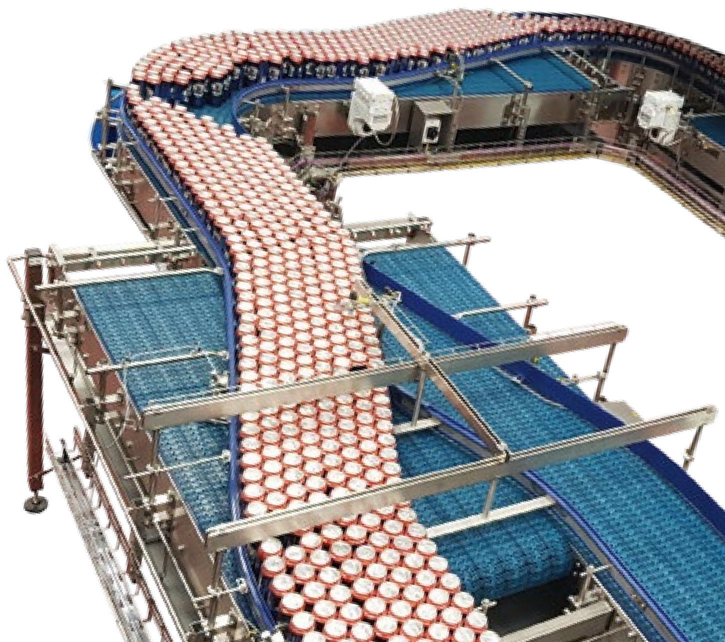
Investment in the future and supporting our ambitions

Canned beer in the UK has seen a resurgence over the past few years, driven mainly by the growth of craft beer and the perception of quality and convenience.

Having identified this trend early on in the cycle, whilst also looking to enhance our craft and brand aspirations, we decided to invest £8 million in a brand new state-of-the-art canning line at Burton upon Trent.

Having been commissioned in November 2018 it is already running on a full two-shift system and is canning our complete range of brands, in addition to those from other brewers.

The project has successfully rationalised all of our bottling and canning operations at our Burton upon Trent site, fully utilising our world class expertise in packaging.



Our Key Performance Indicators

We have a range of financial and non-financial KPIs to help us stay focused on our strategy and align remuneration to performance.

More on our strategy on **page 16**

More on our principal risks on **page 32**

More on our Remuneration Report on **page 53**

Two key components to our strategy:

1. Operating high quality pubs and lodges offering great places to drink, eat and stay.
2. Operating a 'best in class' beer business offering a wide range of premium and local brands and great service.

Financial KPIs

Average profit per pub

Why we have chosen this KPI

A measure of our success in creating quality pubs that match customers' needs.

How it links to Strategy, Risk and Remuneration

1

Risk – market/operational, business continuity and Brexit

Impacts bonus measure of Group profit

2018	**£113k**
2017	£111k
2016	£108k

CROCCE

Why we have chosen this KPI

A key driver of shareholder value and reflects progress made on investments, disposals and profitability of our core estate. How we calculate CROCCE is shown on page 26.

How it links to Strategy, Risk and Remuneration

1 2

Risks – market/operational and business continuity

Annual bonus and Long Term Incentive Plan (LTIP) measure

2018	**10.3%**
2017	10.7%
2016	10.9%

Free cash flow (FCF)

Why we have chosen this KPI

A measure of cash generated and available to reinvest in the business, return to shareholders in the form of dividend or repay debt. FCF is the operating cash flow of the business after tax and interest are deducted. How we calculate FCF is shown on page 26.

How it links to Strategy, Risk and Remuneration

1 2

Risks – business continuity, Brexit and financial covenants

LTIP measure

2018	**£101.4m**
2017	£103.1m
2016	£111.2m

Underlying earnings per share (EPS)

Why we have chosen this KPI

A widely used profitability and valuation measure.

How it links to Strategy, Risk and Remuneration

1 2

Risks – market/operational, business continuity and Brexit

Impacts bonus measure of Group profit

2018	**13.9p**
2017	14.2p
2016	13.9p

Non-financial KPIs

New-build pub-restaurants and lodges completed

Why we have chosen this KPI

The programme is a key driver of profit and returns growth within our business. Our plan is to open at least ten pubs and bars and five lodges in 2018/19.

How it links to Strategy, Risk and Remuneration

1

Risks – market/operational, health and safety, IT and financial covenants

Impacts bonus measure of Group profit

Lodges

2018	7
2017	8
2016	6

Pub-restaurants

2018	14
2017	19
2016	22

Like-for-like sales versus market (Destination and Premium)

Why we have chosen this KPI

Our aim is to make Marston's 'The Place to Be' and the best way to measure this is to compare our like-for-like sales performance against the market (based on the Coffer Peach Business Tracker).

How it links to Strategy, Risk and Remuneration

1

Risks – IT and our people

Impacts bonus measure of Group profit

2018	(1.1%)
2017	0.8%
2016	2.5%

Number of main meals served

Why we have chosen this KPI

A key volume indicator of growth in food sales, it provides the foundation from which increased spend per head can be achieved through starters, desserts and coffee.

How it links to Strategy, Risk and Remuneration

1

Risks – market/operational and health and safety

2018	35.5m
2017	37.5m
2016	38.8m

Market share of premium ale

Why we have chosen this KPI

We seek to maintain our lead in the premium cask and packaged ale market through innovation, quality and range of beers. This message allows us to compare our relative performance to competitors. Packaged ale includes both bottle and can, to better reflect the market we operate in. The restated figures incorporate CWBB.

How it links to Strategy, Risk and Remuneration

2

Risks – business continuity and Brexit

Packaged (restated)

2018	21.6%
2017	20.9%
2016	20.9%

Cask (restated)

2018	22.4%
2017	23.3%
2016	24.6%

Employee engagement and enablement

Why we have chosen this KPI

We believe that engagement and enablement are inextricably linked and essential to our ongoing success. If our employees are engaged with us and our strategy and enabled to contribute and deliver, this will result in a positive work environment, great customer service and improved business performance.

How it links to Strategy, Risk and Remuneration

1 2

Risks – health and safety and our people

Engagement

	Benchmark	
2018*		
2017	68%	73%
2016	68%	76%

Enablement

	Benchmark	
2018*		
2017	65%	76%
2016	65%	77%

Benchmark

* We have decided not to undertake an employee engagement survey this year, postponing it for 12 months. We want to maximise the opportunity to embed action planning put in place from the 2017 survey, maximising the return on our investment. As a result we are not able to provide any like-for like comparisons for 2018.

Group Operating and Financial Review

Andrew Andrea
Chief Financial and Corporate Development Officer

- **Revenue and earnings growth in all trading segments.**
- **Investment in estate and beer business expansion.**
- **Reduced capital expenditure in 2019 to improve future cash flows.**

	Underlying revenue		Underlying operating profit		Margin	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 %**	2017 %
Destination and Premium	450.7	438.0	89.4	88.9	19.8	20.3
Taverns	312.0	301.3	86.1	84.1	27.6	27.9
Brewing	377.7	252.9	32.0	25.5	8.5	10.1
Group Services	–	–	(25.0)	(24.0)	(2.2)	(2.4)
Group	**1,140.4**	**992.2**	**182.5**	**174.5**	**16.0**	**17.6**

Destination and Premium

Total revenue increased by 2.9% to £450.7 million reflecting the performance of our new-build pub-restaurants offset by a decline in like-for-like sales. Underlying operating profit of £89.4 million was up 0.6% (2017: £88.9 million). Profit per pub is 3% down compared to last year.

Total like-for-like sales were 1.2% below last year, principally reflecting the adverse impact of the poor winter weather in the first half year and the World Cup in the second half.

Reported operating margin of 19.8% is slightly below last year reflecting previously anticipated cost increases in labour, business rates and energy costs.

Taverns

Total revenue increased by 3.6% to £312.0 million, principally reflecting like-for-like sales growth in the year in our managed and franchised pubs. Operating profit was up 2.4% on last year reflecting growth in the core business offset by disposals. Profit per pub was up 4% on last year.

In our managed and franchised pubs like-for-like sales were up 3.8%.

Operating margin was 0.3% below last year at 27.6%, reflecting cost increases and the continued impact of franchise conversion.

Brewing

Total revenue increased by 49.3% to £377.7 million, principally reflecting the annualised benefit of the acquisition of CWBB in June 2017 and the benefits of the new distribution contracts secured in the year. Underlying operating profit increased by 25.5% to £32.0 million.

Operating margin of 8.5% was below last year reflecting the CWBB business which has historically operated at a lower margin (driven equally by customer and product mix) and the impact of the distribution contracts mentioned above.

Group Services

Central costs as a proportion of turnover were 0.2% lower than 2017. Absolute costs increased reflecting inflationary pay increases, the impact of both the apprenticeship and pub code levies, and higher training and IT costs.

Allocation of expansionary capital

We have opened 14 pubs and bars and seven lodges in the current year and we continue to see good opportunities for further expansion. Given current sector trends, including high levels of new openings and investment in the eating-out sector, together with economic uncertainty, we highlighted earlier in the year that we would be adopting a more cautious approach to new openings in the short term. The market is beginning to respond to recent over-supply and we expect that competition for new sites will reduce. In the meantime we plan to open ten pubs and five lodges in 2019.

Other capital investment in 2019 will be around £80 million, including £50 million maintenance capital and £30 million growth capital. This, together with the reduction in new-build expansionary capital described above, represents an overall reduction in capital expenditure of £30 million versus 2018. Disposal proceeds are expected to be around £45 million.

Future cash flow and debt targets

We are also targeting a further £20-30 million improvement to free cash flow as follows:

- Continued improvement in EBITDA.
- Reduction in organic capital expenditure of £5-10 million per annum from 2020 following completion of the roll out of the new EPOS system and efficiencies in pub maintenance.
- Reduction in pension payments of £8 million per annum from 2021 based on eliminating the pension scheme funding deficit in 2021.
- Securitisation financing benefits from refinancing opportunities. Whilst the outcome of our review of these opportunities is at an early stage, we expect to report further in the course of the next financial year.

As a consequence of these actions, we are targeting a 1 times reduction in leverage within 3-5 years. At the same time, we are setting clear guidelines in respect of capital structure. In addition to our ongoing objective to reduce leverage we will also target a net cash surplus before growth capital (acknowledging fluctuations in working capital), acquisitions meeting strict return on capital criteria, and a commitment to maintaining fixed charge cover (the ratio of EBITDAR to interest and rent payments) of at least 2.5 times.

Return on capital targets

As described in the Our Strategy section (on page 16) we target CROCCE of 12-15% from investment in new pubs and accommodation (freehold investments) and 20% in organic pub and brewing growth capital.

We will continue to review all of these targets to ensure they remain appropriate and to explore further opportunities to improve cash flow.

Taxation

The underlying rate of taxation of 15.5% in 2018 (2017: 15.6%) is below the standard rate of corporation tax due to (i) significant deferred tax movements in the year at the future enacted rate of 17%, (ii) a deferred tax benefit created by the retention of capital allowances on fixtures in property disposals and (iii) a prior year deferred tax credit arising from rollover relief claims in respect of capital gains, where the reduction in tax base cost of a property is offset by previously unrecognised indexation.

Non-underlying items

There is a net non-underlying charge of £42.9 million after tax. Primarily this reflects the external estate valuation undertaken in the period, which resulted in a £39.8 million charge to the income statement. A net revaluation increase of £8.6 million has also been recognised in the revaluation reserve in respect of property revaluations undertaken in the period. Other non-underlying items comprise a charge of £0.1 million in respect of the change in the rate assumptions used in calculating our onerous lease provisions, reorganisation and integration costs of £7.3 million, principally from the integration of CWBB, a charge of £0.1 million in respect of the net interest on the net defined benefit pension asset/liability and a £0.5 million net loss in respect of the mark-to-market movement in the fair value of certain interest rate swaps. The revenue of £0.9 million and expenses of £2.8 million in respect of the management of the remaining pubs from the portfolio disposal in December 2013 have also been included within non-underlying items. These charges are offset by a credit of £6.8 million relating to the tax on non-underlying items.

Capital expenditure and disposals

Capital expenditure was £162.7 million in the year (2017: £196.3 million), including £63 million on new pubs. During the year, we spent additional capital expenditure on brand conversions in Destination and invested £8 million in the new canning line described earlier and additional vehicles for the new distribution contracts. We expect that capital expenditure will be around £130 million in 2019, including around £50 million for the construction of ten pubs and bars and five lodges.

Cash proceeds of £46.9 million have been received from the sale of pubs and other assets, including £32.6 million of leasing transactions. Disposal proceeds of around £45 million are anticipated in 2019.

Financing

The Group has a £320 million bank facility to March 2023 and, since the year end, has secured the additional £40 million accordion facility that formed part of our bank refinancing in 2017. This facility, together with the long-term securitisation of approximately £776 million and the lease financing arrangements described below, provide us with an appropriate level of financing headroom for the medium term. The Group has sufficient headroom on both the banking and securitisation covenants and also has flexibility to transfer pubs between the banking and securitisation groups.

In recent years, the Group has entered into lease financing arrangements which have a total value of £364 million as at 29 September 2018 (2017: £301 million). This financing is a form of sale and leaseback agreement whereby the freehold reverts to the Group at the end of the term of the lease at nil cost, consistent with our preference for predominantly freehold asset tenure. The agreements range from 35 to 40 years and provide the Group with an extended debt maturity profile at attractive rates of interest. Unlike a traditional sale and leaseback, the associated liability is recognised as debt on the balance sheet due to the reversion of the freehold.

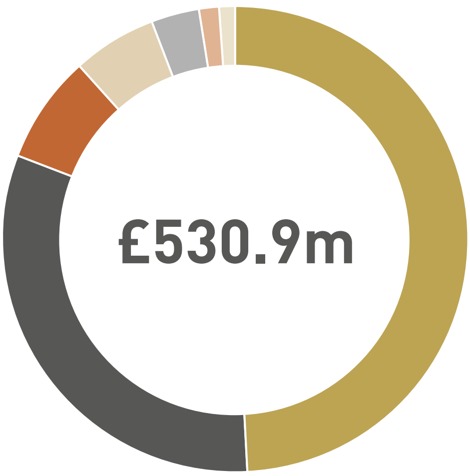
Net debt excluding lease financing of £1,022 million at 29 September 2018 is £6 million below last year. Operating cash flow of £182 million is £1 million ahead of last year after adjusting for the working capital offset arising from the CWBB acquisition in 2017.

For the period ended 29 September 2018, the ratio of net debt before lease financing to underlying EBITDA was 4.6 times (2017: 4.8 times). It remains our intention to reduce this ratio over time, principally through EBITDA growth generated from our new-build investment programme.

Pensions

The surplus on our final salary scheme was £15.6 million at 29 September 2018 which compares to the £5.4 million deficit at last year end. This movement is principally due to the fall in liabilities as a consequence of the increase in corporate bond yields.

Total tax contribution



Duty	£261.6m
VAT	£168.7m
Employee payroll	£39.2m
Business rates	£31.6m
Employer payroll taxes	£16.8m
Corporation tax	£7.6m
Other	£5.4m

Group Operating and Financial Review continued

CROCCE

2018	Balance £m	Depreciation £m	Revaluation £m	Adjusted £m
NON-CURRENT ASSETS:				
Goodwill	230.3			230.3
Other intangible assets	70.0	6.2		76.2
Property, plant and equipment	2,408.1	187.5	(627.2)	1,968.4
Other non-current assets	9.6			9.6
CURRENT ASSETS:				
Inventories	44.6			44.6
Assets held for sale	2.3			2.3
Trade and other receivables	104.9			104.9
LIABILITIES:				
Creditors*	(279.0)			(279.0)
CASH CAPITAL EMPLOYED	2,590.8	193.7	(627.2)	2,157.3
EBITDA				222.6
CROCCE				**10.3%**

Free Cash Flow

	2018 £m
Net cash inflow from operating activities	182.4
Interest received	0.8
Interest paid	(74.9)
Arrangement costs of borrowings	(5.7)
Purchase of own shares	(1.2)
Free Cash Flow (KPI)	**101.4**

*Creditors comprise trade and other payables, other non-current liabilities and provisions for other liabilities and charges.

Non-Financial Information Statement

We aim to comply with the new Non-Financial Reporting requirements as set out in sections 414CA and 414CB of the Companies Act 2006. Throughout the Annual Report and Accounts we report certain information on environmental, employee and social matters but here we have set out a summary of the Group's approach, related policies and how we monitor their effectiveness for the five areas covered by the new requirements, together with signposts to other relevant sections of the Annual Report and Accounts.

Environment

We recognise the importance of reducing our environmental impact and take our responsibilities very seriously. We continually strive to implement innovative technological solutions to reduce the use of resources, minimise waste and increase efficiency, and we set targets aimed at achieving continual improvements.

- Environmental policy and greenhouse gas emissions – page 64
- Targets and performance – Corporate Responsibility statement – page 35
- Environmental report – **www.marstons.co.uk/responsibility**

Employees

We want Marston's to be a great place to work for all our people, engaging and inspiring them to do their very best to make our business successful. We know this is a two-way contract where we invest in them as much as they invest in Marston's. We aim to provide a safe working environment, encourage personal development, responsibility and respect, and attract a diverse and inclusive workforce.

- Business Model – people resource – page 9
- Equal Opportunities policy
- Gender Pay Gap report – **www.marstons.co.uk/responsibility**
- Health and Safety policy
- People risk – page 33
- Health and Safety risk – page 33

Social matters

We are proud that our pubs and breweries are an integral part of our communities and we believe that these relationships are crucial to the long-term sustainable success of our heritage beer brands and our pubs. We create employment in local communities and actively involve ourselves in community events and charitable causes, matching fundraising through our charity schemes.

- Business Model relationships – page 11
- Corporate Responsibility statement – page 35
- Alcohol awareness – **www.marstons.co.uk/responsibility**

Human rights

We are committed to respecting and upholding human rights within our business and also within our supply chain. We recognise our responsibility to identify and address potential or actual human rights infringements linked to the products and services we provide. We encourage our suppliers to uphold the same standards as we apply to ourselves

- Human Rights policy
- Ethical purchasing policy
- Food Supplier charter
- Modern Slavery Statement – page 64
- Data privacy policy
- IT risk – page 33

Anti-corruption and anti-bribery

Marston's is committed to conducting its operations in a fair and ethical manner, and will not tolerate any form of bribery or corruption from its employees, suppliers or any other parties.

- Anti-bribery and anti-corruption policy
- Corporate Hospitality and Gift policy
- Fraud policy

Risks and Risk Management

Our approach to risks and our control of them

Risks are an inherent part of business, representing threats and opportunities. The Board and the Audit Committee consider the management of those risks that are material to the business in the context of our appetite for risk.

The trading environment in which our Group exists is constantly changing, driven by our customers and the opportunities for growing our business. These external factors continually impact upon the risks faced by our business, many of which are unavoidable and must be robustly mitigated against if our strategic objectives are to be achieved.

Factors impacting upon our business at present include Brexit, competition, regulation, technology, IT threats, supply chain, environmental impacts and the UK economy.

The levels of risk management employed within our business ensure that risks associated with these factors are identified early on so that effective mitigation can be prepared. We plan for predictable eventualities to ensure we have an appropriate level of resilience so the business can withstand short-term setbacks.

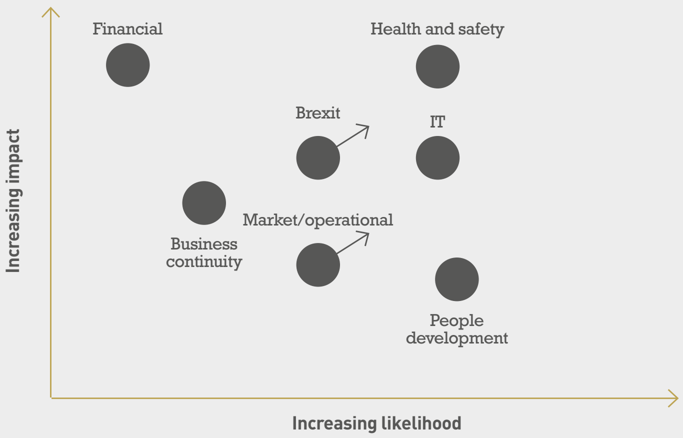
We are satisfied that we have successfully handled the emerging risks faced by our business operations during the year, and we have worked to improve our resilience in a number of key areas including: upgrading our computer network, data servers and cyber defence; new systems and training for data security; and increased auditing of our suppliers.

Our Appetite for Risk:

"Marston's is open to taking risks, providing those risks align with, and help us to achieve, our strategic objectives in a responsible way and within agreed parameters. Wherever possible and practical we will seek to remove risks completely, avoiding those that pose a threat to achieving our strategic objectives or, where a risk is impossible to avoid, we aim to mitigate it by investing in effective controls or by sharing risks with a third party. These controls are managed and monitored to give assurance that the risk levels are in accordance with the parameters set by the Board and the PLC Exec. We believe that our overriding principle of care remains integral to achieving our strategic objectives and we continually review the risks affecting our business to ensure we maintain our responsibilities to our employees, our customers and the public, by guarding against threats to health, hygiene and safety as a priority."

Changes to the business that impact on risks

- Demand for our ales
- Demand for our drink supply services
- Popularity of our drink brands
- Site activity at depots and breweries
- Cyber and data security threats
- IT network resilience
- Pub menu development
- Brexit uncertainty
- Inflationary pressure
- Consumer nervousness
- Environmental public concern, particularly wastage



Examples of actions to decrease likelihood

- Increased production capacity within our breweries and new product development
- Expansion of our logistics capability (warehouse capacity, fleet performance, systems and teams)
- Expansion of our Health & Safety team
- Expansion of our food supplier auditing and raising the quality standards expected from our suppliers
- Deployment of our employee development programme (PCDR)
- Redevelopment of our data servers
- Upgrading our cyber defence monitoring
- Data protection systems developed and policies adopted and trained our people in preparation for GDPR (General Data Protection Regulation)
- Reduction in pub waste and emissions by developing new systems of control and monitoring

What we did in 2018 to manage our risks

Information technology

(a) Resilience

Our IT network has been expanded so that the connections between our sites have alternative channels which ensures that a fault on one does not stop the transmission of data. The interface between our network and the internet has been improved at our sites in order to severely limit what an external attack could achieve. The monitoring of our network for any unauthorised device or activity has been upgraded during the year.

(b) Crisis planning

The ability of our head office employees to relocate and work at alternative premises has been improved through the increased agility of our teams following the issue of laptops to those teams performing time-critical tasks. Scenario planning has been undertaken at our sites and an audit conducted of our supply chain resilience.

(c) Data protection

The business adopted the approach for GDPR as recommended by the Information Commissioner's Office. Personal data was mapped within the business, our people received training and security policies were revised and briefed to the business. The retention of personal data has been reduced and confirmation from our customers has been sought where appropriate. Our privacy notices have been improved to offer additional transparency and explanation of our data security practices.

Health and safety

Our Group Head of Health & Safety was appointed during the year reporting to the Group People Director. A comprehensive review of health and safety risks and practices has been performed in order to identify areas of development. The Health & Safety team has also been expanded to ensure that these areas of improvement can be achieved.

Market/operational

The business has made significant investment in a new EPOS system for managing the operations within our pub business. This will improve the financial control of our pubs, customer service, customer information, stock control and management reporting. The initial signs of the rollout have been encouraging and will continue across our managed pubs during 2019.

How we will be responding to emerging areas of high risk over the next year

Brexit

There is a risk that the UK will leave the EU with no deal which would have an impact upon our costs to import food and drink due to currency fluctuation, tariffs and inflation. Our ability to export beer could also be impacted by changing tariffs. The uncertainty may mean that it is harder to secure long-term agreements with our suppliers where they are sourcing food and drink from the EU. In addition border delays could disrupt our supply chain, impacting upon the availability of food and drink brands to our pubs and our customers' businesses. There is likely to be an impact upon general inflation, interest rates and wider impacts upon the UK economy and consumer confidence. The UK could see a tightening labour market as well as skills shortages which could affect our ability to recruit. We continue to monitor the risk and develop processes able to deal with the additional administration. We will renegotiate our supply contracts when due in order to mitigate any additional cost.

Market/operational

Our business exists in a highly competitive sector, reliant upon consumer discretionary spend. The dining-out experience is reliant upon attracting customers choosing our own venues as opposed to other pubs or restaurants. Recently the casual dining market has seen heavily discounted prices on food to attract customers. The Marston's offer reflects the quality, range of choice and the overall experience at the venue rather than purely competing upon price. We aim to mitigate this risk by gauging what our customers appreciate and keeping our offer refreshed, innovative and exciting.

The volume of beer sold in the UK continues to move more to home consumption rather than within licensed premises. This creates risk particularly upon margin control, however, Marston's is well placed to take advantage of both sales to the on-trade as well as the off-trade. Our lead on premium bottled ales means that we can meet this change in consumer demand and maintain a scale of operation to protect our margin. At the same time the broad range of beer brands, particularly following the purchase of CWBB, has created an exciting and varied mix of brands for our on-trade and off-trade customers to choose from.

The UK pub sector and wider alcoholic drinks industry continues to experience changes in legislation which can increase operating costs. These changes impact upon our business directly and also the businesses of our tenants, lessees and retailers. Future changes in legislation could impact upon employment costs, calorie labelling on our menus and wastage. Our Risk & Compliance Committee tracks and monitors these developments so that the business can make appropriate changes before legislation itself imposes a deadline.

Our Levels of Defence

1. Management ownership

Our managers are responsible for identifying and communicating risks, and developing controls which mitigate those risks to a level which is acceptable to the business.

Our managers are also responsible for assessing and reporting upon the effectiveness of those controls to the Board via the Corporate Risk Director. The effectiveness of those controls are tested through the operation of the Internal Audit plan and reported to the Board on a regular basis.

The key features of the internal control system are:

- A clearly defined management structure operating within a framework of policies and procedures covering authority levels, responsibilities and accountabilities.
- Embedding risk management into day-to-day activities and our Ways of Working.
- Ensuring that our operations abide by all applicable laws and regulations.
- Continual improvement by reporting on effectiveness, recognition of weaknesses, investment, and by encouraging and rewarding achievement.
- 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 which have risk management embedded within them.
- Board approval is needed for all major investment, divestment, and strategic plans and programmes.
- At each meeting the Board reviews financial and non-financial progress towards the Group's goals.

Control systems are designed to manage rather than eliminate risk. By their nature such systems provide only a reasonable and not absolute defence against material errors, losses, fraud or breaches of the law.

The Group operates within a clear set of policies established by the Board and the PLC Executive Committee (PLC Exec). Such policies ultimately manage the criteria within which the business accepts risk. Authority is delegated through the business to ensure that management is empowered to operate effectively within a system of governance approved by the Board. Changes to policies occur, normally at the instigation of management, in response to either new threats, legislation or new opportunities.

2. Committee oversight

The PLC Exec and Marston's Beer Company Board each meets regularly to consider how to implement the actions required for Marston's to achieve its business objectives and to monitor risks and opportunities within its Ways of Working.

Our Operational Directors within the PLC Exec take ownership of the implementation of the business strategy to meet operational and financial targets and the design of internal controls to reduce risks. In order to understand the fundamental risks which impact the business, management collects information through internal processes and external sources and determines the response to those risks. The management committees consider, communicate and implement the decisions on risk made by the Board.

For further information, read more about our Governance Framework on **page 41**

Marston's operates a number of supporting committees that focus upon particular areas of risk requiring attention:

Risk & Compliance Committee (chaired by the Group Secretary)

The Committee reviews the identification of the principal risks and considers the audit and compliance testing of those risks. It conducts a focused examination of areas of risk which have changed significantly. In addition, new legislation is tracked by the Committee, which considers the impact on the business and the response to maintain legal compliance.

Data Security Committee (chaired by the Group Secretary)

The protection of personal and commercial data is considered. Network protection is reported. Policies and training are developed and monitored to encourage awareness and best practice by staff. Ongoing compliance with data protection law is reported.

Corporate Responsibility Committee (chaired by the Corporate Risk Director)

The ethical approach by the Group is considered in all respects. The Committee defines the Corporate Responsibility priorities of the business and oversees the actions and targets associated with them, as well as the reputational risks.

Business Continuity Steering Committee (chaired by the Corporate Risk Director)

The resilience of the Group to events outside of its control is considered, and lessons learned from actual incidents or scenario tests. Consideration is given to the resilience of our supply chain and the capacity of our business to seek alternative supplies at short notice. The Committee regularly reviews the strength of our IT network to recover from disruption and interference.

3. Assurance Governance

The Group Risk team comprises the Corporate Risk Director and the Internal Audit function. The team reports to the Group Secretary who is a member of the PLC Exec and can elevate matters regarding risk where appropriate to the Board. The Corporate Risk Director attends the Audit Committee meetings and can raise any concerns regarding risks independently.

Enterprise Risk Management (ERM)

The Corporate Risk Director operates an ERM process in order to identify, monitor and report those risks which impact upon our ability to achieve the strategic objectives. The key risks and controls, and their ownership, are continually assessed, more formally during bi-annual meetings with the managers who own the key risks.

The risks are documented in a corporate risk register, access to which is appropriately shared with those managers. We use common risk management tools and language across the business to establish consistent metrics.

The effectiveness of the controls at reducing risk to an acceptable level is considered and reported to the Audit Committee.

Levels of insurance cover are managed by the Corporate Risk Director with authority from the Board and in consultation with external advisers.

Internal Audit

The Internal Audit function, within the Group Risk team, is managed by the Group Internal Audit Manager, reporting to the Corporate Risk Director and is independent from the operations of the Group. The Internal Audit strategy is risk based and focuses its attention upon the greatest risks to the Group. The strategy has been approved by the Audit Committee and aims to provide a sufficient level of assurance regarding the strength of the control environment as well as supporting continual improvement in risk management.

The internal audit plan is produced by the Corporate Risk Director. The plan takes into consideration the key risks within the business, areas of increased risk and the regularity of testing those areas. The audit team consults with the PLC Exec and the Risk & Compliance Committee regarding areas of concern which require additional assurance. Resource and expertise is sought from an audit co-source for individual projects. The budget for internal audit is submitted to the PLC Exec and the Audit Committee for approval.

Internal audit projects are planned with the assistance of key risk owners and the results are reported back to those managers, the Risk & Compliance Committee and the Audit Committee.

The Group Risk team gathers assurance during the year on a wide range of legal compliance areas, pub financial controls, pub compliance testing, security and health and safety.

4. Strategic

The PLC Exec, chaired by the Chief Executive Officer, is responsible for the implementation of strategy, carrying out actions directed by the Board, monitoring performance, and overseeing risk management and internal controls. Actions required are communicated to the senior managers of the Group.

5. Board/Audit Committee

The Board is ultimately responsible for the Group's framework of governance, internal control system and risk management. The mitigation of risk is delegated to the Executive Directors and other senior managers. The Board is responsible for ensuring that risk owners monitor and communicate the effectiveness of the internal controls. The Board is also responsible for determining the nature and extent of the principal risks the business is prepared to take in order to achieve its strategic objectives, its risk appetite and approving the Viability Statement.

Management reporting is in sufficient detail for the Board to assess their risk appetite in the context of the risks and opportunities and to make informed decisions in order to accomplish our strategic objectives and our ambition to make Marston's 'The Place to Be'.

The Board has performed a robust assessment of the principal risks faced by the Group, taking into account our ability to achieve its strategic objectives.

Viability Statement

The Directors regularly undertake an assessment of the prospects of the Group by reference to its current and historical financial performance, the current financial position, and the principal risks as described in this Strategic Report. The longer term strategy and business model is intended to spread the operational risk of the business. This is achieved through operating in food-led and wet-led pub businesses, accommodation and a premium beer business. This means that the Company is less exposed to a downturn in any single part of the pub or beer market.

The Board annually reviews the Group strategy, which incorporates five year financial projections of trading performance, cash flows and financing requirements. In recent years the Group has performed strongly, delivering growth whilst transforming both the pub and beer divisions into businesses well placed to meet future market challenges.

In forming our plans, the Board has visibility of:

- the sensitivities of our results to changes in either the sales or margin assumptions;
- the actions required to conserve cash in the event of a significant downturn;
- the principal areas of risk as described in this Strategic Report and the mitigating actions in place to offset those risks; and
- confirmation that there is no single material contract or activity that would affect the going concern of the business.

During the period, the Group extended its existing bank facility by one year to the financial period 2022/23, utilising an option included in the facility renewal last year. We intend to utilise the option to extend the facility by a further year in the 2018/19 financial year. In addition, we intend to utilise a £40 million accordion facility in 2019 to add further financial flexibility in our short-term financing. These actions ensure that there are no refinancing risks across the transitionary Brexit period.

In addition, the Group entered into an additional £63 million of property lease financing during the period, demonstrating the continued attractiveness of the Group's pub estate expansion plans to debt providers. An additional tranche of financing is expected to be completed by January 2019.

The Group continues to have strong headroom against the financial covenants underpinning the financing structure with strong fixed charge cover of 2.5 times. As described in the Strategic Report on pages 24 to 25, the Board has also identified areas to improve free cash flow to further underpin our ability to meet our financial obligations.

The Board has assessed the viability of the Group over a five year period as this is consistent with their strategy review process, as described above. Given the considerations above, the Directors confirm that they believe the Group will continue to be operationally and financially viable over the five year period.

Our Principal Risks and Uncertainties

The following risks are, in the opinion of the Board, the principal risks which could impact on the achievement of our strategy. It is not intended to be a complete analysis of all risks and may change over time. A reminder of the two key components to our strategy:

1. Operating high quality pubs and lodges offering great places to drink, eat and stay.
2. Operating a 'best in class' beer business offering a wide range of premium and local brands and great service.

Market/operational

Risk context	The risk	Potential impact	Mitigation
Marston's revenue is dependent upon being able to offer customers an enjoyable experience at the right price. It is reliant upon attracting back existing customers and winning new customers. In addition, Brexit could impact upon discretionary spend and consumer confidence.	That our pubs, brands or services fail to attract customers, do not reflect changing customer preferences, or offer poor service or quality. Equally there is a risk that our prices become uncompetitive.	Reduction in sales, or heavy discounting in order to attract customers.	• Customer satisfaction surveys, market and consumer insight. • Continual analysis of sales performance data of individual sites and by pub format. • Pricing strategy, built upon careful analysis of customers' sensitivities at a sufficient level of detail. • Cost control, including menu margin analysis. • Investment, location and design of our pubs. • Structure of our teams aligned with our pub formats.

Movement: The UK economy continues to face uncertainty. Economic drivers for our customers in the near future could be employment uncertainty, interest rate rises, depreciation in the value of sterling and inflation. This creates a risk for our Group in attracting customers and setting prices at an appropriate level. These conditions also present an opportunity to gain market share from other operators who cannot manage the risk as effectively.

Business continuity

Risk context	The risk	Potential impact	Mitigation
Marston's operations depend upon supplies of goods and services often from single sources.	Disruption to key suppliers, particularly those closely involved with our day-to-day activities (logistics, food, drink), or shortage of commodities could significantly impact Marston's operations.	Disruption to trade impacting upon profit.	• Continual assessment of suppliers' resilience and capacity. • Site visits to our suppliers to assess crisis planning. • Contingency planning identifying how products or services can be substituted.

Movement: Marston's recognises the disruptive effects upon our ability to manage events outside of the Group's control. In 2018 we performed audits of resilience at some of our major suppliers' sites in order to understand how the risk can be further mitigated by working in partnership.

Health and safety, including food hygiene

Risk context	The risk	Potential impact	Mitigation
Care for our employees, our customers and the public is a priority for our business and defines the parameters for the risks the business accepts and those activities we reject. We continually seek improvements in the protection of people through investment, training, policies and practices. Reducing accidents, increasing safety and hygiene is a key priority for our business.	Ultimately, harm or injury to people through breaches of health and safety or food hygiene regulations.	Personal injury. Significant damage to reputation, particularly through increased media attention. Financial penalties.	• Health, safety and hygiene management systems embedded. • Dedicated health and safety managers seeking improvement. • Regular, documented inspections. • Training of staff. • Escalation of potential safety threats to senior management.

Movement: At Marston's, food hygiene has been consistently and rigorously controlled. The increase in business activity is likely to put more pressure on safe practices. Our busy and evolving working environment continues to be a challenge.

In 2018 we took steps to invest in more resource for health and safety and repositioned its management within the Group HR function in order to meet the need for greater focus.

Information technology

Risk context	The risk	Potential impact	Mitigation
Our business activity is very reliant upon the Group's IT network to communicate, operate effectively, serve our customers, process transactions and report on results.	Threats to IT are both external and internal and could result in a network outage, loss, theft or corruption of data, or denial of service.	Reduction in the effectiveness of operations, business interruption and loss of profit. Regulatory fine as a result of the loss of data.	• Anti-virus and firewall protection. • Access control, password protection and IT policy adherence. • Network controls and monitoring. • Penetration testing and remediation. • Backup procedures. • Data recovery plans and rehearsals.

Movement: Global cyber risk has evolved recently; theft of personal data is becoming more common; ransomware attacks are now more widespread and attacks are more sophisticated.

Marston's has conducted penetration testing on its network for many years. Specific cyber risk reviews have been conducted in recent years on IT security by independent teams. We have invested in additional network and device monitoring functionality.

In 2018 we enhanced the monitoring of devices accessing our network. Next year we intend to engage more with our people to encourage greater awareness of cyber threats and their role in protecting our IT network.

Our people

Risk context	The risk	Potential impact	Mitigation
Marston's operates in a very competitive environment with a talent outflow from the sector and a shortage of skilled roles such as chefs. Demand for high calibre people adds further pressure in a labour market tightening due to Brexit. Our lack of brand presence and the need to prudently manage costs increases this challenge.	Failure to attract or retain the best people.	Reduction in customer satisfaction levels. Financial targets and strategic objectives are not met.	• Continually review and benchmark our people offer against our competitors through participation in appropriate networks. • Development of our 'People Promise'. • Improved induction, training and development programmes. • Increased focus on development of our line managers to improve employee retention.

Movement: The sustained growth in our business has allowed for improvements in training programmes and given more opportunity for our people to progress.

Our Performance, Career and Development Review (PCDR) cycle has brought a common approach to people development across the Group, enhancing the dialogue on expectation, achievement and career progression.

Our Principal Risks and Uncertainties continued

Financial covenants, pension fund deficit and accounting controls

Risk context	The risk	Potential impact	Mitigation
The Group's financial system handles a large number of transactions accurately and securely. Accurate reporting is key to running the business effectively and in compliance with our financial covenants.	Breach of the covenants with our lenders. Inadequate funding of the pension scheme. Incorrect reporting of financial results. Unauthorised transactions.	Loss of investor confidence and reputational damage. Potential loss as a result of fraud. Breach of covenants, resulting in additional financial and operating restrictions.	• Regular detailed management accounts, budgets and forecasts. • Constant monitoring of financial ratios. • Programme of internal and external audits. • Segregation of duties. • Access controls within our systems. • Levels of authority. • Monitoring pension investment yields and increasing contributions in order to clear the pension deficit within a reasonable timeframe.

Movement: There are strong controls mitigating this risk to a low level. There has been no change in the risk since last year.

Brexit

Risk context	The risk	Potential impact	Mitigation
The Withdrawal Agreement setting out the terms by which the UK will leave the EU is currently in negotiation. Once concluded the terms will still require approval by the UK Government and the EU.	There is a risk that there is no agreement by the time the UK leaves the EU on 29 March 2019.	A 'no deal' scenario would impact upon our costs to import food and drink due to currency fluctuation, tariffs and inflation. Our ability to export beer could also be impacted by tariffs. It may be harder to secure long-term agreements with our suppliers. Border delays could disrupt our supply chain impacting upon the availability of food and drink brands to our pubs and our customers' businesses. The UK job market could become less desirable for EU nationals, which could lead to a shortage of specific types of skilled workers within our market sector.	• Continual assessment of supply contracts and renegotiation of terms when they fall due, to protect our business from Brexit related costs. • Establish procedures to account for customs declarations and tariffs. • Consider alternative sources of supply if our suppliers experience difficulty importing goods. • Less than 4% of our employees are EU nationals. We aim to support our people once information on working within the UK has been confirmed.

Movement: Marston's recognises the disruptive effects that Brexit has upon our business and the UK economy, particularly during this period of uncertainty.

Brexit related risks will be continually monitored and reported to our PLC Exec and Board and independent assurance will be sought regarding any business change necessary to meet legislative and commercial requirements.

Corporate Responsibility – A target-driven approach

Marston's believes that Corporate Responsibility (CR) plays an integral role in contributing to long-term growth, commercial viability and stable relationships with its stakeholders. During 2018 the CR Committee has again focused upon a target-driven approach, aligning our CR priorities to our business strategic objectives. This cross-functional group meets several times per year to discuss our direction on CR and inform each other on progress made against our targets. With members across teams such as operations, procurement, food development, HR, risk and communications, the CR Committee is representative of the importance that CR has for the business.

We have assessed our CR strategy and set CR priorities aligned to the Group's strategic objectives. This year has seen us implementing these objectives and making considerable progress in focusing the business on integrating them across all areas. We continue to work with our key stakeholders to make sure our activity stays relevant and focused. We published our second Modern Slavery Statement this year and we have extended the review of our suppliers, demonstrating our commitment to go beyond the minimum that is required.

We remain committed to our five CR priorities:

- We invest in our people
- We partner with suppliers who share our values
- We care about our customers' wellbeing
- We celebrate our local communities
- We reduce our environmental impacts

For each of these priorities we have identified our areas of focus that continue to support the Group's strategy for long-term growth:

	WE INVEST IN OUR PEOPLE	WE PARTNER WITH SUPPLIERS WHO SHARE OUR VALUES	WE CARE ABOUT OUR CUSTOMERS' WELLBEING	WE CELEBRATE OUR LOCAL COMMUNITIES	WE REDUCE OUR ENVIRONMENTAL IMPACTS
STRATEGIC OBJECTIVES	Operating high quality pubs and lodges offering great places to drink, eat and stay				
	Operating a 'best in class' beer business offering a wide range of premium and local brands and great service				
AREAS OF FOCUS DURING 2017/18	Apprenticeships	Food supplier charter	Healthy options on our menus	Support for local charities	Reducing landfill waste
	Training in our pubs	Improve our supplier audit programme	Safety	Head office involvement with local charities	Energy consumption
	Talent Academy online	Modern slavery	Engagement with Drinkaware	Support teams' individual contributions	Recycling rates

Corporate Responsibility continued

We invest in our people

Why this matters to us

At Marston's our people are our biggest asset. That's why we do everything we can to help them grow in confidence, skills and knowledge, and to reach their goals. Keeping people at the heart of our business is essential to our continual success. We recognise that by developing our people Marston's also develops for the future. For the Group to remain relevant for our customers, our business must continually adapt and change, so the skills of our team have to develop to meet this challenge.

What we have done this year

- Our common philosophy is to put customers at the heart of what all our staff do, wherever they work at Marston's. This is what makes Marston's 'The Place to Be'; that's why all of our training supports the customer experience, because in our view, personal fulfilment translates into customer satisfaction and long-term corporate success.
- We now have over 500 apprentices on our programme, for many of whom working at Marston's is their first experience of full or part-time work. In 2018, Marston's was named Macro Employer of the Year for the West Midlands at the National Apprenticeship Awards.
- Talent Academy online has been further developed providing our people with greater access to leading resources in order to support their development. This includes core knowledge and tools to carry out their role, as well as additional learning to further stretch their personal development.

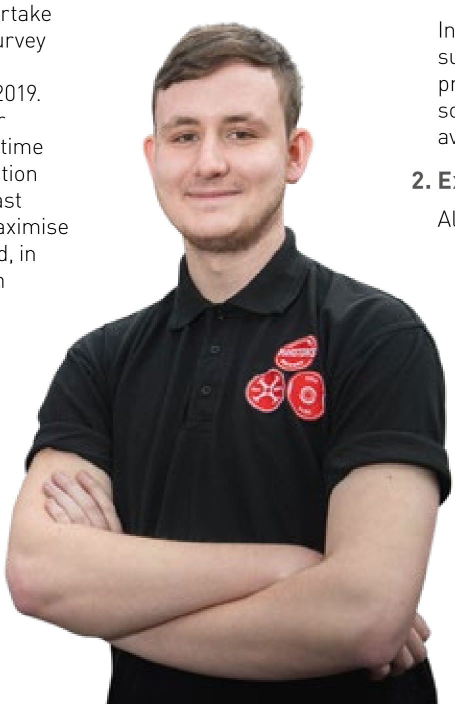
CR targets this year and how we have performed

1. Performance, Career and Development Review (PCDR)

We have made significant progress with objective setting throughout the organisation, which is creating greater clarity and focus for our people, and driving more effective performance conversations. During the year, we have continued to invest in Training and Development with one in three employees receiving formal training, over 70,000 e-learning modules completed and just under 35,000 learning resources accessed via our Talent Academy online platform, covering a broad range of topics, from serving the perfect drink through to communication and personal effectiveness.

2. Employee engagement

We have decided not to undertake an employee engagement survey this year, postponing it for 12 months until September 2019. Following feedback from our people, it was felt that more time was needed to embed the action planning put in place from last year's survey. We want to maximise the opportunity to do this and, in turn, maximise the return on our investment from the previous survey.



We partner with suppliers who share our values

Why this matters to us

At Marston's we recognise that our suppliers are an integral part of our success and profitability. We strive for long-term relationships with suppliers who share our sense of values. We have a robust tendering process which examines the company management, locations of production facilities, finances, codes of ethics and accreditations. We have invested further this year in our process for registering contracts, logging renewal periods and security over data transferred.

What we have done this year

- We have sought food suppliers who, like us, are innovating for the future. We had identified that there is a growing trend for meat free days amongst our customers. We were able to partner with Moving Mountains™. Based in the UK and led by an ambition to create a burger that emulated meat but without harming animals, they had created the B12 burger which was launched on our menus this year. Our customers have been excited by the burger and our other plant-based dishes such as tikka masala and cauliflower tacos.

MOVING MOUNTAINS

- All our main food suppliers are either BRC, or equivalent standard, approved. In addition they also undergo an independent audit on all aspects of hygiene, traceability, quality and ethical approach. We work closely with our food suppliers to help ensure the quality of ingredients is maintained.
- In 2018 we issued our second statement on Modern Slavery, and since last year have contacted over 140 of our suppliers in order to understand their own policy regarding the employment conditions of staff in their supply chain. Our statement is available at: **www.marstons.co.uk/responsibility/modern-slavery-statement**.

CR targets this year and how we have performed

1. Re-issue our Food Supplier Charter

In 2018 our Food Supplier Charter was re-issued to all our food suppliers, setting out our expectations regarding quality of product, traceability of ingredients, ethical approach, sustainable sourcing and employment rights. A copy of the Charter is available at **www.marstons.co.uk/responsibility/food**.

2. Extensive supplier audits

All of our brewery suppliers for key ingredients have been audited by our independent hygiene auditor during the year. We have completed audits on all of our food suppliers as part of a rolling programme.

We care about our customers' wellbeing

Why this matters to us

Our customers experience a warm welcome at Marston's; we believe in giving them a range of choices and take the nutrition, quality and safety of the food we serve very seriously. Our dishes cater for various lifestyles, priorities and tastes, and we assist our customers in making informed choices on our menus. In the past year, we have deepened our engagement with key stakeholders and have made significant progress in broadening our menu choices.

In order to foster a dialogue with our customers regarding any issues concerning food, we have a catering hotline for our pubs that is available 365 days per year.

What we have done this year

- Lower calorie dishes will remain prominently within our menus, which will continue to allow customisation of accompaniment options to create a healthy meal. Nutritional information is available on our pub websites for all core menus. We are continuing to monitor consumer trends and collect customer feedback to ensure that our menus remain relevant to the changing diets and lifestyles of our customers.
- Safety improvements within our pubs. This year we have updated our safety policies, procedures, records and audits. We have updated risk assessments, and revised the instructions to our teams.
- Membership of Drinkaware. We associate operating a high-quality pub estate with the responsible marketing of alcoholic beverages and an openness when communicating with our customers. We offer an enhanced range of soft drinks that appeal to adults and stock a range of non-alcoholic variants. We promote responsible drinking messages to our customers through our websites and in-pub promotional materials.
- In order to ensure that no one under the age of 18 can purchase an alcoholic drink in our pubs we operate a test purchase programme in all of our managed and franchised pubs. In addition, we operate the Challenge 21 or 25 age verification programme in our pubs.

CR targets this year and how we have performed

1. Broaden our range of healthy options on pub menus

Our menus have been designed to offer a range of dishes with lower calorie and non-gluten options.

2. More nutritional information given to customers

Specifications are maintained on all products on our menus detailing ingredients, nutrition and allergen information. All core company menus have an allergy app available detailing allergy content of all menu items. Customers can quickly filter the menu options by the allergen they wish to avoid: **grill.marstons.co.uk**.

3. Maintain the level of test purchases and age verification checks.

All managed and franchised pubs receive test purchase visits during the year.

We celebrate our local communities

Why this matters to us

Our breweries and pubs have a long and rich tradition of involvement with their communities. We recognise the importance of these local relationships to the success of our heritage beer brands, and the long-term success of our pubs. We encourage our operators to participate in Best Bar None, Pub Watch and Purple Flag schemes where they exist. Each year we involve ourselves actively in community events such as beer festivals, carnivals, coffee mornings, family fun days and carol services. We support many charities and fundraising activities within our communities. We donate to Pub is the Hub each year, which supports pubs diversifying within often small rural communities to incorporate local stores, play areas, postal services and libraries.

What we have done this year

- Community Heroes Week – May 2018. For a week in May our Head Office teams led the way in a number of charity fundraising activities, including cycle riding, an exercise boot-camp, car washing, raffle and BBQ. Our retail managers had the opportunity to bid for an Area Manager to run their pubs for a day. Our pub teams were invited to compete and win funds for their own charities. Over 500 of our pubs took part, raising funds for their own charities. Our Taverns operations team also got involved with a sponsored challenge to carry a barrel of Jennings ale around Lake Buttermere.

- Found in modern cities, market towns and rural villages, our community pubs all have an individual feel and are designed to meet the needs of the local people in the area. We are renovating around 150 pubs across Taverns each year to help bring communities together.

CR targets this year and how we have performed

1. Encourage our pubs to engage with their local communities

Marston's Community Heroes Campaign launched this year, encouraging all our Taverns pubs to run activities to raise funds for local charities of their choice.

2. Broaden our engagement with the youth charity OnSide

Developing the connection we have in Wolverhampton with The Way, a youth centre with over 2,500 members, we have reached out to other youth centres run by OnSide. We intend to further strengthen this link in the year ahead.

3. To match any contributions made to charities by our staff through the payroll

We have matched the contributions of our employees to both the Marston's Inns and Taverns Charitable Trust and the Marston's Employee Charitable Fund.

Corporate Responsibility continued

We reduce our environmental impact

Why this matters to us

We believe in the importance of reducing our environmental impact. The environmental impact is monitored continually for our pubs, breweries and logistics operations. We publish online our emissions at **www.marstons.co.uk/responsibility/environment**.

What we have done this year

- The majority of our energy is used within our pubs for heating, cooking, refrigeration and lighting. In recent years we have reduced the energy demand in our pubs by investing in greater efficiency: installation of LED lamps, more energy-efficient catering equipment, voltage optimisation, heating controls and cellar cooling.
- Marston's takes its environmental responsibilities seriously and continues to make good progress in implementing innovative technological solutions to reduce the use of resources, minimise waste and increase efficiency. Through educating and training employees in food waste management, we have reduced the amount sent to landfill. We have:
  - internally engaged with our staff to help save energy and reduce waste throughout the business (see our promotional video Wise Up to Waste at: **www.marstons.co.uk/responsibility/environment**);
  - actively monitored and engaged with our pubs to ensure compliance with waste and recycling regulations; and
  - achieved a 85% rate of recycling this year, compared to 44% ten years ago. We believe in thinking creatively, following the principle of the circular economy; this year we turned the pub garden at The Sun, Romsley, into one entirely made from recycled plastic, including recycled plastic lumber for walkways.
- We have spent £0.5 million on a new boiler at Wolverhampton in order to reduce gas consumption and emissions. A 500 tonne crane was necessary to lift the 28 tonne boiler into place across buildings.

CR targets this year and how we have performed

1. Zero waste to landfill

Marston's is the first in its sector of equivalent sized businesses to be operating as zero waste to landfill. The equivalent of 17 Olympic swimming pools could be filled with all the glass we recycled last year. Our breweries recycled 25,000 tonnes of grain as animal feed.

2. Aim to manage CO_2 emissions in relation to activity

Despite an increase in Group activity and a harsh winter our energy usage has remained fairly flat. Expressed as a ratio of revenue our emissions have decreased by 4% compared to last year.

3. Increase food recycling

Food recycling is now taking place in 78% of sites with a food offering, compared to 60% two years ago.

Our future plans

We invest in people

- Maximise the contribution to performance our PCDR process brings.
- Further increase our focus on apprenticeships as a key lever in attracting, developing and retaining great talent for our business – including the introduction of a work experience programme to attract future young talent into our business.

We partner with suppliers who share our values

- Next year we would like to explore the possibility of an ingredients supplier charter for our beer production.
- For our pub food we will continue to survey our customers' preferences and work with suppliers to deliver innovative and exciting offers.

We care about our customers' wellbeing

- We are trialling a digital safety system to replace the manual recording of hygiene and hygiene checks, to provide a greater oversight and compliance.
- We are engaged with Public Health England and the Childhood Obesity Plan.

We celebrate our local communities

- We are looking at opportunities to grow the Community Heroes Campaign, including taking part in our own Volunteering Day, collecting for two local foodbanks.
- Next year we intend to run our Community Heroes Week again in order to encourage the fundraising activities of our pubs.

We reduce our environmental impact

- We are working with suppliers to reduce the plastic delivered to our premises, for instance, replacing vegetables delivered in plastic bags with cardboard crates.
- We are looking at using cardboard packaging on our multipacks of bottles and cans.
- We have stopped handing plastic straws to customers unless asked to (a 65% reduction in plastic straws), and we are investigating environmentally friendly alternatives. We have removed plastic stirrers completely (over 1 million a year).
- In 2017 Marston's became only the third company in the country to acquire a water self supply licence. We intend to use this opportunity to drive greater efficiency and monitoring of consumption.
- New and expanding electric car charging network.

For more information please see our Corporate Responsibility Report at **www.marstons.co.uk/responsibility**.

MARSTON'S ENERGY HEROES

Governance

CARVERY
THE STATION PILOT
JENNINGS
CUMBERLAND
61 DEEP
PALE ALE
THE STATION PILOT
DE14
SHIPYARD
AMERICAN
IPA

Chairman's Introduction

William Rucker
Chairman

Good governance is fundamental to achieving our aim of making Marston's 'The Place to Be' for our people, our customers, our shareholders and other stakeholders.

Dear shareholder

As I begin my Chairmanship of Marston's, I am pleased to present our Governance Report to you. This review, together with the reports that follow from each of the Nomination, Audit and Remuneration Committees, provides an overview of our key governance activities and practices during the period.

During my initial induction programme I have witnessed the unique and special culture at Marston's. Whether at our pubs, in our breweries, out on the road or within our business support functions based at our head office, Marston's people are engaged, passionate about our business and its heritage, and take pride in doing things properly. These values are echoed throughout the organisation and, in my short time with the Group, it is clear that the Board sets the tone from the top. More details on my continuing induction programme are set out on page 47 of this report.

My fellow Directors and I believe that good governance is fundamental to achieving our aim of making Marston's 'The Place to Be' for our people, our customers, our shareholders and other stakeholders. Our governance framework, set out on the following page, continues to support the delivery of our strategic priorities and helps to protect the interests of all our stakeholders. The 2016 UK Corporate Governance Code (the 'Code') has applied throughout the reporting period under review and I am pleased to confirm that the Board considers it has fully complied with the principles of the Code.

In July 2018, the Financial Reporting Council published the 2018 UK Corporate Governance Code (the '2018 Code'). The new 2018 Code places emphasis on businesses building trust by forging strong relationships with key stakeholders. I believe that Marston's already demonstrates this, as evidenced in our Strategic Report. The 2018 Code will apply to the Company for the 2019/20 reporting period and, over the coming months, the Board and Committees will focus on the new requirements to ensure we are ready to report on our compliance in 2020.

Board effectiveness

I would like to take this opportunity to thank my predecessor, Roger Devlin, who leaves a diverse, balanced Board with the right mix of skills and experience to continue to grow and steer our business in the right direction. Profiles of each Director, together with information on their experience relevant to the Group, are set out on pages 42 to 43. I would also like to thank Carolyn Bradley who accepted the role of Interim Chairman during the period and managed the recruitment process which led to my appointment. Carolyn was also responsible for the most recent Board evaluation, the findings of which were discussed in detail at the September Board meeting; a summary of the agreed actions, plus progress on the actions from the 2017 evaluation, are set out on page 46. In line with the Code, next year's evaluation will be conducted by an external facilitator.

UK Corporate Governance Code compliance statement

The version of the Corporate Governance Code applicable to the current reporting period is the April 2016 UK Corporate Governance Code. The Code is available on the Financial Reporting Council's website **(www.frc.org.uk)**.

Marston's PLC was compliant with all relevant provisions of the Code during the reporting period under review.

Governance Report

We have used the key themes of the Code to structure this report:

1. Leadership
For our governance framework, management structure and roles see page 41.

2. Effectiveness
For details of this year's Board evaluation, training and induction, and diversity details see page 46.

3. Shareholder relations
For details of our engagement with shareholders see page 49.

4. Accountability
Details of our internal processes and our Audit Committee's report start on page 51.

5. Remuneration
Details of payments made to Directors are set out on pages 53 to 62.

Board and Committee succession

As announced last year, following the retirement of Nick Backhouse after the Annual General Meeting ('AGM') in January 2018, Matthew Roberts took over as Chair of the Audit Committee. Robin Rowland has indicated his intention to retire from the Board in August 2019 when he will have reached nine years' service. I would like to thank Robin on behalf of the Board for his valued and continuing contribution to Marston's during his tenure with the Group. Board succession strategy is a key focus for the coming year and will inform our decision on a successor for Robin. Further details on the Board's composition are given on page 41.

Remuneration and engagement with shareholders

Details of how we have applied our current Remuneration Policy (approved by shareholders at the 2017 AGM) are provided in the Directors' Remuneration Report on pages 53 to 62.

Audit

The Audit Committee has continued to focus on the integrity of our financial reporting and internal controls, together with the new requirements of the Pubs Code Regulations. The Committee has reviewed and approved the Company's first annual compliance report and further details are set out in the Audit Committee Report on pages 51 to 52.

William Rucker

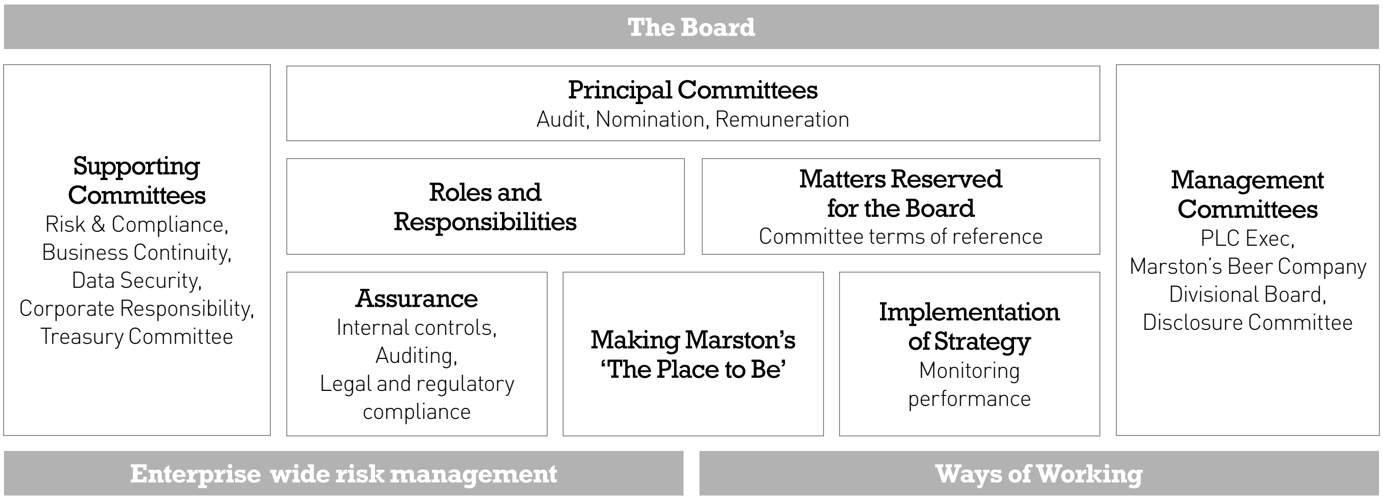
Chairman

21 November 2018

Corporate Governance Report

1. Leadership

Governance framework



This report describes our corporate governance structures, procedures and the work of the Board, its Committees and management, and how we have applied the main principles of the UK Governance Code. Marston's PLC was compliant with all relevant provisions of the Code during the reporting period under review.

The Board considers its role is to provide guidance and effective leadership by setting the strategic direction of the Group and overseeing management's implementation of the strategy. Its vision is to set high standards of behaviour in the way we work, ensuring we have good relationships with our shareholders and stakeholders. Our Ways of Working support our ambitions and purpose, and sustain our unique and special culture.

The Board is responsible for ensuring that it maintains the necessary skills, experience and knowledge to discharge its responsibility for the long-term success of the Group.

There are formal arrangements in place for sharing information, encouraging strategic debate and facilitating informed and timely decision-making. The Board is supported by the PLC Executive Committee (PLC Exec) which consists of key members of Marston's senior management team.

Matters Reserved for the Board

Main matters relate to: strategy, major capital expenditure, acquisitions and disposals, capital structure and financial results, internal controls, governance and risk management, Committee membership, and terms of reference. The schedule, last reviewed in September 2018, is available on the Company's website.

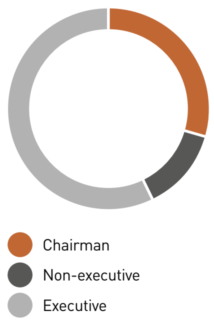
The Management Committees meet on a regular basis to oversee the implementation of strategy and monitor performance.
The Supporting Committees provide assurance to the Board on the operation of internal controls, auditing and compliance with legal and other regulatory obligations. This framework is supported and enabled by the risk management process (see page 28) and our Ways of Working (see page 15).

Board composition

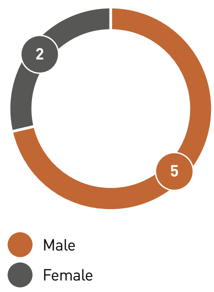
Our Board currently comprises an independent Non-executive Chairman, a Senior Independent Director, three further independent Non-executive Directors and two Executive Directors, supported by the Group Secretary. There is a clear division of responsibility between the roles of the Chairman and the Chief Executive Officer which are set out in writing and agreed by the Board.

We consider all of our Non-executive Directors (NEDs) to be independent and the charts below portray the balance and tenure of the Board as at the date of this report.

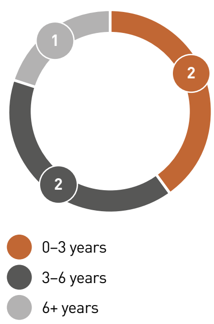
Balance between Executive and Non-executive Directors



Male/female representation on the Board



Tenure of Chairman and Non-executive Directors



Board of Directors

Chairman

William Rucker

Independent
Yes

Appointed to the Board
October 2018

Qualified Chartered Accountant

Other appointments
Chief Executive Officer of Lazard UK

Chairman of UK Dementia Research Institute

Past experience
Chairman of Crest Nicholson Holdings plc

Chairman of Quintain Estates and Developments

Non-executive Director of Rentokil Initial plc

Executive Directors

Ralph Findlay Chief Executive Officer (CEO)

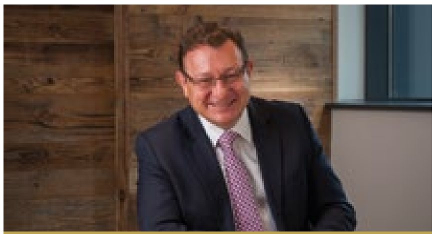
Independent
No

Appointed to the Board
May 1996

Initially appointed Finance Director in 1996, becoming CEO in 2001

Qualified Chartered Accountant and Treasurer

Other appointments
Senior Independent Director and Chair of Audit Committee at Bovis Homes Group PLC



Andrew Andrea Chief Financial and Corporate Development Officer (CFO)

Independent
No

Appointed to the Board
March 2009

Joined the Company in 2002

Qualified Chartered Accountant

Other appointments
Non-executive Director at Portmeirion Group PLC

Past experience
Roles held at Guinness Brewing Worldwide, Bass Brewers Limited and Dolland & Aitchison

Non-executive Directors

Matthew Roberts

Independent
Yes

Appointed to the Board
March 2017

Other appointments
Chief Financial Officer of Intu Properties Plc

Past experience
Chief Financial Officer of Gala Coral Group Limited

Finance Director of Debenhams plc

Catherine Glickman

Independent
Yes

Appointed to the Board
December 2014

Other appointments
Non-executive Director of TheWorks.co.uk PLC

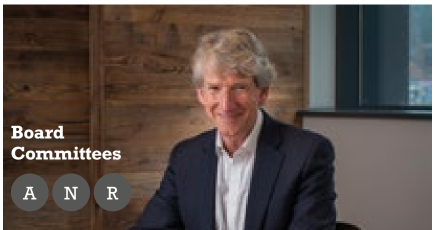
Non-executive Director of Renishaw plc

Non-executive Director of RPS PLC

Member of the Institute of Personnel and Development

Past experience
Group HR Director at Genus Plc

Group HR Director at Tesco



Robin Rowland

Independent
Yes

Appointed to the Board
September 2010

Other appointments
Non-executive Director of YO! Sushi Limited

Non-executive Director at Caffè Nero Group Limited

ALMR Board Director

Operating Partner at TriSpan LLP

Past experience
Roles held at Whitbread Inns, The Restaurant Group Plc and Scottish & Newcastle Plc

Senior Independent Director

Carolyn Bradley

Independent
Yes

Appointed to the Board
October 2014

Other appointments
Trustee of Cancer Research UK

Non-executive Director of Majid Al Futtaim Retail LLC

Non-executive Director of SSP Group plc

Non-executive Director of B&M European Value Retail S.A.

Non-executive Director at Legal and General Group Plc (until 31 December 2018)

Past experience
UK Marketing Director at Tesco

Trustee of the Drink Aware Trust

Key

A Audit Committee

N Nomination Committee

R Remuneration Committee

* Denotes Committee Chairman

Group Secretary

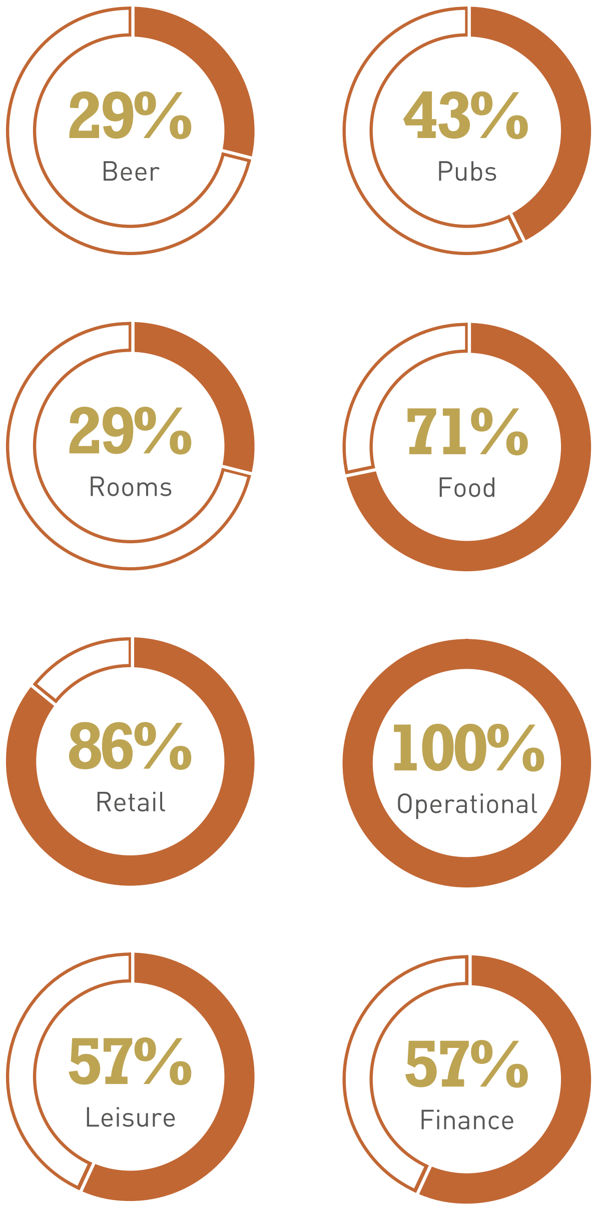
Anne-Marie Brennan

Appointed as Secretary
October 2004

Joined the Company in 1998

Qualified Chartered Secretary and Chartered Accountant

Skills and experience of our Directors that are complementary to our business



Corporate Governance Report continued

Roles and responsibilities

There is a clear division of responsibility between the roles of the Chairman and the Chief Executive Officer (CEO) which are set out in writing and agreed by the Board. The key responsibilities for each Board member are set out below.

Chairman

William Rucker is responsible for:

- The operation, leadership and governance of the Board.
- Safeguarding the effectiveness of the Board.
- Setting the agenda, style and tone of Board discussions with a particular focus on strategic matters.
- Ensuring each Non-executive Director makes an effective contribution to the Board.
- Ensuring, through the Group Secretary, that the Directors receive accurate, timely and clear information.

Senior Independent Director

Carolyn Bradley is responsible for:

- Acting as a 'sounding board' for the Chairman and an intermediary for the other Directors.
- Acting as Chairman if the Chairman is conflicted.
- Leading the Non-executive Directors in their annual assessment of the Chairman's performance and providing feedback.
- Acting as a conduit to the Board for the communication of shareholder concerns that the normal channels have failed to resolve, or for when such contact would be inappropriate.

Non-executive Directors

The roles of Catherine Glickman, Robin Rowland and Matthew Roberts are to:

- Constructively challenge proposals on strategy.
- Contribute to the development of longer-term strategy.
- Meet with the Chairman, at least annually, without the Executive Directors being present.
- Scrutinise management performance in the delivery of strategic objectives.
- Monitor operational and financial performance.

Chief Executive Officer

Ralph Findlay is responsible for:

- The performance of the Group in line with the strategies and objectives established by the Board and under powers delegated by the Board.
- Ensuring the Board is supplied with information relevant to its strategic role.
- Leading the PLC Exec and senior management in the operational and financial management of the business.
- Providing clear and visible leadership in business conduct.
- The effective and ongoing communication with shareholders.

Chief Financial and Corporate Development Officer

Andrew Andrea is responsible for:

- Working with the CEO to develop and implement the Group's strategic objectives.
- Managing the capital structure and projecting the long-term financial picture of the Group.
- Delivering the financial performance and timely and accurate financial reporting of the Group.
- Ensuring that the Group remains appropriately funded to pursue its strategic objectives.
- Investor relations activities (and communications to investors) with the CEO.

Group Secretary

Anne-Marie Brennan is responsible for:

- Framing the agenda for the Board and Committee meetings and ensuring effective information channels within the Board and its Committees, and between senior management and Non-executive Directors.
- Advising on regulatory compliance and corporate governance.
- Facilitating individual induction programmes for Directors and assisting with their development as required.
- Communications with retail shareholders and organisation of the AGM.
- Chairing the Risk & Compliance Committee and Data Security Committee.

Management Committees

The PLC Exec comprises the CEO, CFO, Managing Director (MD) of Marston's Beer Company (MBC), Group Estates Director, Group People Director, Group Secretary and each of the Operations Directors of Destination, Premium and Taverns. It meets monthly to review operational performance, controls and people development; consider property proposals, capital investment and new initiatives; and to approve internal policies, governance and financial matters within the authority limits delegated by the Board.

MBC has a separate management board owing to the breadth of operations within the division. The MBC Board comprises the MD, Director of Finance and Customer Services, Director of Brewing, Director of Logistics, Director of Sales (Free Trade), Director of Sales (National), Brands Marketing Director, Group People Director and the Head of Technology Services. The division's strategy is presented to the PLC Board for approval each year and the extent of their autonomy is determined by this strategy and the Group's financial authority limits. The MBC Board meets on a regular basis to review the operational performance of each channel, capital investment proposals, people development and strategic initiatives.

Board agenda and activities during the year

The Board's agenda comprises a combination of regular business matters and a forward agenda of other specific matters for consideration. The agenda for each meeting is prepared by the Group Secretary and agreed with the Chairman and CEO. This ensures sufficient time is devoted to key business matters at the appropriate time and the agenda remains flexible to accommodate the addition of any specific items for discussion as required.

Standing items and regular reports cover the Group's financial position, risk management, regulatory compliance and consumer insight. Updates on activities across each operating division and performance against targets are reported to the Board in a monthly summary of key business operations. Board papers are circulated in advance of each meeting to ensure that Directors have sufficient time to review them before the meeting. Items considered during the period include:

Strategy	Customer Focus and Business Operations	Leadership and People Development	Governance	Shareholder Focus
Annual strategy day	Warehousing capacity and proposals	Key personnel succession planning	Annual evaluation of the effectiveness of Board and Committees	Fair, balanced and understandable review of results and Annual Report and Accounts
Annual plan	Retail systems update	Senior leadership talent review	Matters Reserved for the Board and delegated authorities	Dividend proposals
Acquisition of pubs package	Health, safety and food hygiene review	Gender pay gap reporting	Group risks and risk management review	Going concern and Viability Statement review
Financing proposals	Briefings and updates on GDPR, CO_2 and Brexit	Triennial pension valuation	Assessment of key business and financial controls	AGM preparation
Review of sector activity and company valuations	Electric car charging proposals	Pension scheme accounts	Pubs Code update	Shareholder feedback and perceptions
	Annual insurance renewal		Modern Slavery Statement	
	Property disposals		Corporate responsibility and environmental update	
	Insight presentation on World Beers category		Internal restructuring of Group subsidiary companies	
	Canning line investment		Appointment of Interim Chairman	

Corporate Governance Report continued

Board and Committee meeting attendance

The Board met ten times during the year, allowing sufficient opportunities to effectively challenge and monitor the Group's progress against its strategic objectives and within the governance framework. The increased number of Board and Committee meetings was due to the recruitment of the new Chairman.

The three principal Committees of the Board deal with financial and risk matters, remuneration and succession planning. Each has its own terms of reference which are regularly reviewed and updated by the Committee before they are considered and approved by the Board. Reports from each Committee can be found on pages 48, 51 and 53. The table below shows each Director's attendance throughout the year:

Name	Board	Nomination	Audit	Remuneration
Andrew Andrea	10/10	–	–	–
Nick Backhouse[1]	3/3	1/1	1/1	–
Carolyn Bradley[2]	10/10	7/7	2/2	4/4
Roger Devlin[3]	6/6	2/2	–	–
Ralph Findlay	10/10	7/7	–	–
Catherine Glickman	10/10	7/7	–	4/4
Robin Rowland	10/10	7/7	3/3	4/4
Matthew Roberts	10/10	6/7	3/3	–

1. Nick Backhouse stepped down from the Board with effect from 23 January 2018.
2. Carolyn Bradley joined the Audit Committee with effect from 23 January 2018.
3. Roger Devlin stepped down from the Board with effect from 31 May 2018.
4. William Rucker was appointed Chairman on 1 October 2018 and as part of his induction attended the September Board meeting.

2018 strategy day – on the agenda

In addition to regular ongoing strategic discussions, the Board holds an annual strategy day offsite. This enables the Board to focus in-depth on the strategy, its implementation and progress. In 2018, all of the PLC Exec attended the strategy day to contribute to the debate around the continued development of strategy. The Non-executive Directors were also able to engage with the PLC Exec members over an informal dinner. The key themes of the strategy day comprised:

- General market trends, core activities and priorities, performance and leverage.
- Five-year financial plan, lease accounting and corporate opportunities.
- Pub estate expansion and opportunities for property development.
- The evolution of Destination pubs from value for money to value for experience.
- The operational challenges and opportunities in achieving the beer business vision.

Presentations were received from the Directors of Destination Pubs, the beer business and Property. These informed the discussions and considerations of the wider market trends and the five-year financial plan. The Board and PLC Exec heard how Destination had simplified its internal structures and menu formats to focus on customer innovation and experience as well as increasing spend per head. The beer business outlined its opportunities for further significant growth, supported by a strong insights team that ensures the business remains focused on the right areas. The reduction in the new-build programme has allowed the Property team to review previous openings, including land use, for opportunities to improve returns. As a result, more robust selection criteria and greater use of data analytics, together with a more inclusive decision-making process, have been adopted.

2. Effectiveness

Commitment

Significant commitments of the Directors held outside of Marston's are disclosed prior to appointment and on an ongoing basis where there are any changes. Actual and potential conflicts of interest are regularly reviewed. The Board has authority, under the Articles of Association, to authorise potential conflicts of interest and to impose any limits or conditions it sees fit. All of our Directors are required to allocate sufficient time to the Company to discharge their responsibilities effectively and this is reviewed by the Chairman as part of the annual evaluation process. During the year Carolyn Bradley and Catherine Glickman consulted with the CEO and Chairman before accepting their other external Board appointments.

Board evaluation

The annual Board evaluation is carried out in the final quarter of the year and this year's review was co-ordinated by the Interim Chairman in preparation for the arrival of the new Chairman. The evaluation was limited to a questionnaire completed by all Board members and it was agreed that matters in progress and points raised would be taken up by the new Chairman but that overall the Board were positive about its own workings. Agenda items and the request for more site visits will be incorporated into the forward agenda planning.

Agreed action points, together with an update on progress against the action points from the 2017 evaluation, are shown below.

Board evaluation summary

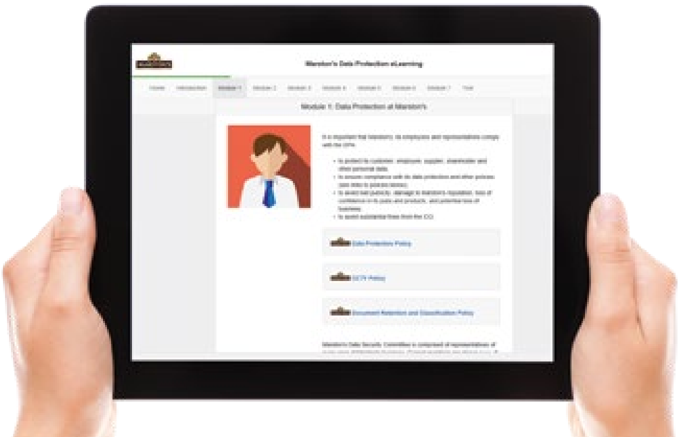
Our 2017 recommendations	Update	Our 2018 recommendations
Senior management to attend Board meetings on a regular basis.	The PLC Exec and other senior management have attended Board meetings on a regular basis including this year's strategy day.	A review of the succession planning strategy.
Future presentations requested on employee and customer feedback.	The Board has received an update on employee feedback and the next consumer insight presentation is scheduled for December.	Board papers to contain more insight data where relevant.
Board meetings to be held at our pubs and brewery sites when practicable.		More time to be spent by the Board in trade and at beer business sites.
NEDs to meet 2-3 times per annum without the Executive Directors; the CEO to be invited occasionally.	The NEDs has met several times during the year without the Executive Directors, and the CEO joined them on one occasion.	Board meetings to be held at various Company premises.
Strategy day papers to adopt a more rigorous review of evidence-based data to support proposals.	Presentations to strategy day were supported by more external market data.	Consideration of the investor register; engagement and objectives of stakeholders.

Training and development

Since joining the Board, the new Chairman has met with each Director to discuss their views on the Board's effectiveness as well as their own contribution. To ensure that each Director continues to update their knowledge and familiarity with the business, a more formal site visit programme has been introduced. Aimed at providing the Non-executive Directors with a better understanding of business operations, it provides focus on specific pub operations, the beer business and Group Services. In addition, the NEDs attend external technical seminars offered by professional advisers and the Group Secretary continues to ensure appropriate briefings are provided to the Board on compliance and regulatory matters of particular significance to the Group. During the year the Board received briefings on the implications of, preparations for, and ongoing compliance with GDPR. The Group Secretary advises the Board on all governance matters and is available to all Directors in an advisory capacity. If necessary, Directors may seek independent professional advice at the Group's expense in the performance of their duties.

The Group's induction programme is tailored to each individual Director joining the Board and comprises a combination of meetings, briefings and site visits. The Group Secretary met with the new Chairman to discuss the initial areas of focus and priority before finalising his induction programme. As part of this introduction, William Rucker has met with the CEO, CFO and Group Secretary to discuss the Group's strategy, organisational structures and governance framework as well as financing structures and the five-year financial plan. Further meetings have taken place with the Company's brokers, Financial PR advisers and external Audit partner. Online training has been completed for particular areas of compliance (Data Protection and Competition Law) and one-to-one meetings have been held with the Corporate Risk Director, the Group Head of Health & Safety and Group People Director. William has also spent time familiarising himself with the business by spending time out in trade visiting pubs with each Pub Operations Director and the Group Estates Director; in addition he has visited one brewery with a day arranged to visit a second brewery and a depot with the MD of MBC, during which time he has also learned about the growth plans and challenges of the beer business. The Chairman has already met with a number of major shareholders to listen to their views and further meetings will be scheduled in the new year.

Online training has been completed for particular areas of compliance



Our approach to diversity

The Board, through the CEO, takes overall responsibility for diversity and equality across the Group. Catering for the preferences of our many different customers is fundamental to our business and therefore it is essential that we consider diversity in our decision making processes. We recognise the importance that equality legislation has to play in promoting equality and eliminating unlawful discrimination and we seek to exceed our legal obligations.

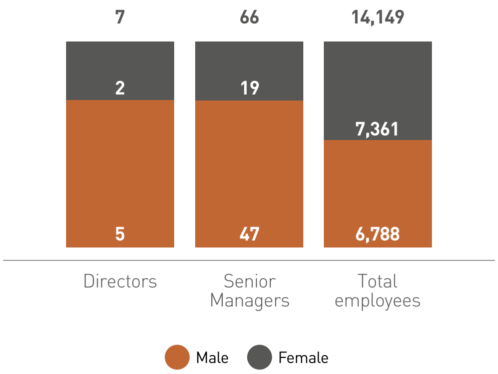
In recent years female representation in senior roles in pub management, Brewing, logistics and Group Services has increased and we are committed to ensuring that this will continue. Our view has been that the best way to increase senior female representation is to ensure equality of opportunity at all levels, and that more appointments of women in junior roles will result in well qualified, experienced female talent coming through the business to take senior roles in the future. Similarly, where we recruit new candidates into our business, whilst we will always appoint the most qualified for the role, we have used this as an opportunity to bring females into senior roles.

This year, having signed up to the Diversity in Hospitality, Travel and Leisure Charter, we have further strengthened our approach to diversity by extending our work to include a focus on inclusion. We understand that simply having diversity in our workforce is not enough; we must create an inclusive environment where all people can contribute their best work. Our focus has been on including and engaging with the uniqueness and talents, beliefs, backgrounds, capabilities and ways of working of individuals. We are continually developing our culture in which people are valued and respected. By embracing employee inclusion and diversity, we know we can draw on the best talent, contribution and commitment from all backgrounds, as does all of our work within our People Strategy.

Both our equal opportunity and our diversity and inclusion policy can be found on our website. These polices are also reflective of our Ways of Working which are shared throughout Marston's.

Gender diversity

Number of employees at 29 September 2018:



Re-election of Directors

With the exception of William Rucker (who will offer himself for election by shareholders at his first AGM), all Directors will offer themselves for re-election at the AGM. Details of each Director serving on the Board at the date of this report are set out on pages 42 to 43 and shall be set out to shareholders in the papers accompanying the re-election resolutions for the AGM. The Board is of the opinion, supported by the Nomination Committee, that each Director continues to make an effective and valuable contribution and demonstrates commitment to his or her role.

Nomination Committee Report

William Rucker
Chairman of the Nomination Committee

Dear shareholder

In my new role as Chairman of the Nomination Committee I am responsible for writing this report on the activities of the Committee, but all credit should go to my predecessors: Roger Devlin who left the Board in May 2018 and Carolyn Bradley, our Senior Independent Director, who stepped up to act as Interim Chairman until the end of the financial year. I look forward to developing the role of the Committee in the coming year to provide a succession planning strategy linked to addressing the future needs and challenges of the business. Much of what I report here is on behalf of Carolyn Bradley who has now resumed her previous role.

Our approach to Board diversity

We continue to take note of the guidance provided and we require search agencies that we engage with to have signed up to their industry's Voluntary Code of Conduct addressing gender diversity. We will continue to make appointments on the basis of merit and, as such, have not set a specific target for numbers of female Directors. However, we do recognise the benefits that greater diversity can bring and take into account such factors when considering any particular appointment. Currently, two of Marston's seven Board Directors are female. Two members of our PLC Exec are female and 28% of our senior management population are female.

Re-election and evaluation

The Committee considered the time required from each Non-executive Director, their effectiveness and the experience brought to the Board. I believe that the tenure of each Board member provides the right balance, together with their broad range of skills and relevant experience. Noting that Robin Rowland will have reached nine years on the Board by August 2019, he has indicated his intention to step down at that time.

In accordance with our terms of reference, the Committee has also considered its own effectiveness during the year. This allows an opportunity for us to formally review the way we work and whether the strategy for discharging our duties remains appropriate. Reflecting on the recruitment process during the year and the duties set out in the terms of reference, the Committee is satisfied that it remains effective in discharging those duties.

Having discussed their personal effectiveness and commitment with each Director in individual meetings, I have concluded that the performance of each Board member continues to be effective and I therefore recommend to you each Director standing for re-election at the 2019 AGM.

William Rucker

Chairman of the Nomination Committee

Membership

William Rucker (Chairman)

Carolyn Bradley

Ralph Findlay

Catherine Glickman

Robin Rowland

Matthew Roberts

Our responsibilities

- To ensure the Board and its Committees have the right balance of skills, knowledge and experience.
- To plan for the orderly succession of Directors to the Board and other senior managers.
- To identify and nominate suitable candidates for Executive and Non-executive Director vacancies having regard to, amongst other factors, the benefits of diversity.

Attendees

Other Executive Directors, senior management and external advisers may be invited to attend meetings.

Terms of reference

Full terms of reference of the Committee can be found in the Investors section of the Company's website.

Key activities during the reporting year

- Recruitment of new Chairman.
- Ensuring that succession planning is aligned with the ongoing leadership requirements of the business.
- Considering the composition of Board and Committees.
- Reviewing the contribution and tenure of each Director before recommending for re-election by shareholders.
- Considering future succession planning for the Board.

Developing the Non-executive team

Audit Committee Chairman and membership

At the conclusion of the 2018 AGM in January, Matthew Roberts took over as Chairman of the Audit Committee from Nick Backhouse when he retired from the Board. At the same time, Carolyn Bradley joined the Committee. Matthew has provided robust scrutiny and challenge using his financial experience as a Chartered Accountant and current CFO of Intu Properties Plc.

Executive management

Having restructured the pubs business last year, the Committee has continued to monitor the level of visibility and accountability for performance by non-Board members. Each of the Pub Operations Directors has attended a number of Board meetings throughout the year at which they have provided an update on performance and presented their plans for FY2019 as well as taking part in wider discussions. On this basis the Committee is satisfied that the Board continues to effectively discharge its duties with two Executive Directors.

Recruitment of Chairman

Before commencing the search for a new Chairman, the Committee met to consider the desired skills, personal attributes and experience required for the role in the light of the future needs and challenges of the business. In addition we discussed the recruitment process and identified the criteria for selecting a search agency.

A panel of four, comprising myself, Ralph Findlay, Matthew Roberts and Anne-Marie Brennan were appointed to manage the selection process whilst ensuring that all Directors were involved at the various stages. The panel met with four search agencies to assess the firm that best demonstrated their understanding of the business and the critical factors in identifying the next Chairman. Following these meetings, the panel recommended and the Board appointed Russell Reynolds to act on behalf of the Company in its search for a new Chairman.

A long list of potentially suitable candidates was presented for the Committee's consideration from which the first round candidates were identified for interview by the panel. The panel were unanimous in their selection of the shortlist based on the relevance of each individual's skills, experience and attributes to the criteria already identified. Each of these shortlisted candidates were then invited to spend time in the business with the CEO and CFO to gain insight into the business and to enable the candidate to assess what would be required of them over time in the role as Chairman. I then met with each of the shortlisted candidates to discuss their initial feedback and thoughts on the role and the business. The Board took references, and soundings from the Company's advisers, before concluding that the City and financial experience of William Rucker, together with his wider skills (emotional intelligence, strong stakeholder management skills and ability to help businesses grow) and previous Chairman roles, made him the ideal candidate.

Carolyn Bradley

Senior Independent Director

3. Shareholder relations

Engagement with our shareholders is essential to ensure that Marston's attracts and retains long-term investors who support our strategy. Meetings and communications focus on providing updates on progress against strategy, clarifying understanding of the business and an opportunity to listen to feedback. Following meetings with the CEO and CFO to present the half year and year-end results, the Board receives formal feedback from analysts and institutional shareholders. The views and any concerns are considered by the Board and, in particular, whether any action or response is appropriate. The Chairman and Senior Independent Director make themselves available for meetings with the Company's major institutional investors each year but none were taken up this year. The Chairman and Senior Independent Director will be inviting the governance teams of the Company's top investors to a meeting to discuss governance-related strategic matters.

The investor relations programme is managed by the Executive Directors and focuses on engagement with institutional shareholders, fund managers and analysts. Details of our Analysts Day in June are set out on the following page. The CEO and CFO meet with private client fund managers on a regular basis and at several locations to discuss strategy, performance, management and governance. The key topics discussed with investors this year covered:

- Current market conditions
- Consumer trends
- The share price performance
- The expansion into lodges
- The impact of the World Cup on trading
- The debt position

On behalf of the Board, the Group Secretary oversees communication with private individual shareholders. The key source of communication is through the corporate section of the Marston's website which provides general information on the business as well as details of our responsible approach to business. The shareholder section provides share price information, financial calendars, results presentations and regulatory announcements. The Annual Report and Accounts is the main tool for providing a comprehensive review of the business, details of our governance framework in action and annual results. All shareholders have the opportunity to communicate directly with the Board of Directors at the Company's AGM. Prior to the formal business of that meeting, the CEO presents a summary of trading performance and developments in the business over the financial period after which shareholders are invited to ask questions. All Directors attend the AGM and the Chairman of the Board and each Committee are available to answer questions during the meeting. The senior management team are also in attendance and meet with shareholders before and after the meeting to assist with questions and understanding.

To allow all shareholders whether present in person, by proxy or unable to attend, to vote on all resolutions in proportion to their shareholding, the voting at the AGM is conducted by way of a poll. The Company releases the results of voting including proxy votes on each resolution, on its website on the next business day and announces them through a regulatory news service. Details of the 2019 AGM are set out in the separate Notice of Meeting.

Corporate Governance Report continued

Analyst Day: June 2018

Leisure-sector analysts were invited to visit various pubs in Kent, including The Spring River at Ebbsfleet, our new 104 bed lodge and pub site, to hear presentations from the Operations Director of Destination Pubs and the Group Estates Director. The Destination presentation set out our plans for increasing margin by delivering 'value for experience' and reducing complexity to drive efficiency and innovation and increase spend per head. The Group Estates Director explained the growth opportunities in hotel development and the evolution of our build design. Copies of both presentations are available on the Corporate section of the Marston's website.

Shareholder engagement summary: key communication channels

Institutional shareholders and analysts	Private client fund managers	Private shareholders
Rolling investor relations programme	Regular meetings with CEO and CFO	AGM with full Board and senior management present
Bi-annual written feedback received		Annual Report and Accounts
Chairman and SID available to meet with largest shareholders		Website

Analysis of shareholder register by investor type

Private client fund managers	29.70%
Private investors	13.25%
Institutional investors	57.05%

4. Accountability

Fair, balanced and understandable assessment

It is a requirement of the Code that the Board should consider whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable. To support this assessment, comprehensive reviews are undertaken at regular intervals throughout the year-end process by senior management.
The preparation of the Annual Report and Accounts is co-ordinated by the Company Secretariat team with significant input from the Finance team and support from other contributing colleagues across the Group. Drafts of each section of the Annual Report and Accounts are submitted to Board meetings prior to publication, allowing sufficient time to review and provide an opportunity for challenge and discussion, ahead of approving the final documents. In addition, the external Auditors review the consistency between the narrative reporting and financial disclosures.

Compliance

Marston's Risk & Compliance Committee, a supporting committee within our governance framework, monitors all areas of legal and regulatory compliance across the Group. The Committee meets quarterly, and includes representatives from across the business, in order to consider the impact of any emerging areas of legislation, the effectiveness of our internal systems and challenges to current compliance processes.

Risks and internal controls

The Group's approach to risk management, systems and internal controls is explained as part of the Strategic Report on pages 28 to 34.

Audit Committee Report

Matthew Roberts
Chairman of the Audit Committee

Dear shareholder

As Chairman of the Audit Committee, I am pleased to present the Audit Committee's Report for the period ended 29 September 2018.

Following the retirement of Nick Backhouse after the 2018 AGM, I became Chairman and Carolyn Bradley joined the Committee, which continues to comprise three independent Non-executive Directors. Each Committee member brings their own financial and business experience to effectively assess the external and internal audits of the Group and the internal control and risk management systems. The Board is satisfied that I meet the requirements of the Code as having recent and relevant financial experience.

Throughout the year we have continued our focus on the integrity of financial reporting and internal controls, challenging and debating the reports presented to us. In addition, we continue to monitor changes in regulation and the potential impact on the Group's financial reporting and systems. The Committee reviews the assurance process and risk management framework on a regular basis to ensure that it remains appropriate and provides a robust assessment of the principal risks to the business. This review and assessment is further supported by the Internal Audit team. In conjunction with the Corporate Risk Director, the Committee has worked closely with the Internal Audit team in developing the internal audit strategy and the detailed audit plan for the next 12 months. The strategy and plan provide independent and objective assurance using a risk-based methodology targeted to help the business achieve its strategic objectives.

In accordance with the Pubs Code Regulations, as Chairman of the Audit Committee, I approved the annual compliance report submitted to the Adjudicator in July 2018, having satisfied myself as to its accuracy. Ahead of its submission, the Audit Committee had the opportunity to review the report and receive an update on Pubs Code compliance matters.

Having reviewed the external audit process, the Committee believes that PwC continue to provide an effective audit service and recommends their re-appointment to shareholders. As explained last year, the Company conducted a full tender of the external audit and it is our intention to appoint KPMG at the conclusion of the FY2018/19 audit.

Matthew Roberts

Chairman of the Audit Committee

Membership

Matthew Roberts (Chairman)

Nick Backhouse
(until 23 January 2018)

Carolyn Bradley
(from 23 January 2018)

Robin Rowland

Our responsibilities

- Reviewing the integrity of the Group's financial statements including the Interim Results and the Annual Report and Accounts.
- Reviewing the effectiveness of the internal controls and risk management system.
- Reviewing the Group's systems for detecting fraud, preventing bribery and allowing employees to raise concerns in a safe and confidential manner.
- Overseeing the relationship with the external Auditors, specifically reviewing and approving their fees and the terms of engagement.
- Reviewing and monitoring the external Auditors' objectivity and independence and the effectiveness of the audit process.

Attendees

The Corporate Risk Director and external Auditors attend each meeting.

Other individuals, such as the CEO and CFO and members of the Internal Audit team, are usually invited to attend all or part of the Committee's meetings.

Terms of reference

Full terms of reference of the Committee can be found in the Investors section of the Company's website: **www.marstons.co.uk**.

Key activities during the reporting year

- Reviewing the main corporate risks and the outcomes from testing the systems and processes for managing and mitigating those risks. The Committee has again satisfied itself that the Risk Management Framework provides sufficient assurances.
- Reviewing the Viability Statement and assessing the prospects of the Group over a five-year time horizon. The Committee continues to consider the Group's existing five-year financial plan to be the most appropriate time period.
- Considering the Annual Report and Accounts and Interim Results prior to review by the Board.
- Review and approval of the Internal Audit strategy, plan and restructure of the Internal Audit team.
- Review of the key changes, timing and impact of the new lease accounting standard (effective FY2020).
- Review and approval of the Statutory Pubs Code compliance report.

Audit Committee Report continued

Auditors

The external Auditors attend each meeting, which allows the Committee the opportunity to review and discuss the integrity of the Company's financial reports. The external Auditors also present their audit strategy, findings and conclusions in respect of the Annual Report and Accounts and Interim Results. In addition, at least once a year, the external Auditors meet the Committee without any Executive Director present to provide an opportunity for open dialogue and feedback.

In assessing the work of the external Auditors, the Committee continues to be satisfied with the scope of their work and their effectiveness, and recommends their re-appointment to the Board. The Committee has satisfied itself that the independence and objectivity of the external Auditors, and the safeguards to protect it, remain strong. In support of this view, the Committee notes the annual review of independence that the external Auditors conduct where they identify all services provided to the Group and assess whether the content and scale of such work is a threat to their independence. Further, the Committee accepts that whilst some non-audit work is most appropriately undertaken by the external Auditors, it must be permissible within the Committee's terms of reference and policy on non-audit services. Where such work is expected to be in excess of £50,000, the Chairman of the Audit Committee must approve the work. Below that amount, the CFO has authority to approve such work once he is satisfied that the Auditors are the most appropriate providers. In 2017/18 the Group engaged PwC to facilitate a technical workshop in relation to our in-house telecoms business. The Group has used other accounting firms for some non-audit work comprising corporate and employment tax advice and guidance on the new lease accounting requirements. In each case, consideration is given to the need for value for money, experience and objectivity required in the particular circumstances.

As disclosed last year, and following a five-year tenure, the PwC audit partner was changed for the 2017/18 financial period until handover to KPMG after the 2018/19 audit. This maintains a freshness to perspective without losing the institutional knowledge.

Fees paid to the external Auditors are disclosed in Note 3 of the Financial Statements on page 85.

Committee meetings

The Corporate Risk Director attends each Committee meeting to provide ongoing assurance and regular updates on the Group's main risks and the scope and findings of internal audit. A number of standing agenda items were reviewed by the Committee during the period including preparations for GDPR, the Whistleblowing Policy and matters arising from internal audits, which focused on the key business risks and compliance and legal developments.

Statutory Pubs Code

Marston's pub operations business is committed to complying with the Pubs Code Regulations 2016 (the Code). On the inception of the Code, Marston's reviewed all of its processes and implemented changes, where necessary, to comply with the provisions of the Code. Marston's also appointed a Code Compliance Officer as required by the legislation. Following internal approval by the Chair of the Audit Committee the Code Compliance Officer submitted an annual compliance report to the Pubs Code Adjudicator (PCA), for the reporting period from 21 July 2016 to 31 March 2018.

During the reporting period, Marston's was not subject to any investigations, enforcements or representations of unfair business practices by the PCA. All advice notes issued by the PCA were noted and the stakeholders affected by the notes were briefed on their contents.

Sixteen referrals were made to the PCA. Three awards were made against Marston's, for which remedial action was implemented in all cases.

During the reporting period, all of Marston's business development managers received updates and training on the Code.

Significant financial judgements

In recommending the Interim Results and Annual Report and Accounts to the Board for approval, the Committee reviewed in particular the accounting for and disclosure of the following key matters:

Non-underlying items. The Committee considered the items classified as non-underlying and, in particular, the impairment of properties, the reorganisation and integration costs, and the ongoing management of the pub portfolio that was disposed of to New River Retail. The Committee noted the consistency of treatment to prior years and the Group's accounting policies and is satisfied that the items are classified appropriately to maintain comparability of performance.

Valuation of property assets. Noting the outcome of the external valuation of the Group's freehold and leasehold properties in January 2018, the Committee considered the assumptions, disclosure and any subsequent factors that might affect the valuation. The Committee noted that property based transactions in the market place, together with the Company's own property disposals, continue to support the multiples applied to the valuation and therefore they are satisfied that there are no market indicators or other events that would indicate a need for any change to this valuation. The Committee is also satisfied that the methodology and assumptions applied to valuing the estate remain appropriate and in line with the Company's revaluation policy.

Directors' Remuneration Report
Annual Statement

Catherine Glickman
Chairman of the Remuneration Committee

Dear shareholder

I am pleased to present our report for the period ended 29 September 2018. In a year of tough competition, together with the extremes of both very cold and hot weather and a World Cup, I am pleased to report Marston's saw growth in all trading segments, with particularly strong performances in our Taverns and Brewing businesses. We saw strong growth in revenue, up 14.9%; the Beer Company saw positive uplifts from the CWBB acquisition and new distribution contracts; in pubs, we saw an increase in like-for-like sales and a positive contribution from new sites. Group operating margins were 1.6% behind last year, principally reflecting the dilution impact from the CWBB acquisition which operates at a lower margin than our existing beer business. The year-end underlying profit before tax of £104.0 million represents an increase of 3.9% on 2017's outturn. A significant proportion of the short-term bonus is based on underlying profit before tax and the impact on the Executive Directors' annual bonus outturn can be read in the Summary and detailed Annual Report on Remuneration on pages 55 to 62, together with the outturn on the other elements of reward.

The Committee recognises and takes seriously its responsibility to provide an appropriate balance between fixed and variable pay, setting suitably stretching performance conditions that act as an appropriate incentive, without encouraging excessive risk taking. Our approach to remuneration is to align it with shareholder interests and support the creation of sustainable shareholder value.

Our current Directors' Remuneration Policy became effective from the close of the 2017 AGM and the following pages describe how the policy has been applied in 2017/18. As was the case last year, rather than reproduce the full policy in this report, we have provided extracts alongside its implementation during the year. The full policy can be found on pages 49 to 56 of the 2016 Annual Report and Accounts and is also available in the Governance section of our website **(www.marstons.co.uk/investors/company-profile)**.

The 2017 Annual Report on Remuneration received high levels of support, with over 95% of votes cast in favour of the resolution. We will continue to engage with our shareholders as we move to review our policy during 2019 and hope we can rely on your continuing support. If you would like to contact me directly to discuss any aspect of our policy or this report then please email me at **remunerationchair@marstons.co.uk**. I will also be available to answer your questions at our AGM on 23 January 2019.

Review of the year

Performance

Both William and Ralph, within their respective Chairman's and Chief Executive's Statements, have reported on the key achievements of our business for the year, namely record underlying revenue of £1,140.4 million and growth of 3.9% in underlying profit before tax to £104.0 million as mentioned above. These results have been achieved against a background of Brexit and increased uncertainty, unseasonal weather extremes and continuing cost pressures.

Performance outcomes

Annual bonus 2017/18
The 3.9% increase in underlying Group profit before tax versus 2017 is above the threshold performance level for that element of the bonus. Underlying return on capital for the year was 10.3% and below the base of 10.5% for that element of the bonus. Based on these results, a bonus of 17.7% of salary is payable to Executive Directors; further information is given on page 57.

LTIP 2014/15 Award vesting
As reported in the 2017 Remuneration Report, the performance targets for the 2014/15 LTIP award were not met and the award lapsed in June 2018.

LTIP 2015/16
The performance period for the 2015/16 LTIP award ended on 29 September 2018. The threshold performance levels were not achieved and the awards will lapse.

Review of performance metrics for variable pay

In 2017 we set out our intention to review the current performance metrics for both the annual and long-term elements of variable pay.

Annual bonus plan
During the review the Committee reviewed the efficacy of the annual bonus scheme for the PLC Executive Committee (PLC Exec) members (but not for the Executive Directors) and changes were made effective 2018/19 to reward a combination of Group and divisional profit performance, and to introduce customer or division specific metrics for the first time. Group targets will continue for those roles that operate at Group level. The new design has been well received by the PLC Exec members, who feel they can have direct influence over their bonus outturn. The Committee will obtain feedback during the year on how effectively the scheme is driving performance and will consider whether it wishes to align the Executive Directors with this structure when it reviews the policy in 2019.

Long Term Incentive Plan (LTIP)
When the LTIP was last reviewed, the Committee wanted to ensure the performance measures were consistent with Marston's strategic and financial objectives: delivery of sustainable growth, increasing return on capital and reducing leverage, whilst delivering market competitive returns to shareholders. The Committee believes the current structure has achieved those objectives. To ensure continued alignment with the Group strategy, the Committee has agreed it will review the design and targets against the strategy when it carries out the next review of the Directors' Remuneration Policy in 2019 and, as we already do, consult shareholders on changes.

Directors' Remuneration Report continued

Other key activities of the Committee during the year

- Consideration of pay review proposals for the Executive Directors, as outlined below.
- Consideration of the appropriate fee for the Interim Chairman.
- 2018 bonus proposals and 2014/15 and 2015/16 LTIP award vesting, as outlined above.
- Approval of SAYE and LTIP grants.
- Gender pay gap reporting.
- Review of Executive Directors and senior management shareholdings in the Company, in the context of shareholding guidelines.
- Consideration of how the Group currently engages with its workforce.

Looking forward to 2018/19

Pay award effective 1 October 2018

The Committee reviewed the salaries paid to Executive Directors and an increase in base salaries of 2% was approved, which is in line with the average salary increases across the Group.

The new Chairman's fee (set at £200,000 per annum) was agreed as part of the recruitment process. The next review will be in line with the usual timetable as set out in the Directors' Remuneration Policy.

The Non-executive Directors' fees, last reviewed in 2015/16, have been reviewed by the Board and new rates will apply for 2018/19. Further details are set out on page 59.

Incentive remuneration for 2018/19

No changes are proposed to the Executive Directors' annual bonus plan and LTIP for 2018/19.

Committee focus for 2018/19

The Committee will review the current Directors' Remuneration Policy and determine any appropriate changes for the next binding policy vote, due at the 2020 AGM. Marston's and the Committee remain committed to a fair and responsible approach to executive pay, which is aligned with the interests of shareholders and other stakeholders in our business. This review of policy will take into account the provisions of the new Corporate Governance Code which will apply to the Company with effect from the 2019/20 financial period. We will be reporting in full on how we intend to apply the Code in our 2019 Annual Report and Accounts.

Catherine Glickman

Chairman of the Remuneration Committee

Membership

Catherine Glickman (Chairman)

Carolyn Bradley

Robin Rowland

Our responsibilities

The Committee is responsible for setting the framework and policy for Executive Directors' remuneration and, within that framework, for determining the remuneration packages for the Executive Directors and the Chairman. The Committee also approves the design and pay-outs of annual and long-term incentives awards. In addition, we take note of any major changes in employee benefit structures applicable to the wider workforce and review pension provision and remuneration trends across the Group.

Attendees

The Committee receives advice from a number of different sources. This helps to inform decision making and ensures the Committee is aware of pay and conditions in the Group as a whole, and conditions in the wider market.

Ralph Findlay, CEO, has attended each meeting during the year to provide advice in respect of the remuneration of the other Executive Directors. Ralph is not in attendance for any discussions regarding his own remuneration.

The Group Secretary, Anne-Marie Brennan, and the Group People Director, Catherine Taylor, have also attended each meeting during the year and provide advice to the Committee.

Deloitte LLP (Deloitte) were appointed by the Committee in 2003 and are retained as an independent adviser to the Committee, attending meetings as and when required. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK. Deloitte received fees amounting to £16,600 during the year in respect of advice given to the Committee, and also provided advice during the year in relation to VAT and the operation of the Company's share plans.

Terms of reference

The Committee's terms of reference are reviewed annually and can be found in the Governance section of the Company website **(www.marstons.co.uk/investors/company-profile)**.

Remuneration Summary 2018

Principles

- Ensure remuneration arrangements support **sustainable growth** and strategic objectives of the Group
- Substantial part of the incentive package for Executive Directors is delivered in the Company's shares to **ensure interests are aligned with shareholders**
- Ensure Director and senior management salaries are set with **reference to the wider workforce**

Component	Time horizon 2018	2019	2020	2021	2022	2023	Key features	Implementation in 2017/18
Basic salary and core benefits	→						Reflects scope of the role; to recruit and retain calibre required; and reviewed in context of wider Group	2% increase in salary in 2018 in line with the average salary increases across the Group Benefits package unchanged
Annual bonus	→						Maximum 100% of salary Committee discretion Clawback provision for up to two years	17.7% bonus awarded reflecting performance against targets as described on page 57
Deferred element of bonus	→	→	→	→			Payments in excess of 40% usually deferred into shares	Bonus awarded less than 40%, no deferral into shares
Long Term Incentive Plan (LTIP)	→	→	→	→	→		Maximum annual award is 150% Normal maximum is 125% Malus and clawback provisions apply	2015/16 LTIP will lapse on the third anniversary of grant Awards of 125% of salary granted during the period
Share ownership policy							200% of salary for CEO 100% of salary for other Executive Directors	329% for Ralph Findlay, CEO 123% for Andrew Andrea, CFO

Outcomes

		Fixed Basic salary and core benefits	Variable Annual bonus	Long-term incentives[1]	Total
Andrew Andrea	**2018**	**£459,085**	**£65,536**	**£0**	**£524,621**
	2017	£450,303	£72,600	£0	£522,903
Ralph Findlay	**2018**	**£708,523**	**£97,852**	**£1,290**	**£807,665**
	2017	£694,903	£108,400	£0	£803,303

1. The long-term incentive figures for 2018, for Ralph Findlay, relates to the grant of SAYE options.

How we performed against our objectives

Annual bonus for 2017/18

Performance metric	Link to strategy	Weighting	Threshold	Target	Maximum	Actual	% of salary
Underlying Group profit before taxation	These measures reflect the Group's business priorities that underpin our strategy	67%	£100.1m	£107.5m	£114.9m	£104.0m	17.7%
Return on capital		33%	10.5%	10.9%	11.3%	10.3%	0.0%
Bonus							17.7%

LTIP vesting in 2017/18 (2015/16 LTIP Award)

Performance metric	Link to strategy	Weighting	Base	Threshold	On-target 50% vesting	Maximum 100% vesting	Actual	% LTIP vesting
CROCCE	These reflect the sum total of our strategy and ultimately determine the success of the Group	40%	10.5%	Base+0.25%	Base+0.5%	Base+1.0%	10.3%	0%
Free cash flow		40%	£300m	Base+7.5%	Base+15.0%	Base+30.0%	£315.7m	0%
Relative TSR		20%	–	Median	–	Upper quintile	Below median	0%

Annual Report on Remuneration

This part of the Directors' Remuneration Report sets out how we have implemented our remuneration policy during the period ended 29 September 2018. The policy was approved by shareholders at the 2017 AGM and has applied since the close of that meeting.

Executive Directors

Single total figure of remuneration

Period ended 29 September 2018	Salary £	Benefits £	Bonus £	Long-term incentives[1] £	Pension £	Total £
Andrew Andrea	370,260	14,773	65,536	0	74,052	524,621
Ralph Findlay	552,840	17,473	97,852	1,290	138,210	807.665

1. The long-term incentives figure for the period ended 29 September 2018, for Ralph Findlay, relates to the grant of SAYE options.

Period ended 30 September 2017	Salary £	Benefits £	Bonus £	Long-term incentives restated £	Pension £	Total £
Andrew Andrea	363,000	14,703	72,600	0	72,600	522,903
Ralph Findlay	542,000	17,403	108,400	0	135,500	803,303

Individual elements of remuneration

Fixed elements

Base Salary

Directors' Remuneration Policy

Base salary is a core element of fixed remuneration, reflecting the size and scope of the role. Base salary is usually reviewed annually by the Committee and fixed for the financial year. Salary increases are reviewed in the context of salary increases across the wider Group.

For 2018/19, the basic salary increase for Executive Directors is 2% which is in line with the average salary increases across the Group. The base salaries for the individual Executive Directors are as set out below:

	2018/19 base salary	2017/18 base salary	Increase
Andrew Andrea	£377,670	£370,260	2%
Ralph Findlay	£563,900	£552,840	2%

Benefits

Directors' Remuneration Policy

Executive Directors receive benefits in line with market practice which are set at a level which the Committee considers appropriate against the market.

The single figure table above shows the taxable value of benefits received by the Executive Directors in the period which comprises car allowance, private medical insurance and life assurance.

Retirement benefits

Directors' Remuneration Policy

Executive Directors are eligible to participate in the defined contribution pension scheme and, if a member before closure of the scheme, the defined benefit scheme. In appropriate circumstances, Executive Directors may take a salary supplement instead of contributions into a pension plan.

The pension figures shown in the single figure table above represent the cash value of pension contributions received by the Executive Directors. This includes any salary supplement in lieu of a Company pension contribution.

Pension entitlements:

Executive Directors (excluding the Chief Executive Officer) may receive contributions of up to 20% of base salary under the defined contribution pension scheme, an equivalent taxable cash allowance or a combination of the two (up to 20% of base salary).

- Defined contribution scheme. No contributions were made into the Group Personal Pension Plan (GPPP) on behalf of Andrew Andrea during the year. For the period ended 29 September 2018, Andrew Andrea received a cash supplement of 20% in lieu of pension contributions.
- Cash supplement. Ralph Findlay was previously a member of the defined benefit scheme and has opted to no longer accrue future benefits. For the period ended 29 September 2018, Ralph Findlay received a cash supplement of 25% as a salary supplement in lieu of pension contributions.
- Defined benefit scheme. Ralph Findlay accrued benefits in the defined benefit scheme which closed to future accrual in 2014. Details are shown in the table below:

	Accrued pension at 30.09.18 £	Accrued pension at 30.09.17 £	Normal retirement age
Ralph Findlay	114,349	111,030	60

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. On Ralph Findlay's death, before retirement, a spouse's pension is payable equal to 50% of his pension plus a lump sum equal to his contributions (including those made via salary sacrifice). On death after retirement the spouse's pension payable is 60% of the member's pre-commutation pension.

Variable elements

Annual Bonus and Deferred Bonus Plan

Directors' Remuneration Policy

The Annual Bonus plan rewards performance against annual targets which support the strategic direction of the Group. Compulsory deferral into shares aligns Executive Directors with shareholder interests and provides a retention element.

The usual maximum annual bonus opportunity is 100% of base salary. At least 50% of the award is based on financial performance measures. The balance of the bonus opportunity is based on financial measures and/or the delivery of strategic/individual objectives.

Any bonus earned in excess of 40% of the maximum award is usually payable in shares in the Company which will be deferred for a period of three years.

With the exception of our pub managers, field-based sales and operations teams, all bonus arrangements within the Group have the same structure and payout mechanism, though the maximum potential award, expressed as a percentage of salary, varies between different employee groups. Payments are calculated based upon achieving or exceeding pre-set targets for both Group profit and return on capital. Sales and operations teams have additional elements within their bonus schemes linked to segmental and individual performance.

Bonuses to Executive Directors and the senior management team, for the period under review, are based on performance against pre-set targets for both Group profit (two thirds) and return on capital (one third).

2017/18 Outturn

Executive Directors could earn a bonus equivalent to 50% of base salary for on-target performance. Above this, the award increases on a linear basis up to a maximum of 100% of base salary. If the target performance is not achieved then there is a linear reduction in the award using, in the case of the profit measure, the prior period performance as a base.

The targets and actual performance for 2017/18 are set out below:

2017/18	Threshold	Target	Maximum	Actual	% of salary	Opportunity
Underlying Group profit before taxation	£100.1m	£107.5m	£114.9m	£104.0m	17.7%	67%
Return on capital	10.5%[1]	10.9%	11.3%	10.3%	0%	33%
Award					17.7%	100%

1. The threshold for return on capital is the same as the CROCCE base used for the LTIP performance metric.

The bonuses earned are below the level at which deferral applies and, accordingly, no amounts earned have been deferred.

2018/19 opportunity

No changes are proposed to the annual bonus scheme for 2018/19. The Directors consider that the future Group profit and return on capital targets are commercially sensitive matters as they provide competitors with insight into our business plans and expectations and therefore they should remain confidential to the Group until the performance period has ended. The Committee will continue to disclose how the bonus payout delivered relates to performance against the targets on a retrospective basis.

Annual Report on Remuneration continued

Long Term Incentive Plan

Directors' Remuneration Policy

The Long Term Incentive Plan (LTIP) incentivises Executive Directors to deliver against the Group's strategy over the longer term. Long-term performance targets and share-based remuneration support the creation of sustainable shareholder value.

Awards vest dependent on the achievement of performance targets, normally over a three-year performance period. The normal maximum award size will be up to 150% of base salary in respect of any financial year. Awards for 2018/19 will be granted at the level of 125% of salary and it is currently intended that awards will continue to be made at this level. Vested awards granted in respect of 2016/17 and later years are normally subject to an additional holding period of two years before being released to participants. Malus and clawback provisions apply.

At its discretion, the Committee may award dividend equivalents to reflect dividends that would have been paid on vested awards under the LTIP from the end of the performance period until the date of release.

Vesting in respect of performance during 2017/18 (2015/16 LTIP award)

LTIP awards granted in 2015/16 were subject to the achievement of the metrics in the following table. Although the formal vesting date is not until June 2019, the performance measures have not been achieved and the awards will lapse.

	Weighting	Base	Threshold at 25%	On-target 50% vesting	Maximum 100% vesting	Actual	Vesting
CROCCE	40%	10.5%	Base +0.25%	Base +0.5%	Base +1.0%	10.3%	0%
FCF	40%	£300m	Base +7.5%	Base +15%	Base +30%	£315.7m	0%
Relative TSR	20%	–	Median	–	Upper quintile	Below median	0%

- CROCCE removes any potential distortions from subjective decisions on depreciation policy and asset revaluation.
- FCF is set as a three-year cumulative amount. The operating cash flow of the business is more closely aligned to operating performance than a simple leverage ratio and reflects the cash which is available to reinvest to increase returns, to pay down debt or to pay dividends.
- Relative TSR: the Remuneration Committee believes that a wider comparator group is a more robust and realistic way of measuring how shareholders value the Company. The maximum award has been set at the upper quintile level recognising our commitment to ensuring there are demanding performance targets in place.
- In addition the Committee applies a general performance underpin which enables the adjustment of the overall level of vesting if the formulaic output is not justified on the basis of broader business and financial performance.

LTIP 2014/15 award lapse

The 2017 Directors' Remuneration Report stated that the performance measures for the 2014/15 LTIP award had not been achieved. Following the formal vesting date in June 2018, the Committee has confirmed that the awards have lapsed.

Granted during 2017/18

LTIP awards granted during 2017/18 were as follows:

	Percentage of salary	Number of shares	Face value at grant[1,2]	% of award vesting at threshold	Performance period	Holding period
Andrew Andrea	125%	382,500	£462,825	25%	Financial periods	Financial periods
Ralph Findlay	125%	571,115	£691,049	25%	2017/18 – 2019/20	2020/21 – 2021/22

1. The awards granted during 2017/18 were granted as Approved Performance Share Plan ('APSP') awards, with each award comprising the following three elements: (i) a tax advantaged option with an exercise price of £1.21 per share over shares with a total value at the date of grant of £30,000, (ii) a 'Linked Award' which is, principally, a funding award in the form of a nil cost option to acquire such number of shares whose value at exercise equals £30,000; and (iii) an LTIP award in the form of a nil cost option over shares to the value of the remainder of the APSP award. The number of shares referred to in the table above is the aggregate of the number of shares subject to the tax advantaged option and the LTIP award; each person was also granted a 'Linked Award' over a maximum of 24,793 shares.
2. Calculated using the mid-market share price at date of grant of £1.21.

The Committee reviewed the base numbers and performance conditions associated with each metric and agreed that they remain appropriate and challenging and that the base amounts are sufficiently stretching without encouraging undue risk. Therefore, the same performance conditions and targets apply as for previous awards as set out above.

2018/19 awards

It is intended to make awards under the LTIP in 2018/19 based on the same performance metrics as 2017/18, as set out above. Awards will continue to be granted at the level of 125% of salary.

SAYE

For the period ended 29 September 2018 for Ralph Findlay, the long-term incentive value, shown in the single figure table, comprises the value of SAYE options granted based on the fair value of the options at grant.

Non-executive Directors

Directors' Remuneration Policy

Non-executive Directors' fees are usually reviewed every two years and are set at a level that reflects market conditions and is sufficient to attract individuals with appropriate knowledge and experience. Fees are based on the level of fees paid to Non-executive Directors serving on Boards of similar-sized UK-listed companies and the time commitment and contribution expected for the role. Non-executive Directors receive a basic fee and an additional fee for further duties (for example, chairmanship of a Committee or Senior Independent Director responsibilities).

Total remuneration (Chairman and Non-executive Directors)

	Base Fee £	Committee Chairman £	SID £	2017/18 Total £	2016/17 Total £
Roger Devlin[1]	125,000	–	–	125,000	187,500
Nick Backhouse[2]	15,579	2,181	–	17,760	57,000
Carolyn Bradley[3]	95,833	–	4,000	99,833	54,136
Catherine Glickman	50,000	6,000	–	56,000	54,136
Neil Goulden[4]	–	–	–	–	19,492
Matthew Roberts[5]	50,000	4,818	–	54,818	29,167
Robin Rowland	50,000	–	–	50,000	50,000

1. Roger Devlin stepped down from the Board on 31 May 2018 and his fees for the period reflect his service to that date.
2. Nick Backhouse stepped down from the Board on 23 January 2018 and his fees for the period reflect his service to that date.
3. Carolyn Bradley was appointed Interim Chairman from 1 June 2018 until 30 September 2018. During that period, Carolyn received fees based on the Chairman's fees at the time (£187,500 per annum) but the SID fee was suspended.
4. Neil Goulden stepped down from the Board on 24 January 2017.
5. Matthew Roberts became Chairman of the Audit Committee on 24 January 2018.

Fees

William Rucker was appointed as Chairman of the Board with effect from 1 October 2018 and received no remuneration for the reporting period. He will receive a fee of £200,000 per annum (which was agreed as part of the recruitment process); further details of his recruitment process are set out in the Nomination Committee Report on page 49. The Chairman's fees are next scheduled to be reviewed in two years' time, in line with the usual review timetable. Non-executive Directors' fees, other than the Chairman's, are determined by the Board and are reviewed every two years. These fees were last reviewed by the Board in 2015/16 and this year the Board has reviewed the fee structure. Taking into account the responsibilities and duties placed on each Non-executive Director, the time commitment required and with regard to market practice, the fees that will apply from 1 October 2018 are set out below.

	2018/19	2017/18
Basic fee	£54,000	£50,000
Additional fee for:		
Chairmanship of the Audit Committee	£7,500	£7,000
Chairmanship of the Remuneration Committee	£7,500	£6,000
Senior Independent Director	£7,500	£6,000

The maximum authority for Non-executive Directors' fees (in aggregate), as outlined in our Articles of Association, is £750,000 a year, and was approved by shareholders at our 2017 AGM.

Interests in ordinary shares

The beneficial interests of the Non-executive Directors and their connected persons in the share capital of the Company are shown below:

	As at 29.09.18	As at 30.09.17
Roger Devlin[1]	150,000	150,000
Nick Backhouse[2]	25,000	25,000
Carolyn Bradley	25,000	25,000
Catherine Glickman	50,000	50,000
Matthew Roberts	25,000	25,000
Robin Rowland	152,219	52,083

1. Roger Devlin stepped down from the Board on 31 May 2018. His interests in ordinary shares are shown as at that date.
2. Nick Backhouse stepped down from the Board on 23 January 2018. His interests in ordinary shares are shown as at that date.
3. William Rucker purchased 100,000 shares on 14 September 2018.

Annual Report on Remuneration continued

Payments to past Directors and payment for loss of office

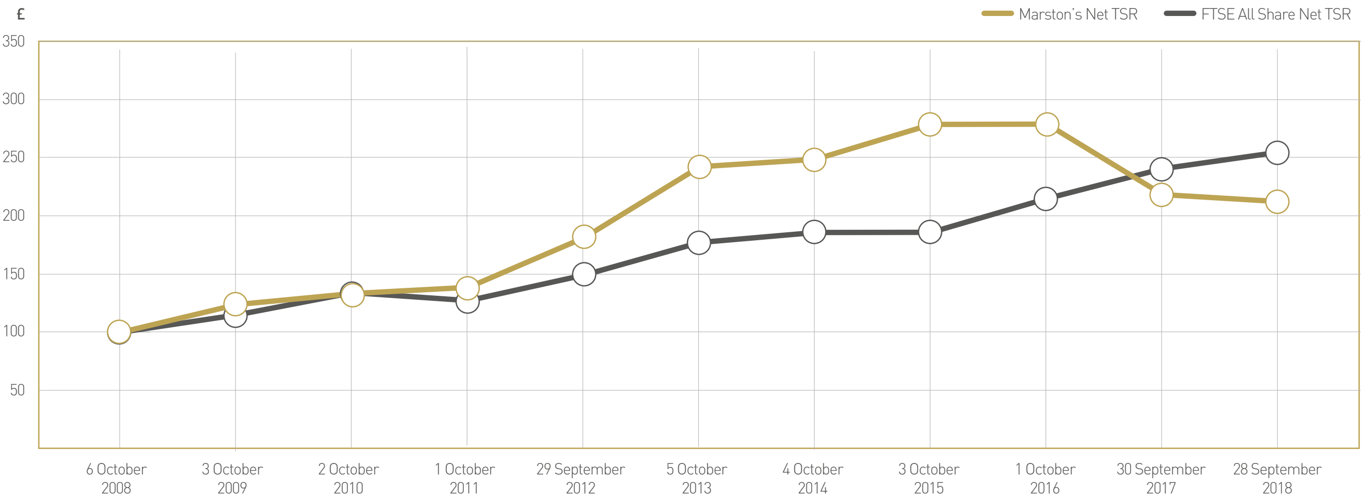
As announced on 5 September 2017, following a senior management reorganisation, Peter Dalzell stepped down from the Board on 29 September 2017 and his employment with the Group ended. In accordance with our current Directors' Remuneration Policy, as approved by shareholders at the 2017 AGM, Peter was treated as a 'good leaver' by reason of redundancy. Details of the remuneration arrangements in connection with Peter leaving the business, which are consistent with the Directors' Remuneration Policy and authorised by the Committee, are set out on page 60 of the 2017 Annual Report and Accounts. Of the total amount disclosed in the 2017 Annual Report and Accounts, £417,982 was paid in the year ended 29 September 2018.

As with the LTIP awards held by the other Executive Directors, Peter Dalzell's 2015/16 award will lapse.

Total shareholder return chart and CEO remuneration

This graph shows the value, at 29 September 2018, of £100 invested in the Company on 6 October 2008 compared to the value of £100 invested in the FTSE All Share Index. The FTSE All Share Index has been selected as a comparator because the Company is a member of that index.

The intermediate points show the value at the intervening financial period ends.



The total remuneration of the CEO over the past ten financial periods is shown below. The annual bonus payout and LTIP vesting level as a percentage of the maximum opportunity is also shown.

	Total remuneration	Annual bonus	LTIP vesting
2017/18	£807,665	17.7%	0%
2016/17	£803,303	20%	0%
2015/16	£1,008,320	40%	21%
2014/15	£876,788	40%	0%
2013/14	£1,121,294	25%	41.9%
2012/13	£937,312	0%	44.2%
2011/12	£815,690	40%	0%
2010/11	£974,784	46%	0%
2009/10	£826,677	40%	0%
2008/09	£640,190	0%	0%

Change in CEO and employee pay

The table below shows the percentage change in the salary, benefits and annual bonus for the CEO between the current and previous financial period, compared to the wider workforce, excluding pub staff. The Committee believes this provides a more appropriate comparison as the majority of pub-based staff have their remuneration rate set by statute rather than the market.

	Salary	Benefits	Annual bonus
CEO	2%	0.4%	(11.5)%
Wider workforce	2%	0.4%	0%

Relative importance of spend on pay

The table below demonstrates the relative importance of the Group's expenditure on total employee pay compared to dividend payments to shareholders.

	2018	2017	change
Dividend payments	£47.5m	£47.5m	0.0%
Total employee pay[1]	£230.6m	£215.1m	7.2%

1. Excluding non-underlying items.

Service contracts and letters of appointment

Executive Directors' contracts are on a rolling 12 month basis and are subject to 12 months' notice when terminated by the Company and six months' notice when terminated by the Director.

The current Non-executive Directors, including the Chairman, do not have a service contract and their appointments, whilst for a term of three years, may be terminated at any time. All Non-executive Directors have letters of appointment and their appointment and subsequent re-appointment is subject to annual approval by shareholders.

Further details on current serving Directors' service contracts and letters of appointment are available at **www.marstons.co.uk** in the Investors section.

External appointments for Executive Directors

Executive Directors are permitted to take up external appointments, subject to approval by the Board, and are allowed to retain any fees received.

Ralph Findlay is a Non-executive Director of Bovis Homes Group PLC and during the year he received fees of £58,000. Andrew Andrea is a Non-executive Director of Portmeirion Group Plc and during the year he received fees of £32,000.

Shareholder voting

The following table sets out actual voting outcomes in respect of the Annual Report on Remuneration resolution at the Annual General Meeting (AGM) held on 23 January 2018 and the Directors' Remuneration Policy resolution at the AGM held on 24 January 2017.

	Votes for	% of vote	Votes against	% of vote	Votes withheld
Approval of the Annual Report on Remuneration (23 January 2018)	94,962,903	95.67%	4,300,620	4.33%	113,505
Approval of the Directors' Remuneration Policy (24 January 2017)	80,921,034	97.88%	1,753,514	2.12%	1,214,429

Annual Report on Remuneration continued

Supplementary schedules

Shareholding guidelines

Directors' Remuneration Policy

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

Directors' share interests

As at 29 September 2018, Andrew Andrea held in excess of 100% of base salary and Ralph Findlay held in excess of 200% of base salary in shares.

Executive Directors' share interests as at 29 September 2018

	Shares owned outright		Share options			
	At 29.09.18	At 30.09.17	Not subject to performance	Subject to performance	Target % holding	Actual % holding
Andrew Andrea	332,773	292,773	24,492	1,024,204	100%	123%
Ralph Findlay	1,290,475	1,290,475	20,224	1,560,253	200%	329%

In assessing the extent to which the guidelines are satisfied, shares are valued at the end of the relevant financial year. However, once the required holding has been achieved, any change in the share price is disregarded when assessing the value attributed to shares already held.

Executive Directors' interests in share options as at 29 September 2018

		Grant date	Brought Forward 01.10.17	Granted	Exercised/ Vested	Cancelled/ Lapsed	Carried Forward 29.09.18	Exercise Price	Vesting Date	Release Date
Andrew Andrea	SAYE	2014	12,396	–	–	–	12,396	1.21	2019	–
		2016	12,096	–	–	–	12,096	1.24	2021	–
	LTIP	2015	248,167	–	–	248,167	0		2018	–
		2016	278,995	–	–	–	278,995		2019	–
		June 2017	362,709	–	–	–	362,709		2020	2021
		December 2017	–	382,500[1]	–	–	382,500		2020	2022
Ralph Findlay	SAYE	2014	7,438	–	–	7,438	0	1.21	2017	–
		2018	–	20,224	–	–	20,224	0.89	2021	–
	LTIP	2015	397,831	–	–	397,831	0		2018	–
		2016	447,572	–	–	–	447,572		2019	–
		June 2017	541,566	–	–	–	541,566		2020	2021
		December 2017	–	571,115[1]	–	–	571,115		2020	2022

1. The awards granted in December 2017 were granted as Approved Performance Share Plan ('APSP') awards, with each award comprising the following three elements: (i) a tax advantaged option with an exercise price of £1.21 per share over shares with a total value at the date of grant of £30,000, (ii) a 'Linked Award' which is, principally, a funding award in the form of a nil cost option to acquire such number of shares whose value at exercise equals £30,000; and (iii) an LTIP award in the form of a nil cost option over shares to the value of the remainder of the APSP award. The number of shares referred to in the table above is the aggregate of the number of shares subject to the tax advantaged option and the LTIP award; each person was also granted a 'Linked Award' over a maximum of 24,793 shares.

There have been no changes to the Directors' share interests and interests in share options between 29 September 2018 and 19 November 2018 (being the latest practical date prior to the date of this report).

This report was approved by the Board and signed on its behalf by

Catherine Glickman

Chairman of the Remuneration Committee

21 November 2018

Directors' Report

This section contains additional information which the Directors are required by law and regulation to include within the Annual Report and Accounts. This section, along with the information from the Chairman's Statement on page 6 to the Statement of Directors' Responsibilities on page 66, constitutes the Directors' Report in accordance with the Companies Act 2006.

Strategic Report

The Company is required by the Companies Act to include a Strategic Report in this document. The information that fulfils the requirements of the Strategic Report can be found on the inside front cover to page 38, which is incorporated in this report by reference.

Corporate Governance Statement

The Corporate Governance Statement, as required by the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR) 7.2.1, is set out on page 40 and is incorporated into this report by reference.

Research and development

In-house research and development is undertaken alongside work with the British Beer and Pub Association (BBPA) and Brewing Research International. Other sources of data include CGA: On Trade Market and State of Nation and IRI Off Trade Market. We produce our own On Trade and Off Trade ale reports into the market on an annual basis.

Capital structure

Details of the Company's issued share capital and of the movements during the period are shown in note 28 to the financial statements on page 103. 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 25 pence of nominal value of ordinary and preference share capital held in relation to all circumstances at general meetings of the Company. The issued nominal value of the ordinary shares and preference shares is 100% of the total issued nominal value of all share capital.

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 27 to the financial statements on pages 102 to 103. Where shares are held on behalf of the Company's share schemes, the trustees have waived their right to vote and to dividends.

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 allot ordinary shares subject to the aggregate set at the 2018 Annual General Meeting (AGM). The Company was also given authority at its 2018 AGM to make market purchases of ordinary shares up to a maximum number of 63,392,930 shares. Similar authority will again be sought from shareholders at the 2019 AGM.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and related legislation. The Articles may be amended by special resolution of the shareholders. The powers of the Directors are further described in the Corporate Governance Report on pages 41 to 47.

Directors

Biographies of the Directors currently serving on the Board are set out on pages 42 and 43.

Changes to the Board during the period are set out in the Corporate Governance Report starting on page 41. Details of Directors' service contracts are set out in the Directors' Remuneration Report on page 62.

In accordance with the requirements of the UK Corporate Governance Code, all Directors will offer themselves for re-election at the AGM on 23 January 2019, other than William Rucker who will offer himself for election following his appointment to the Board on 1 October 2018.

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 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.

Dividends on ordinary shares

An interim dividend of 2.7 pence per ordinary share was paid on 3 July 2018. The Directors recommend a final dividend of 4.8 pence per ordinary share to be paid on 28 January 2019 to shareholders on the register on 14 December 2018. This would bring the total dividend for 2017/18 to 7.5 pence per ordinary share (2017: 7.5 pence per ordinary share). The payment of the final dividend is subject to shareholder approval at the AGM.

Preference shares

The preference shares carry the right to a fixed cumulative preferential dividend at the rate of 6% per annum payable in June and December. Further details are given in note 19 on page 97.

Interests in voting rights

Notifications of the following voting interests in the Company's ordinary share capital have been received by the Company (in accordance with Chapter 5 of the DTR). The information shown below was correct at the time of disclosure. However, the date received may not have been within the current financial reporting period and the percentages shown (as provided at the time of disclosure) have not been re-calculated based on the issued share capital at the period end. It should also be noted that these holdings may have changed since the Company was notified, however, notification of any change is not required until the next notifiable threshold is crossed.

Ordinary shares of 7.375 pence each

Shareholder	As at 29 September 2018 Voting rights	% of voting rights	Nature of interest
Standard Life Aberdeen plc	9,449,190	5.04%	Indirect
Dimensional Fund Advisors LLP	9,373,005	5.00%	Indirect
The Capital Group Companies, Inc	9,291,379	4.97%	Indirect
Brewin Dolphin	8,392,338	4.94%	Indirect
Royal London Asset Management Limited	6,794,023	3.99%	Direct

Subsequent to the year-end, Standard Life Aberdeen plc has disclosed information in accordance with DTR5 on 7 November 2018, disclosing an indirect interest over 9,228,860 voting rights (4.93%). Deutsche Bank AG has also disclosed information in accordance with DTR5 on four occasions, the most recent being on 6 November, disclosing that its interests are below the notifiable threshold.

No further notifications have been received by the Company between 29 September 2018 and 19 November 2018 (being the latest practical date prior to the date of this report).

Directors' Report continued

The Company also discloses the following information, obtained from the Register of Members, for the preference shares:

Preference shares

Shareholder	Number	% of preference share voting rights
Fiske Nominees Ltd	34,048	45.40%
Mrs HM Medlock	10,407	13.88%
George Mary Allison Ltd	5,500	7.33%
Mr PF and Dr K Knowles	4,356	5.81%
Mr GAL Southall and Mr N Aston	2,855	3.81%
Mrs H Michels	2,750	3.67%
Mr R Somerville	2,750	3.67%
Hargreave Hale Nominees Ltd	2,700	3.60%

Insurance and indemnities

The Company maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against its Directors and Officers. In accordance with the Company's Articles of Association and to the extent permitted by law, the Company has indemnified each of its Directors and other Officers of the Group against certain liabilities that may be incurred as a result of their position within the Group. These indemnities were in place for the whole of the period ended 29 September 2018 and as at the date of the report. There are no indemnities in place for the benefit of the Auditors.

Employee information

The average number of employees within the Group is shown in note 5 to the financial statements on page 87.

Apart from ensuring that an individual has the ability to carry out a particular role, we do not discriminate in any way. We endeavour to retain employees if they become disabled, making reasonable adjustments to their role and, if necessary, look for redeployment opportunities within the Group. We also ensure that training, career development and promotion opportunities are available to all employees irrespective of gender, race, age or disability.

The Group is committed to keeping employees informed of business performance and our strategy, aiming to drive engagement and ensure employees are enabled. We do this in a variety of ways from presentations of the interim and annual results by senior management, to video and email messages from our CEO. In addition, there are a range of internal communication channels including newsletters, magazines, apps and briefings to keep employees abreast of developments. Employees' views are sought through regular engagement surveys across the Group and action plans are put in place to respond to issues arising. Employees are also encouraged to participate in the Company's SAYE scheme.

Human rights

Marston's is committed to respecting and upholding human rights, as expressed in the United Nations Universal Declaration of Human Rights, within our business and also within our supply chain. Our ways of working are aligned with our belief of, and commitment to, the Declaration of Human Rights. Our Human Rights policy is available at **www.marstons.co.uk**.

Modern Slavery Statement

Our Modern Slavery Act disclosure is available on our website **www.marstons.co.uk/responsibility/modern-slavery-statement**.

Environmental policy and mandatory greenhouse gas emissions reporting

Our approach to corporate responsibility is closely correlated with our Group's strategic objectives. One of our key priorities is to reduce our environmental impact. We recognise the importance of this to the long-term profitability of the business and operating a high quality estate. Many of the environmental initiatives we adopt reduce our environmental impact as well save expenditure on energy and utilities.

Each year Marston's publishes its approach on corporate responsibility on its website available at **www.marstons.co.uk.** The report includes information on our environmental performance by business area including energy consumption, water usage, waste volumes and recycling rates.

We have made particularly good progress increasing the waste recycling rates within our pubs over the last two years from 60% to 78%, and we now operate as a 'Zero Waste to Landfill' business.

Electricity and gas emissions increased in 2018 due to the acquisition of Eagle Brewery in May 2017, by an additional 7,390 CO_2e tonnes, as well as extremes in weather conditions experienced during the year; gas consumption was high in order to heat our pubs during the colder winter compared to relatively mild weather conditions in the previous year. There was also an increase in energy as a result of business activity, for instance, more food cooked in our kitchens and more production in our breweries.

Despite the overall increase in energy consumption we have achieved considerable reductions in energy usage by replacing the lighting in the public areas of our managed and franchised pubs with LED lighting, including this year many of the back of house areas. Energy saving projects have also included installation of energy efficient catering equipment, using ambient air to cool our cellars rather than air conditioning, voltage optimisation, building management systems, heating control systems and heat recovery systems.

Fuel Types	**2018** **CO_2e tonnes**	2017 CO_2e tonnes
Electricity and gas	**125,156**	118,848
Petrol and diesel	**13,644**	11,972
Refrigerants – breweries	**9**	43
Refrigerants – pubs	**5,179**	5,109
LPG	**2,537**	2,457
Oil	**235**	246

Greenhouse Gas Emissions Intensity Ratio:	**2018**	2017
CO_2e tonnes per £100,000 of turnover	**13.34**	13.87

Notes:

1. We report on all the measured emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.
2. Data collected is in respect of the year ended 31 March 2018, the period for which our carbon emissions are reported under the Carbon Reduction Commitment Energy Efficiency Scheme.

Political donations

Our 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.

Financial instruments

The disclosures required in relation to the use of financial instruments by the Group together with details of our treasury policy and management are set out in note 25 to the financial statements on pages 99 to 102.

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue as Auditors and their re-appointment has been approved by the Audit Committee. Resolutions to re-appoint them and to authorise the Audit Committee to determine their remuneration will be proposed at the 2019 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 Strategic Report. The financial position of the Group is described on pages 24 to 26. In addition, note 25 to the financial statements on pages 99 to 102 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 25.

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 74 to 106 and 107 to 117 have been prepared on the going concern basis.

Annual General Meeting

The AGM of the Company will be held at Wolverhampton Wanderers Football Club, Molineux Stadium, Waterloo Road, Wolverhampton WV1 4QR at 10:30am on 23 January 2019. The notice convening the meeting, together with details of the special business to be considered and explanatory notes for each resolution, is distributed separately to shareholders. It is also available in the shareholder section of our website at **www.marstons.co.uk/investors** where a copy can be viewed and downloaded.

By order of the Board

Anne-Marie Brennan

Group Secretary

21 November 2018

Company registration number: 31461

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and Accounts and the financial statements in accordance with applicable law and regulation.

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 (IFRS) as adopted by the European Union and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (FRS 102), 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 Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRS as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 102, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company 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.

The Directors are also responsible for safeguarding the assets of the Group and Company 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.

Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 42 to 43 confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102, and applicable law), give a true and fair view of the assets, liabilities and financial position of the Company;
- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report together with the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Ralph Findlay
Chief Executive Officer

Andrew Andrea
Chief Financial and Corporate Development Officer

21 November 2018

Financial Statements

Five Year Record

	2014 (52 weeks) £m	2015 (52 weeks) £m	2016 (52 weeks) £m	2017 (52 weeks) £m	**2018 (52 weeks) £m**
Underlying revenue	787.6	845.5	905.8	992.2	**1,140.4**
Underlying profit before taxation	82.9	90.9	97.3	100.1	**104.0**
Non-underlying items	(142.1)	(59.6)	(16.5)	0.2	**(49.7)**
(Loss)/profit before taxation	(59.2)	31.3	80.8	100.3	**54.3**
Taxation*	8.5	(8.0)	(7.8)	(15.6)	**(9.3)**
(Loss)/profit after taxation	(50.7)	23.3	73.0	84.7	**45.0**
Net assets	759.0	782.9	752.1	931.4	**957.6**
(Loss)/earnings per ordinary share	(8.9)p	4.1p	12.7p	14.2p	**7.1p**
Non-underlying items	20.6p	8.7p	1.2p	–	**6.8p**
Underlying earnings per ordinary share	11.7p	12.8p	13.9p	14.2p	**13.9p**
Dividend per ordinary share	6.7p	7.0p	7.3p	7.5p	**7.5p**

* Taxation includes the tax on non-underlying items together with non-underlying credits of £2.4 million in 2016 in respect of the change in corporation tax rate and a non-underlying credit of £4.1 million in 2016 in respect of the additional tax relief claimed for previous periods following the agreement of the tax treatment of certain items with HM Revenue & Customs.

Independent Auditors' Report to the Members of Marston's PLC

Report on the audit of the financial statements

Our opinion

In our opinion,

- Marston's PLC's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 29 September 2018 and of the Group's profit and cash flows for the 52 week period (the "period") then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and Company Balance Sheets as at 29 September 2018; the Group Income Statement and the Group Statement of Comprehensive Income, the Group Cash Flow Statement, and the Group and Company Statements of Changes in Equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

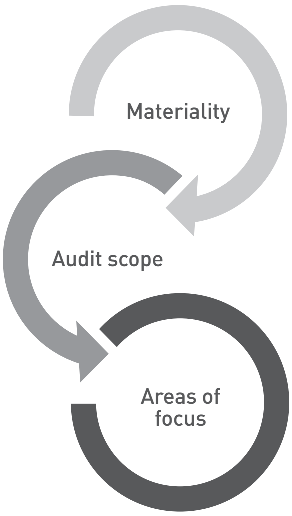
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 3 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 October 2017 to 29 September 2018.

Our audit approach

Overview



- Overall Group materiality: £5.2 million (2017: £5.0 million), based on 5% of profit before tax and non-underlying items.
- Overall Company materiality: £23.0 million (2017: £20.1 million), based on 1.75% of net assets.

- Audit performed at the level of the consolidated Group.

- Valuation of the estate (notes 1, 4, 11, 12 and 18) - Group and Company.
- Disclosure of items as 'non-underlying (notes 1 and 4) - Group.

Independent Auditors' Report to the Members of Marston's PLC continued

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group and Company financial statements, including, but not limited to, Companies Act 2006, the Listing Rules, pensions legislation, UK tax legislation, health and safety regulations and data protection regulations. Our tests included, but were not limited to, reviews of compliance documentation, searches of relevant regulatory websites for details of non-compliance and discussions with management of any potential impacts of non-compliance with laws and regulations. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Valuation of the estate (notes 1, 4, 11, 12 and 18) – Group and Company We focus on the Directors' annual assessment of the carrying value of land and buildings because properties are a significant item on the balance sheet and there are complex and subjective assumptions used in the valuations, including the future expected financial performance of pubs and the earnings multiples applied. A full external valuation of the estate has been completed during the period in conjunction with the Group's external property valuers Christies and TSR. The exercise includes all freehold and leasehold pubs, unlicensed properties, breweries and industrial premises. The valuation in the period resulted in a net impairment charge recorded in the income statement of £39.4 million and net revaluation gains recognised in the revaluation reserve, within shareholders' equity, of £8.6 million.	We have considered the Directors' annual assessment and examined their assumptions therein, utilising internal specialists to validate the conclusions reached. We have assessed, through discussion with the Group's external property valuers, the valuation methodologies adopted, making comparisons to industry practice and found them to be appropriate. We checked that the source data being provided to the external valuers agreed to the underlying financial records. We verified management's and the valuer's assumptions on future earnings and multiples using recent market transactions data, historical pub performance and the level of investment in properties and considered the impact of movements in key assumptions. We also took into account the impact of changes in macroeconomic conditions, pub performance and recent market transactions and their associated multiples. We found the assumptions adopted to be appropriate and consistent with our knowledge of the business and the wider market. We found that the estate had been valued in line with the Group's policy using appropriate methodologies and assumptions, which are consistent with IFRS.
Disclosure of items as 'non-underlying' (notes 1 and 4) – Group The financial statements include certain items which are disclosed as 'non-underlying' such as reorganisation and integration costs, movements in the financial assumptions used in determining the onerous lease provisions, impairment of freehold and leasehold properties, results arising from the management of the portfolio of pubs subject to disposal in FY14, the net interest on the net defined benefit asset/liability, movements in the fair value of interest rate swaps. Management have included these items as non-underlying using the criteria explained in their accounting policy which is disclosed in note 1 to the financial statements. We focused on this area because non-underlying items are not defined by IFRS as adopted by the European Union and it therefore requires judgement by the Directors to identify such items. Consistency in identifying and disclosing items as non-underlying is important to maintain comparability of the current period results with previous periods.	We assessed the appropriateness of the Group's accounting policy and whether those items disclosed as non-underlying were consistent with the accounting policy and the approach taken in previous accounting periods. We found the Group's accounting policy to be appropriate and the classification of items to be consistent with the accounting policy. We also considered an appropriate threshold to apply to non-underlying items based on the financial statement line items that were affected. For example, certain property related items are considered by management to have a higher threshold for disclosure as non-underlying. We concluded that the thresholds adopted are appropriate in the circumstances. We assessed whether other non-recurring items should have been classified as non-underlying and discussed this with the Directors and the Audit Committee. We confirmed that all significant items meeting the criteria in the Group's accounting policy had been identified and that the treatment was consistent year on year.

We determined that there were no other key audit matters applicable to the Company to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group is structured along three business lines being Destination and Premium, Taverns and Brewing, supported by Group Services. The Group financial statements are a consolidation of subsidiaries and special purpose entities, principally comprising the Group's operating businesses, property companies, securitisation vehicles, holding companies and an insurance company.

In establishing the overall approach to the Group audit we considered the consolidated trial balance for the Group as a whole and designed our audit testing for each financial statement line item based on the size and nature of the transactions and balances that are aggregated to form that line item and our assessment of the risk of material misstatement. We used our professional judgement to determine the nature and extent of testing required over each line item in the financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£5.2 million (2017: £5.0 million).	£23.0 million (2017: £20.1 million).
How we determined it	5% of profit before tax and non-underlying items.	1.75% of net assets.
Rationale for benchmark applied	We believe that profit before tax and non-underlying items is the primary measure used by the shareholders in assessing the performance of the Group and is a generally accepted auditing benchmark. The exclusion of items classified as non-underlying is consistent with previous periods and practice within the sector.	Marston's PLC holds some of the pubs relating to the non-securitised business. These properties are then occupied by Marston's Trading Limited. As such it is considered that the net asset balance is the most appropriate upon which to base materiality.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £nil and £9.0 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.3 million (Group audit) (2017: £0.2 million) and £1.2 million (Company audit) (2017: £0.9 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.
We are required to report if the Directors' statement relating to going concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Independent Auditors' Report to the Members of Marston's PLC continued

With respect to the Strategic Report, Directors' Report and Corporate Governance Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 29 September 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Report (on pages 41 to 47) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Report (on pages 41 to 47) with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company. (CA06)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 28 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 31 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 66, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 51 to 52 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements
As explained more fully in the statement of Directors' responsibilities set out on page 66, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditors/audit-assurance. This description forms part of our auditors' report.

Use of this report
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.

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment
Following the recommendation of the Audit Committee, we were appointed by the members on 27 January 2003 to audit the financial statements for the period ended 27 September 2003 and subsequent financial periods. The period of total uninterrupted engagement is 16 years, covering the periods ended 27 September 2003 to 29 September 2018.

Andrew Lyon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham

21 November 2018

Group Income Statement

For the 52 weeks ended 29 September 2018

	Note	2018 Underlying £m	2018 Non-underlying £m	2018 Total £m	2017 Underlying £m	2017 Non-underlying £m	2017 Total £m
Revenue	2, 3, 4	**1,140.4**	**0.9**	**1,141.3**	992.2	19.1	1,011.3
Operating expenses	3	**(957.9)**	**(50.0)**	**(1,007.9)**	(817.7)	(23.2)	(840.9)
Operating profit	2, 4	**182.5**	**(49.1)**	**133.4**	174.5	(4.1)	170.4
Finance costs	6	**(78.9)**	**(0.1)**	**(79.0)**	(74.8)	(2.1)	(76.9)
Finance income	6	**0.4**	**–**	**0.4**	0.4	–	0.4
Movement in fair value of interest rate swaps	4, 6	**–**	**(0.5)**	**(0.5)**	–	6.4	6.4
Net finance costs	4, 6	**(78.5)**	**(0.6)**	**(79.1)**	(74.4)	4.3	(70.1)
Profit before taxation		**104.0**	**(49.7)**	**54.3**	100.1	0.2	100.3
Taxation	4, 7	**(16.1)**	**6.8**	**(9.3)**	(15.6)	–	(15.6)
Profit for the period attributable to equity shareholders		**87.9**	**(42.9)**	**45.0**	84.5	0.2	84.7
Earnings per share:							
Basic earnings per share	9			**7.1p**			14.2p
Basic underlying earnings per share	9			**13.9p**			14.2p
Diluted earnings per share	9			**7.0p**			14.1p
Diluted underlying earnings per share	9			**13.7p**			14.0p

Group Statement of Comprehensive Income

For the 52 weeks ended 29 September 2018

	2018 £m	2017 £m
Profit for the period	**45.0**	84.7
Items of other comprehensive income that may subsequently be reclassified to profit or loss		
Gains arising on cash flow hedges	**–**	35.7
Transfers to the income statement on cash flow hedges	**10.9**	10.7
Tax on items that may subsequently be reclassified to profit or loss	**(1.8)**	(7.9)
	9.1	38.5
Items of other comprehensive income that will not be reclassified to profit or loss		
Remeasurement of retirement benefits	**14.0**	21.8
Unrealised surplus on revaluation of properties	**170.3**	2.3
Reversal of past revaluation surplus	**(161.7)**	(0.8)
Tax on items that will not be reclassified to profit or loss	**(2.3)**	0.2
	20.3	23.5
Other comprehensive income for the period	**29.4**	62.0
Total comprehensive income for the period	**74.4**	146.7

Group Cash Flow Statement

For the 52 weeks ended 29 September 2018

	Note	2018 £m	2017 £m
Operating activities			
Underlying operating profit		**182.5**	174.5
Depreciation and amortisation		**40.1**	39.2
Underlying EBITDA		**222.6**	213.7
Non-underlying operating items		**(49.1)**	(4.1)
EBITDA		**173.5**	209.6
Working capital movement	31	**(2.1)**	38.8
Non-cash movements	31	**31.8**	(7.9)
Decrease in provisions and other non-current liabilities		**(5.4)**	(9.1)
Difference between defined benefit pension contributions paid and amounts charged		**(8.0)**	(8.3)
Income tax paid		**(7.4)**	(9.5)
Net cash inflow from operating activities		**182.4**	213.6
Investing activities			
Interest received		**0.8**	0.3
Sale of property, plant and equipment and assets held for sale		**46.9**	61.2
Purchase of property, plant and equipment and intangible assets		**(162.7)**	(196.3)
Acquisition of subsidiary		**–**	(90.5)
Movement in other non-current assets		**0.7**	0.7
Transfer to other cash deposits		**–**	(120.0)
Net cash outflow from investing activities		**(114.3)**	(344.6)
Financing activities			
Equity dividends paid	8	**(47.5)**	(44.1)
Interest paid		**(74.9)**	(70.2)
Arrangement costs of bank facilities		**(0.6)**	(3.3)
Arrangement costs of other lease related borrowings		**(5.1)**	(4.6)
Issue of shares		**–**	75.5
Purchase of own shares		**(1.2)**	–
Proceeds from sale of own shares		**–**	0.3
Repayment of securitised debt		**(30.0)**	(28.4)
Repayment of bank borrowings		**–**	(263.0)
Advance of bank borrowings		**10.2**	280.0
Capital element of finance leases repaid		**(0.2)**	(0.1)
Advance of other lease related borrowings		**68.0**	57.9
Net cash outflow from financing activities		**(81.3)**	–
Net decrease in cash and cash equivalents	30	**(13.2)**	(131.0)

Group Balance Sheet

As at 29 September 2018

	Note	29 September 2018 £m	30 September 2017 £m
Non-current assets			
Goodwill	10	**230.3**	230.3
Other intangible assets	11	**70.0**	67.6
Property, plant and equipment	12	**2,408.1**	2,360.7
Other non-current assets	13	**9.6**	10.3
Deferred tax assets	14	**–**	0.6
Retirement benefit surplus	15	**15.6**	–
		2,733.6	2,669.5
Current assets			
Inventories	16	**44.6**	40.2
Trade and other receivables	17	**104.9**	108.4
Other cash deposits*		**120.0**	120.0
Cash and cash equivalents		**41.4**	54.6
		310.9	323.2
Assets held for sale	18	**2.3**	2.7
Current liabilities			
Borrowings*	19	**(158.4)**	(148.8)
Derivative financial instruments	21	**(28.9)**	(28.7)
Trade and other payables	22	**(252.2)**	(256.1)
Current tax liabilities		**(4.0)**	(3.5)
Provisions for other liabilities and charges	23	**(2.8)**	(3.3)
		(446.3)	(440.4)
Non-current liabilities			
Borrowings	19	**(1,389.0)**	(1,354.9)
Derivative financial instruments	21	**(148.6)**	(159.2)
Other non-current liabilities	24	**(1.5)**	(0.6)
Provisions for other liabilities and charges	23	**(22.5)**	(26.9)
Deferred tax liabilities	14	**(81.3)**	(76.6)
Retirement benefit obligations	15	**–**	(5.4)
		(1,642.9)	(1,623.6)
Net assets		**957.6**	931.4
Shareholders' equity			
Equity share capital	28	**48.7**	48.7
Share premium account		**334.0**	334.0
Revaluation reserve		**627.2**	624.2
Merger reserve	29	**23.7**	71.2
Capital redemption reserve	29	**6.8**	6.8
Hedging reserve		**(118.1)**	(127.2)
Own shares	29	**(112.3)**	(111.3)
Retained earnings		**147.6**	85.0
Total equity		**957.6**	931.4

The financial statements on pages 74 to 106 were approved by the Board and authorised for issue on 21 November 2018 and are signed on its behalf by:

Ralph Findlay

Chief Executive Officer

21 November 2018

* Other cash deposits comprises the £120.0 million (2017: £120.0 million) drawn down under the liquidity facility and borrowings includes the corresponding liability (note 30).

Group Statement of Changes in Equity

For the 52 weeks ended 29 September 2018

	Equity share capital £m	Share premium account £m	Revaluation reserve £m	Merger reserve £m	Capital redemption reserve £m	Hedging reserve £m	Own shares £m	Retained earnings £m	Total equity £m
At 1 October 2017	48.7	334.0	624.2	71.2	6.8	(127.2)	(111.3)	85.0	931.4
Profit for the period	–	–	–	–	–	–	–	45.0	45.0
Remeasurement of retirement benefits	–	–	–	–	–	–	–	14.0	14.0
Tax on remeasurement of retirement benefits	–	–	–	–	–	–	–	(2.4)	(2.4)
Transfers to the income statement on cash flow hedges	–	–	–	–	–	10.9	–	–	10.9
Tax on hedging reserve movements	–	–	–	–	–	(1.8)	–	–	(1.8)
Property revaluation	–	–	170.3	–	–	–	–	–	170.3
Property impairment	–	–	(161.7)	–	–	–	–	–	(161.7)
Deferred tax on properties	–	–	0.1	–	–	–	–	–	0.1
Total comprehensive income	–	–	8.7	–	–	9.1	–	56.6	74.4
Share-based payments	–	–	–	–	–	–	–	0.5	0.5
Purchase of own shares	–	–	–	–	–	–	(1.2)	–	(1.2)
Sale of own shares	–	–	–	–	–	–	0.2	(0.2)	–
Disposal of properties	–	–	(5.6)	–	–	–	–	5.6	–
Tax on disposal of properties	–	–	0.9	–	–	–	–	(0.9)	–
Transfer to retained earnings	–	–	(1.0)	–	–	–	–	1.0	–
Dividends paid	–	–	–	(47.5)	–	–	–	–	(47.5)
Total transactions with owners	–	–	(5.7)	(47.5)	–	–	(1.0)	6.0	(48.2)
At 29 September 2018	**48.7**	**334.0**	**627.2**	**23.7**	**6.8**	**(118.1)**	**(112.3)**	**147.6**	**957.6**

	Equity share capital £m	Share premium account £m	Revaluation reserve £m	Merger reserve £m	Capital redemption reserve £m	Hedging reserve £m	Own shares £m	Retained earnings £m	Total equity £m
At 2 October 2016	44.4	334.0	623.1	–	6.8	(165.7)	(113.7)	23.2	752.1
Profit for the period	–	–	–	–	–	–	–	84.7	84.7
Remeasurement of retirement benefits	–	–	–	–	–	–	–	21.8	21.8
Tax on remeasurement of retirement benefits	–	–	–	–	–	–	–	(3.7)	(3.7)
Gains on cash flow hedges	–	–	–	–	–	35.7	–	–	35.7
Transfers to the income statement on cash flow hedges	–	–	–	–	–	10.7	–	–	10.7
Tax on hedging reserve movements	–	–	–	–	–	(7.9)	–	–	(7.9)
Property revaluation	–	–	2.3	–	–	–	–	–	2.3
Property impairment	–	–	(0.8)	–	–	–	–	–	(0.8)
Deferred tax on properties	–	–	3.9	–	–	–	–	–	3.9
Total comprehensive income	–	–	5.4	–	–	38.5	–	102.8	146.7
Share-based payments	–	–	–	–	–	–	–	0.9	0.9
Issue of shares	4.3	–	–	71.2	–	–	–	–	75.5
Sale of own shares	–	–	–	–	–	–	2.4	(2.1)	0.3
Disposal of properties	–	–	(4.1)	–	–	–	–	4.1	–
Tax on disposal of properties	–	–	0.7	–	–	–	–	(0.7)	–
Transfer to retained earnings	–	–	(0.9)	–	–	–	–	0.9	–
Dividends paid	–	–	–	–	–	–	–	(44.1)	(44.1)
Total transactions with owners	4.3	–	(4.3)	71.2	–	–	2.4	(41.0)	32.6
At 30 September 2017	**48.7**	**334.0**	**624.2**	**71.2**	**6.8**	**(127.2)**	**(111.3)**	**85.0**	**931.4**

Further detail in respect of the Group's equity is provided in notes 28 and 29 to the financial statements.

Notes

For the 52 weeks ended 29 September 2018

1 Accounting policies

Basis of preparation

These consolidated financial statements for the 52 weeks ended 29 September 2018 (2017: 52 weeks ended 30 September 2017) have been prepared in accordance with IFRS and IFRS Interpretations Committee (IFRS IC) and Standing Interpretations Committee 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, retirement benefits and share-based payments.

At the time of approving the financial statements, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus the Directors continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is provided in the Viability Statement within the Strategic Report.

New standards and interpretations

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

IFRS 2	Share-based Payment	
	Amendments to clarify the classification and measurement of share-based payment transactions	1 January 2018
IFRS 3	Business Combinations	
	Amendments to clarify the definition of a business	1 January 2020
IFRS 4	Insurance Contracts	
	Amendments regarding the interaction of IFRS 4 and IFRS 9	1 January 2018
IFRS 9	Financial Instruments	
	New accounting standard	1 January 2018
IFRS 10	Consolidated Financial Statements	
	Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture	Date deferred
IFRS 15	Revenue from Contracts with Customers	
	New accounting standard	1 January 2018
IFRS 16	Leases	
	New accounting standard	1 January 2019
IFRS 17	Insurance Contracts	
	New accounting standard	1 January 2021
IAS 19	Employee Benefits	
	Amendments regarding plan amendments, curtailments or settlements	1 January 2019
IAS 28	Investments in Associates and Joint Ventures	
	Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture	Date deferred
	Amendments regarding long-term interests in associates and joint ventures	1 January 2019
IAS 40	Investment Property	
	Amendments to clarify transfers of property to, or from, investment property	1 January 2018
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

The IASB have also issued a new Conceptual Framework for Financial Reporting and a number of minor amendments to standards as part of their Annual Improvements to IFRS.

IFRS 9 'Financial Instruments' introduces a new model for the classification and measurement of financial assets, a new expected credit loss model for the impairment of financial assets held at amortised cost, and new requirements for hedge accounting. There are also a number of new disclosure requirements. The Group is finalising the impact of the adoption of IFRS 9 on its results and financial position. It is anticipated that the adoption of the expected credit loss model will result in earlier recognition of impairment losses on trade and other receivables, which will result in an initial reduction in net assets of around £5 million to £8 million. It is not anticipated that there will be a material impact on the Group's ongoing results from the adoption of the standard.

IFRS 15 'Revenue from Contracts with Customers' introduces a new five step model for the recognition of revenue, which is based on the satisfaction of performance obligations. The core principle is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The adoption of IFRS 15 is not expected to have a material impact on the Group's results or financial position, but is expected to result in further disclosures.

The adoption of IFRS 16 'Leases' is expected to have a significant impact on both the Group's balance sheet and income statement. For those leases where it is the lessee the Group will be required to recognise assets and liabilities in the balance sheet in the majority of cases and recognise depreciation and finance costs in the income statement. The Group is undertaking a detailed assessment to determine the overall impact of the adoption of IFRS 16 on its results and financial position, which will clearly depend upon the transition options selected and the specific circumstances at the date of adoption.

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

Basis of consolidation

The consolidated financial statements incorporate the 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.

1 Accounting policies (continued)

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

The consolidated financial statements incorporate the results of Marston's Issuer PLC and its parent company, Marston's Issuer Parent Limited. Marston's Issuer PLC was set up with the sole purpose of issuing debt secured on assets owned by the Group. Wilmington Trust SP Services (London) Limited holds the shares of Marston's Issuer Parent Limited under a declaration of trust for charitable purposes. The rights provided to the Group through the securitisation give the Group power over these companies and the ability to use that power to affect its exposure to variable returns from them. As such the Directors of Marston's PLC consider that these companies are controlled by the Group, as defined in IFRS 10 'Consolidated Financial Statements', and hence for the purpose of the consolidated financial statements they have been treated as subsidiary undertakings.

Revenue and other operating income
Revenue represents the value of goods (principally drink and food) and services (principally accommodation, gaming machines and third party brewing, packaging and distribution) supplied to customers, and rent receivable from licensed properties. Revenue from drink, food, accommodation, brewing, packaging and distribution 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 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.

It is considered that, in respect of its franchised arrangements, the Group has exposure to the significant risks and rewards associated with the sale of goods and rendering of services and as such the total income from franchised pubs (i.e. from gaming machines, accommodation and the sale of food and drink) is included within the Group's revenue.

Other operating income mainly comprises rent receivable from unlicensed properties, which is recognised in the period to which it relates.

Operating segments
For segment reporting purposes the Group is considered to have four distinguishable operating segments, being Destination and Premium, Taverns, Brewing and Group Services. This mirrors the Group's internal reporting structure, and reflects the different distribution channels, customer profiles and nature of products and services provided within each segment. An element of Group Services' costs is allocated to each of the trading segments. Transfer prices between operating segments are on an arm's length basis.

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 'Operating Segments' 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 operating segments.

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

Exceptional items are defined as those items that, by virtue of their nature, size or expected frequency, warrant separate additional disclosure in the financial statements in order to fully understand the underlying performance of the Group. As management of the freehold and leasehold property estate is an essential and significant area of the business, the threshold for classification of property related items as exceptional is higher than other items.

Other adjusting items comprise the revenue and expenses in respect of the ongoing management of the remainder of the portfolio of pubs disposed of in the period ended 4 October 2014. The pubs subject to the management agreement no longer formed part of the Group's core activities and the Group did not have the ability to make strategic decisions in respect of them. As such it is considered appropriate to exclude the results of these pubs from the Group's underlying results.

Intangible assets
Intangible assets are carried at cost less accumulated amortisation and any impairment losses. Intangible assets arising on an acquisition 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. Any impairment of carrying value is charged to the income statement.

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

Acquired brands	Indefinite
Lease premiums	Life of the lease
Computer software	3 to 15 years
Development costs	10 years

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

Notes continued

For the 52 weeks ended 29 September 2018

1 Accounting policies (continued)

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 instead is 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 to cash generating units that are consistent with the Group's operating segments.

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 their residual values over their useful lives.
- Freehold and long leasehold buildings are depreciated to their residual values 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 20 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.

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. 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 to the extent that they reverse previously charged impairment losses, in which case the reversal is 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 value less costs to sell.

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

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 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.

1 Accounting policies (continued)

Rental costs under operating leases, including lease incentives, are charged to the income statement on a straight-line basis over the term of the lease. Similarly, income receivable under operating leases is credited to the income statement on a straight-line basis over the term of the lease.

Obligations arising from sale and leaseback arrangements with repurchase options that do not fall within the scope of IAS 17 'Leases' are classified as other lease related borrowings and accounted for in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

Inventories

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

Assets held for sale

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

Financial instruments

The Group classifies its financial assets in one of the following two categories: at fair value through profit or loss and loans and receivables. The Group classifies its financial liabilities in one of the following two categories: at fair value through profit or loss and other financial liabilities. 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.

Financial instruments at fair value through profit or loss

Derivatives are categorised as financial instruments at fair value through profit or loss unless they are designated as part of a hedging relationship. The Group holds no other financial instruments at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loans and receivables comprise trade receivables, other receivables, trade loans, other cash deposits and cash and cash equivalents in the balance sheet. Loans and receivables are carried at amortised cost using the effective interest method.

Other financial liabilities

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

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

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

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

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 risk arising from the Group's operations and its sources of finance.

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

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

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

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

At the inception of a hedging transaction, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking the hedging transaction. 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.

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.

Notes continued

For the 52 weeks ended 29 September 2018

1 Accounting policies (continued)

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

Trade 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 the 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 net 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 net operating charges in the income statement.

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 other non-current assets in the balance sheet 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.

Other cash deposits
Cash held on deposit with banks with a maturity of more than three months at the date of acquisition is classified within other cash deposits.

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.

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

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 interest costs incurred on the financing of major projects, which are capitalised until the time that the projects are available for use.

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

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

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

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

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

Pension costs for the Group's defined contribution pension plans 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 plan.

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 Directors of the Group are considered to be the only key management personnel.

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

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

1 Accounting policies (continued)

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 calculations are the discount and inflation rates and the market rents, vacant periods and future trading income of the properties.

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

Share-based payments

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

Non-vesting conditions are taken into account when determining the fair value of the 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 comprise treasury shares, and shares held on trust for employee share schemes, which are used for the issuing 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 own share transactions.

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 retirement benefits, lease classification, non-underlying items, property, plant and equipment, impairment, financial instruments and property lease provisions. Details of these assumptions and judgements are provided in the relevant accounting policy and detailed note to the financial statements as set out below.

The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Retirement benefits

- Recognition of a retirement benefit surplus (see accounting policy).

Lease classification

- Judgements in respect of whether a lease has transferred substantially all the risks and rewards of ownership to the lessee, in particular whether the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset and whether the lease term is for the major part of the economic life of the asset (see accounting policy).

Non-underlying items

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

The following estimates and assumptions have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities:

Property, plant and equipment

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

Notes continued

For the 52 weeks ended 29 September 2018

1 Accounting policies (continued)

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).

Retirement benefits
- Actuarial assumptions in respect of the defined benefit pension plan, which include discount rates, rates of increase in pensions, inflation rates and life expectancies (note 15).

Financial instruments
- Valuation of financial instruments that are not traded in an active market (note 25).

Property lease provisions
- Assumptions made in the discounted cash flow calculations, in particular the market rents, vacant periods, future trading income, inflation rates and discount rates (see accounting policy).

2 Segment reporting

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

Segment	Revenue
Destination and Premium	Food and drink sales, accommodation and gaming machine income
Taverns	Food and drink sales, rent from licensed properties, accommodation and gaming machine income
Brewing	Drink sales and third party brewing, packaging and distribution
Group Services	N/A

Underlying revenue by segment	2018 £m	2017 £m
Destination and Premium	**450.7**	438.0
Taverns	**312.0**	301.3
Brewing	**377.7**	252.9
Group Services	**–**	–
Underlying revenue	**1,140.4**	992.2
Non-underlying items	**0.9**	19.1
Revenue	**1,141.3**	1,011.3

Underlying operating profit by segment	2018 £m	2017 £m
Destination and Premium	**89.4**	88.9
Taverns	**86.1**	84.1
Brewing	**32.0**	25.5
Group Services	**(25.0)**	(24.0)
Underlying operating profit	**182.5**	174.5
Non-underlying operating items	**(49.1)**	(4.1)
Operating profit	**133.4**	170.4
Net finance costs	**(79.1)**	(70.1)
Profit before taxation	**54.3**	100.3

	Additions to non-current assets*		Depreciation and amortisation	
Other segment information	2018 £m	2017 £m	2018 £m	2017 £m
Destination and Premium	**102.6**	152.9	**16.4**	15.6
Taverns	**29.1**	29.6	**9.2**	9.6
Brewing	**27.3**	18.2	**10.7**	10.5
Group Services	**6.7**	7.4	**3.8**	3.5
Total	**165.7**	208.1	**40.1**	39.2

* Excludes amounts relating to goodwill, deferred tax, retirement benefits and financial instruments.

In the prior period the Group had five distinguishable operating segments being Destination and Premium, Taverns, Leased, Brewing and Group Services. During the current period the Group merged its Taverns and Leased operational teams, meaning that it is no longer possible to separate their performance and profitability. The results of the merged operations are now presented as one combined 'Taverns' segment in the reporting to the chief operating decision maker and management decisions are made on a combined basis. The results for the 52 weeks ended 30 September 2017 have been restated to reflect the merging of these two segments.

Revenue generated outside the United Kingdom during the period was £12.2 million (2017: £6.4 million).

3 Revenue and operating expenses

Revenue	2018 £m	2017 £m
Goods	**1,056.5**	945.4
Services	**84.8**	65.9
	1,141.3	1,011.3

Revenue from services includes rent receivable from licensed properties of £15.4 million (2017: £17.1 million).

Operating expenses	2018 £m	2017 £m
Change in stocks of finished goods and work in progress	**(3.4)**	(1.8)
Own work capitalised	**(7.3)**	(5.8)
Other operating income	**(10.6)**	(8.7)
Raw materials, consumables and excise duties	**456.4**	370.9
Depreciation of property, plant and equipment	**39.0**	38.1
Amortisation of intangible assets	**1.1**	1.1
Employee costs	**234.3**	219.1
Hire of plant and machinery	**0.9**	0.8
Other operating lease rentals	**17.6**	20.6
Income from other non-current assets	**(0.4)**	(0.2)
Impairment of freehold and leasehold properties	**39.4**	3.9
Other net operating charges	**240.9**	202.9
	1,007.9	840.9

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

	2018 £m	2017 £m
Change in stocks of finished goods and work in progress	**0.2**	0.3
Raw materials, consumables and excise duties	**–**	5.3
Employee costs	**3.7**	4.0
Other operating lease rentals	**0.2**	5.0
Impairment of freehold and leasehold properties	**39.4**	–
Other net operating charges	**6.5**	8.6
	50.0	23.2

PricewaterhouseCoopers LLP fees:	2018 £m	2017 £m
Fees payable to the Company's Auditors for the audit of the Company's annual accounts	**0.2**	0.2
Fees payable to the Company's Auditors for other services to the Group:		
The audit of the Company's subsidiaries	**0.1**	0.1
Audit related assurance services	**0.1**	0.1
	0.4	0.4

4 Non-underlying items

	2018 £m	2017 £m
Exceptional operating items		
Impact of change in rate assumptions used for onerous lease provisions	**0.1**	(1.6)
Reorganisation and integration costs	**7.3**	5.5
Impairment of freehold and leasehold properties	**39.8**	–
	47.2	3.9
Other adjusting operating items		
Results in respect of the ongoing management of pubs in the portfolio disposal	**1.9**	0.2
	1.9	0.2
Non-underlying operating items	**49.1**	4.1
Exceptional non-operating items		
Net interest on net defined benefit asset/liability	**0.1**	0.7
Write-off of unamortised finance costs	**–**	1.4
Movement in fair value of interest rate swaps	**0.5**	(6.4)
	0.6	(4.3)
Total non-underlying items	**49.7**	(0.2)

Notes continued

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4 Non-underlying items (continued)

Impact of change in rate assumptions used for onerous lease provisions
The update of the discount rate assumptions used in the calculation of the Group's onerous property lease provisions resulted in an increase of £0.1 million (2017: decrease of £1.6 million) in the total provision.

Reorganisation and integration costs
During the current period the Group incurred reorganisation and integration costs of £7.3 million (2017: £5.5 million), primarily as a result of the acquisition of the beer business of Charles Wells in the prior period.

Impairment of freehold and leasehold properties
At 28 January 2018 the Group's freehold and leasehold properties were revalued by independent chartered surveyors on an open market value basis. The resulting revaluation adjustments have been recognised in the revaluation reserve or income statement as appropriate. The amount recognised in the income statement comprises:

	2018 £m
Impairment of other intangible assets (note 11)	**0.1**
Reversal of past impairment of other intangible assets (note 11)	**(0.3)**
Impairment of property, plant and equipment (note 12)	**70.6**
Reversal of past impairment of property, plant and equipment (note 12)	**(31.4)**
Impairment of assets held for sale (note 18)	**0.4**
Valuation fees	**0.4**
	39.8

Portfolio disposal of pubs
During the period ended 4 October 2014 the Group disposed of a portfolio of 202 pubs and subsequently entered into a four year lease and five year management agreement in respect thereof. During the prior period the Group entered into new 15 year leases in respect of 22 of the properties and these were removed from the management agreement. All of the other pubs were removed from the arrangements by the purchaser before the end of the four year lease term in December 2017. The Group no longer had strategic control of the pubs whilst they were subject to the management agreement and they did not form part of its core activities. As such the results in respect of the ongoing operation and management of these pubs have been classified as a non-underlying item, comprised as follows:

	2018 £m	2017 £m
Revenue	**0.9**	19.1
Operating expenses	**(2.8)**	(19.3)
	(1.9)	(0.2)

Net interest on net defined benefit asset/liability
The net interest on the net defined benefit asset/liability in respect of the Group's defined benefit pension plan was a charge of £0.1 million (2017: £0.7 million) (note 15).

Movement in fair value of interest rate swaps
The Group's interest rate swaps are revalued to fair value at each balance sheet date. The movement in fair value of interest rate swaps which are not designated as part of a hedging relationship, and the ineffective portion of the movement in fair value of interest rate swaps which are accounted for as hedging instruments are both recognised in the income statement. The net loss of £0.5 million (2017: gain of £6.4 million) is shown as an exceptional item.

Impact of taxation
The current tax credit relating to the above non-underlying items amounts to £1.6 million (2017: £0.9 million). The deferred tax credit relating to the above non-underlying items amounts to £5.2 million (2017: charge of £0.9 million).

Prior period non-underlying items
During the prior period the Group entered into a new bank facility. As such the unamortised finance costs relating to the previous facility were written off.

5 Employees

Employee costs	2018 £m	2017 £m
Wages and salaries	**206.4**	194.0
Social security costs	**17.1**	15.2
Pension costs	**8.7**	7.4
Share-based payments	**0.5**	0.9
Termination costs	**1.6**	1.6
	234.3	219.1

A non-underlying charge of £3.7 million (2017: £4.0 million) is included in employee costs.

5 Employees (continued)

Average monthly number of employees	2018 Number	2017 Number
Bar staff	**11,433**	11,572
Management, administration and production	**2,865**	2,547

Key management personnel compensation	2018 £m	2017 £m
Short-term employee benefits	**1.7**	2.2
Termination benefits	**–**	0.4
Share-based payments	**–**	0.2
	1.7	2.8

6 Finance costs and income

Finance costs	2018 £m	2017 £m
Bank borrowings	**11.6**	11.1
Securitised debt	**46.2**	46.1
Finance leases	**1.4**	1.2
Other lease related borrowings	**18.0**	15.0
Other interest payable and similar charges	**1.7**	1.4
	78.9	74.8
Exceptional finance costs		
Net interest on net defined benefit asset/liability	**0.1**	0.7
Write-off of unamortised finance costs	**–**	1.4
	0.1	2.1
Total finance costs	**79.0**	76.9
Finance income		
Deposit and other interest receivable	**(0.4)**	(0.4)
Total finance income	**(0.4)**	(0.4)
Movement in fair value of interest rate swaps		
Gain on movement in fair value of interest rate swaps	**(0.8)**	(9.3)
Loss on movement in fair value of interest rate swaps	**1.3**	2.9
	0.5	(6.4)
Net finance costs	**79.1**	70.1

7 Taxation

Income statement	2018 £m	2017 £m
Current tax		
Current period	**10.1**	10.7
Adjustments in respect of prior periods	**(0.4)**	(0.3)
Credit in respect of tax on non-underlying items	**(1.6)**	(0.9)
	8.1	9.5
Deferred tax		
Current period	**7.6**	6.1
Adjustments in respect of prior periods	**(1.2)**	(0.9)
(Credit)/charge in respect of tax on non-underlying items	**(5.2)**	0.9
	1.2	6.1
Taxation charge reported in the income statement	**9.3**	15.6

Statement of comprehensive income	2018 £m	2017 £m
Remeasurement of retirement benefits	**2.4**	3.7
Impairment and revaluation of properties	**(0.1)**	(3.9)
Hedging reserve movements	**1.8**	7.9
Taxation charge reported in the statement of comprehensive income	**4.1**	7.7

Notes continued

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7 Taxation (continued)

The actual tax rate for the period is lower (2017: lower) than the standard rate of corporation tax of 19% (2017: 19.5%). The differences are explained below:

Tax reconciliation	**2018 £m**	2017 £m
Profit before tax	**54.3**	100.3
Profit before tax multiplied by the corporation tax rate of 19% (2017: 19.5%)	**10.3**	19.6
Effect of:		
Adjustments in respect of prior periods	**(1.6)**	(1.2)
Net deferred tax credit in respect of land and buildings	**(1.1)**	(1.4)
Costs not deductible for tax purposes	**2.6**	0.7
Other amounts upon which tax relief is available	**(0.6)**	(0.9)
Impact of difference between deferred and current tax rates	**(0.3)**	(1.2)
Current period taxation charge	**9.3**	15.6

The standard rate of corporation tax changed from 20% to 19% with effect from 1 April 2017. As such the Group's profits for the prior period were taxed at an effective rate of 19.5%. The March 2016 Budget announced that the standard rate of corporation tax would change from 19% to 17% with effect from 1 April 2020. This change was substantively enacted in the Finance Act 2016 in September 2016.

8 Ordinary dividends on equity shares

Paid in the period	**2018 £m**	2017 £m
Final dividend for 2017 of 4.8p per share (2016: 4.7p)	**30.4**	27.0
Interim dividend for 2018 of 2.7p per share (2017: 2.7p)	**17.1**	17.1
	47.5	44.1

A final dividend for 2018 of 4.8p per share amounting to £30.4 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 28 January 2019 to those shareholders on the register at close of business on 14 December 2018.

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 on trust for employee share schemes.

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 and other adjusting items. The Directors consider that the supplementary figures are a useful indicator of performance.

	2018		2017	
	Earnings £m	**Per share amount p**	Earnings £m	Per share amount p
Basic earnings per share	**45.0**	**7.1**	84.7	14.2
Diluted earnings per share	**45.0**	**7.0**	84.7	14.1
Underlying earnings per share figures				
Basic underlying earnings per share	**87.9**	**13.9**	84.5	14.2
Diluted underlying earnings per share	**87.9**	**13.7**	84.5	14.0

	2018 m	2017 m
Basic weighted average number of shares	**633.1**	596.9
Dilutive options	**6.7**	4.8
Diluted weighted average number of shares	**639.8**	601.7

10 Goodwill

	£m
Cost	
At 1 October 2017 and 29 September 2018	**231.4**
Aggregate impairment	
At 1 October 2017 and 29 September 2018	**1.1**
Net book amount at 30 September 2017	230.3
Net book amount at 29 September 2018	**230.3**

	£m
Cost	
At 2 October 2016	228.6
Additions	2.8
At 30 September 2017	**231.4**
Aggregate impairment	
At 2 October 2016 and 30 September 2017	**1.1**
Net book amount at 1 October 2016	227.5
Net book amount at 30 September 2017	**230.3**

Additions in the prior period relate to the acquisition of the beer business of Charles Wells (note 35).

Impairment testing of goodwill

Goodwill has been allocated across the operating 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.

Goodwill has been allocated to operating segments based on the extent to which the benefits of acquisitions flow to that segment, as follows:

	2018 £m	2017 £m
Destination and Premium	**87.5**	87.5
Taverns	**113.1**	113.1
Brewing	**29.7**	29.7
	230.3	230.3

The allocation by operating segment for the prior period has been restated for the merging of the Taverns and Leased segments (note 2).

The key assumptions used in determining value in use are the pre-tax discount rate applied to the cash flow projections of 5% (2017: 6%) and the growth rate used to extrapolate the projected cash flows beyond the one year budgets of 2% (2017: 2%) 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 operating segments. 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 discount rate used is the Group's weighted average cost of capital adjusted to reflect market conditions.

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.

Notes continued

For the 52 weeks ended 29 September 2018

11 Other intangible assets

	Acquired brands £m	Lease premiums £m	Computer software £m	Development costs £m	Total £m
Cost					
At 1 October 2017	62.1	1.5	10.7	0.1	74.4
Additions	–	–	3.3	–	3.3
Net transfers to assets held for sale and disposals	–	–	(1.5)	–	(1.5)
At 29 September 2018	**62.1**	**1.5**	**12.5**	**0.1**	**76.2**
Amortisation					
At 1 October 2017	–	0.9	5.8	0.1	6.8
Charge for the period	–	0.1	1.0	–	1.1
Impairment/reversal of impairment	–	(0.2)	–	–	(0.2)
Net transfers to assets held for sale and disposals	–	–	(1.5)	–	(1.5)
At 29 September 2018	**–**	**0.8**	**5.3**	**0.1**	**6.2**
Net book amount at 30 September 2017	62.1	0.6	4.9	–	67.6
Net book amount at 29 September 2018	**62.1**	**0.7**	**7.2**	**–**	**70.0**

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.

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

During the current period there was an impairment of other intangible assets of £0.1 million (2017: £nil) and a reversal of past impairment of £0.3 million (2017: £nil).

	Acquired brands £m	Lease premiums £m	Computer software £m	Development costs £m	Total £m
Cost					
At 2 October 2016	32.1	1.5	11.1	0.1	44.8
Additions	–	–	1.4	–	1.4
Acquisitions	30.0	–	–	–	30.0
Net transfers to assets held for sale and disposals	–	–	(1.8)	–	(1.8)
At 30 September 2017	**62.1**	**1.5**	**10.7**	**0.1**	**74.4**
Amortisation					
At 2 October 2016	–	0.9	6.5	0.1	7.5
Charge for the period	–	–	1.1	–	1.1
Net transfers to assets held for sale and disposals	–	–	(1.8)	–	(1.8)
At 30 September 2017	**–**	**0.9**	**5.8**	**0.1**	**6.8**
Net book amount at 1 October 2016	32.1	0.6	4.6	–	37.3
Net book amount at 30 September 2017	**62.1**	**0.6**	**4.9**	**–**	**67.6**

Acquired brands relate to Brewing. The carrying value of acquired brands is split as follows:

	2018 £m	2017 £m
Wychwood	**13.6**	13.6
Jennings	**2.8**	2.8
Ringwood	**2.9**	2.9
Thwaites	**12.8**	12.8
Eagle	**30.0**	30.0
	62.1	62.1

Impairment testing of acquired brands

The carrying values of acquired brands are subject to annual impairment reviews. The recoverable amount of each brand is determined based on the higher of value in use and fair value less costs to sell. The fair value of each brand is determined by applying an appropriate earnings multiple to the anticipated future income generated by that brand. The key assumptions used in determining the value in use of each brand are the pre-tax discount rate of 5% (2017: 6%) and the long-term growth rate used to extrapolate cash flows beyond the cash flow projection period of one year of 2% (2017: 2%) in line with an expected long-term growth rate which is below the long-term average growth rate for the industry. 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 discount rate used is the Group's weighted average cost of capital adjusted to reflect market conditions.

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.

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 1 October 2017	2,153.7	72.2	331.4	2,557.3
Additions	94.1	17.7	50.6	162.4
Net transfers to assets held for sale and disposals	(42.7)	(5.1)	(37.3)	(85.1)
Revaluation	(39.0)	–	–	(39.0)
At 29 September 2018	**2,166.1**	**84.8**	**344.7**	**2,595.6**
Depreciation				
At 1 October 2017	7.6	30.8	158.2	196.6
Charge for the period	3.6	6.4	29.0	39.0
Net transfers to assets held for sale and disposals	–	(4.4)	(35.3)	(39.7)
Revaluation/impairment	(8.8)	–	0.4	(8.4)
At 29 September 2018	**2.4**	**32.8**	**152.3**	**187.5**
Net book amount at 30 September 2017	2,146.1	41.4	173.2	2,360.7
Net book amount at 29 September 2018	**2,163.7**	**52.0**	**192.4**	**2,408.1**

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation				
At 2 October 2016	2,018.8	61.9	320.3	2,401.0
Additions	146.5	9.5	50.7	206.7
Acquisitions	19.6	5.7	0.2	25.5
Net transfers to assets held for sale and disposals	(29.5)	(4.9)	(39.8)	(74.2)
Revaluation	(1.7)	–	–	(1.7)
At 30 September 2017	**2,153.7**	**72.2**	**331.4**	**2,557.3**
Depreciation				
At 2 October 2016	4.5	29.3	167.8	201.6
Charge for the period	3.1	6.0	29.0	38.1
Net transfers to assets held for sale and disposals	–	(4.5)	(39.2)	(43.7)
Impairment	–	–	0.6	0.6
At 30 September 2017	**7.6**	**30.8**	**158.2**	**196.6**
Net book amount at 1 October 2016	2,014.3	32.6	152.5	2,199.4
Net book amount at 30 September 2017	**2,146.1**	**41.4**	**173.2**	**2,360.7**

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

	2018 £m	2017 £m
Freehold properties	**1,855.5**	1,830.2
Leasehold properties over 50 years unexpired	**227.1**	253.2
Leasehold properties under 50 years unexpired	**81.1**	62.7
	2,163.7	2,146.1

Cost or valuation of land and buildings comprises:

	2018 £m	2017 £m
Valuation	**2,116.5**	1,977.3
At cost	**49.6**	176.4
	2,166.1	2,153.7

If the freehold and leasehold properties had not been revalued, the historical cost net book amount would be £1,624.0 million (2017: £1,578.9 million).

Cost at 29 September 2018 includes £40.8 million (2017: £43.4 million) of assets in the course of construction.

Interest costs of £2.7 million (2017: £1.5 million) were capitalised in the period in respect of the financing of major projects. The capitalisation rates used ranged from 5% to 6% (2017: 5% to 6%).

Notes continued

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12 Property, plant and equipment (continued)

The net profit on disposal of property, plant and equipment, intangible assets and assets held for sale was £7.7 million (2017: £12.5 million). A net profit on disposal of £8.3 million (2017: £12.5 million) has been included within the Group's underlying results.

Capital expenditure authorised and committed at the period end but not provided for in the financial statements was £10.2 million (2017: £14.4 million).

The net book amount of land and buildings held under finance leases at 29 September 2018 was £34.6 million (2017: £36.3 million). The net book amount of land and buildings held as part of sale and leaseback arrangements that do not fall within the scope of IAS 17 'Leases' was £377.1 million (2017: £337.9 million). The net book amount of plant and machinery held as security for bank borrowings was £3.2 million (2017: £nil).

Revaluation/impairment

At 28 January 2018 independent chartered surveyors revalued the Group's freehold and leasehold properties on an open market value basis. These valuations were incorporated into the financial statements and the resulting revaluation adjustments were recognised in the revaluation reserve or income statement as appropriate.

During the current and prior period various properties were reviewed for impairment and/or material changes in value. These valuation adjustments were recognised in the revaluation reserve or the income statement as appropriate.

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

	2018 £m	2017 £m
Income statement:		
Impairment	**(70.6)**	(3.8)
Reversal of past impairment	**31.4**	–
	(39.2)	(3.8)
Revaluation reserve:		
Unrealised revaluation surplus	**170.3**	2.3
Reversal of past revaluation surplus	**(161.7)**	(0.8)
	8.6	1.5
Net decrease in shareholders' equity/property, plant and equipment	**(30.6)**	(2.3)

Fair value of land and buildings

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

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

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

	2018				2017			
Recurring fair value measurements	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Land and buildings:								
Specialised brewery properties	**–**	**–**	**53.1**	**53.1**	–	–	45.5	45.5
Other land and buildings	**–**	**2,110.6**	**–**	**2,110.6**	–	2,100.6	–	2,100.6
	–	**2,110.6**	**53.1**	**2,163.7**	–	2,100.6	45.5	2,146.1

In the current period properties with a value of £5.1 million that were previously categorised within Level 2 have been transferred to Level 3 to appropriately reflect the valuation basis used in the external property valuation undertaken in the period. There were no other transfers between Levels 1, 2 and 3 fair value measurements during the current or prior period.

The Level 2 fair values of land and buildings have been obtained using a market approach, primarily using earnings multiples derived from prices in observed transactions involving comparable businesses. Whilst there are two inputs to the fair value measurement of the public house assets, being the fair maintainable trade and the multiplier applied, it is considered that the most significant input relates to the multiplier which, being indirectly observable, is a Level 2 input. Thus it has been concluded that since the most significant influence on the valuation is observable indirectly Level 2 is the most appropriate categorisation for these fair value measurements.

The Level 3 fair values of the specialised brewery properties have been obtained using a cost approach. These breweries represent properties that are rarely, if ever, sold in the market, except by way of a sale of the business of which they are part, due to the uniqueness arising from their specialised nature, design and configuration. As such the valuation of these properties has been performed using the depreciated replacement cost approach, which values the properties at the current cost of replacing them with their modern equivalents less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

The significant unobservable inputs to the Level 3 fair value measurements are:

	Sensitivity of fair value to unobservable inputs
Current cost of modern equivalent asset	The higher the cost the higher the fair value
Amount of adjustment for physical deterioration/obsolescence	The higher the adjustment the lower the fair value

12 Property, plant and equipment (continued)

Level 3 recurring fair value measurements	2018 £m	2017 £m
At beginning of the period	**45.5**	25.3
Additions	**0.6**	0.8
Acquisitions	**–**	19.6
Transfers	**5.1**	–
Revaluation	**2.3**	–
Depreciation charge for the period	**(0.4)**	(0.2)
At end of the period	**53.1**	45.5

The Group's properties are revalued by external independent qualified valuers at least once in each rolling three year period. The last external valuation of the Group's freehold and leasehold properties was performed as at 28 January 2018. The Group has an internal team of qualified valuers and at each reporting date the estate is reviewed for any indication of significant changes in value. Where this is the case internal valuations are performed on a basis consistent with those performed externally.

13 Other non-current assets

Trade loans	2018 £m	2017 £m
At beginning of the period	**10.3**	10.4
Additions	**2.7**	2.5
Acquisitions	**–**	0.6
Disposals, repayments and impairments	**(3.4)**	(3.2)
At end of the period	**9.6**	10.3

Other non-current assets are shown net of a provision of £1.9 million (2017: £2.4 million).

14 Deferred tax

Deferred tax is calculated on temporary differences between tax bases of assets and liabilities and their carrying amounts under the liability method using a tax rate of 17% (2017: 17%). The movement on the deferred tax accounts is shown below:

Net deferred tax liability	2018 £m	2017 £m
At beginning of the period	**76.0**	60.8
Acquisitions	**–**	1.4
Charged to the income statement	**1.2**	6.1
(Credited)/charged to equity:		
Impairment and revaluation of properties	**(0.1)**	(3.9)
Hedging reserve	**1.8**	7.9
Retirement benefits	**2.4**	3.7
At end of the period	**81.3**	76.0

Recognised in the balance sheet	2018 £m	2017 £m
Deferred tax liabilities (after offsetting)	**81.3**	76.6
Deferred tax assets (after offsetting)	**–**	(0.6)
	81.3	76.0

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12 'Income Taxes') 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 assets have been recognised in respect of all tax losses and other temporary differences where it is probable that these assets will be recovered.

Deferred tax liabilities	Pensions £m	Accelerated capital allowances £m	Revaluation of properties £m	Rolled over capital gains £m	Other £m	Total £m
At 1 October 2017	–	30.2	94.3	6.1	4.0	134.6
Charged/(credited) to the income statement	0.3	4.8	(6.5)	0.7	0.3	(0.4)
Charged/(credited) to equity	2.4	–	(0.1)	–	–	2.3
At 29 September 2018	**2.7**	**35.0**	**87.7**	**6.8**	**4.3**	**136.5**

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14 Deferred tax (continued)

Deferred tax assets	Pensions £m	Tax losses £m	Hedging reserve £m	Other £m	Total £m
At 1 October 2017	(0.9)	(27.1)	(26.1)	(4.5)	(58.6)
Charged to the income statement	0.9	0.7	–	–	1.6
Charged to equity	–	–	1.8	–	1.8
At 29 September 2018	**–**	**(26.4)**	**(24.3)**	**(4.5)**	**(55.2)**

Net deferred tax liability	
At 30 September 2017	76.0
At 29 September 2018	**81.3**

Deferred tax liabilities	Accelerated capital allowances £m	Revaluation of properties £m	Rolled over capital gains £m	Other £m	Total £m
At 2 October 2016	27.9	97.1	4.4	3.7	133.1
Acquisitions	(0.2)	1.9	–	–	1.7
Charged/(credited) to the income statement	2.5	(0.8)	1.7	0.3	3.7
Credited to equity	–	(3.9)	–	–	(3.9)
At 30 September 2017	**30.2**	**94.3**	**6.1**	**4.0**	**134.6**

Deferred tax assets	Pensions £m	Tax losses £m	Hedging reserve £m	Other £m	Total £m
At 2 October 2016	(5.7)	(27.4)	(34.0)	(5.2)	(72.3)
Acquisitions	–	–	–	(0.3)	(0.3)
Charged to the income statement	1.1	0.3	–	1.0	2.4
Charged to equity	3.7	–	7.9	–	11.6
At 30 September 2017	**(0.9)**	**(27.1)**	**(26.1)**	**(4.5)**	**(58.6)**

Net deferred tax liability	
At 1 October 2016	60.8
At 30 September 2017	**76.0**

15 Retirement benefits

During the period the Group contributed to a funded defined benefit pension plan and a number of defined contribution pension plans.

Defined contribution plans

Pension costs for defined contribution plans are as follows:

	2018 £m	2017 £m
Defined contribution plans	**8.7**	7.4

Defined benefit plan

The Marston's PLC Pension and Life Assurance Scheme is a final salary pension plan which provides benefits to members in the form of a guaranteed level of pension payable for life. The plan closed to future accrual on 30 September 2014 and the link to future salary increases was also removed.

The plan operates under the UK regulatory framework and is governed by a board of Trustees composed of plan participants and representatives of the Group. The Trustees make investment decisions and set the required contribution rates based on independent actuarial advice.

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

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

15 Retirement benefits (continued)

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

	Fair value of plan assets		Present value of defined benefit obligation		Net surplus/ (deficit)	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
At beginning of the period	**532.4**	543.4	**(537.8)**	(577.4)	**(5.4)**	(34.0)
Interest income/(expense)	**14.1**	12.3	**(14.2)**	(13.0)	**(0.1)**	(0.7)
Remeasurements:						
Return on plan assets (excluding interest income)	**(11.7)**	(5.2)	**–**	–	**(11.7)**	(5.2)
Effect of changes in financial assumptions	**–**	–	**16.6**	27.0	**16.6**	27.0
Effect of changes in demographic assumptions	**–**	–	**2.9**	–	**2.9**	–
Effect of experience adjustments	**–**	–	**6.2**	–	**6.2**	–
Cash flows:						
Employer contributions	**8.0**	8.3	**–**	–	**8.0**	8.3
Administrative expenses paid from plan assets	**(0.9)**	(0.8)	**–**	–	**(0.9)**	(0.8)
Benefits paid	**(25.3)**	(25.6)	**25.3**	25.6	**–**	–
At end of the period	**516.6**	532.4	**(501.0)**	(537.8)	**15.6**	(5.4)

Pension costs recognised in the income statement

A charge of £0.1 million (2017: £0.7 million) comprising the net interest on the net defined benefit asset/liability is included within exceptional finance costs and a charge of £0.9 million (2017: £0.8 million) comprising the administrative expenses paid from plan assets is included within finance costs.

An updated actuarial valuation of the plan was performed by Mercer as at 29 September 2018 for the purposes of IAS 19 'Employee Benefits'. The principal assumptions made by the actuaries were:

	2018	2017
Discount rate	**2.9%**	2.7%
Rate of increase in pensions – 5% LPI	**3.1%**	3.1%
Rate of increase in pensions – 2.5% LPI	**2.2%**	2.2%
Inflation assumption (RPI)	**3.1%**	3.1%
Inflation assumption (CPI)	**2.1%**	2.1%
Employed deferred revaluation	**2.1%**	2.1%
Life expectancy for deferred members from age 65 (years)		
Male	**23.6**	23.5
Female	**26.1**	26.0
Life expectancy for current pensioners from age 65 (years)		
Male	**21.8**	21.7
Female	**24.0**	24.1

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

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

	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25%	Decrease by 3.9%	Increase by 4.2%
Inflation assumption	0.25%	Increase by 2.4%	Decrease by 1.9%
Life expectancy	One year	Increase by 3.7%	Decrease by 3.7%

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

Plan assets	**2018 £m**	2017 £m
Equities/Properties	**134.3**	131.8
Bonds/Gilts	**191.1**	189.8
Cash/Other	**7.6**	6.4
Buy-in policies (matching annuities)	**183.6**	204.4
	516.6	532.4

The actual return on plan assets was a gain of £2.4 million (2017: £7.1 million).

A proportion of the defined benefit obligation has been secured by buy-in policies and as such this proportion of liabilities is matched by annuities.

Notes continued

For the 52 weeks ended 29 September 2018

15 Retirement benefits (continued)

The Trustees of the plan hold a range of assets and are aiming to better align the cash flows from these to those of the plan. They are also working with the Group to de-risk their portfolio further.

The Group is aiming to eliminate the plan's funding deficit in the medium term. A schedule of contributions was agreed as part of the 30 September 2017 triennial valuation and contributions of £0.5 million per month are payable until 30 September 2021 as well as contributions in respect of the plan's expenses. These contributions may continue until 2031 depending on the plan's funding position. The next triennial valuation will be performed as at 30 September 2020.

The employer contributions expected to be paid during the financial period ending 28 September 2019 amount to £8.0 million.

The weighted average duration of the defined benefit obligation is 16 years.

On 26 October 2018 a High Court ruling indicated that guaranteed minimum pensions must be equalised for men and women. The Group is assessing the impact of this requirement upon its defined benefit plan.

Post-retirement medical benefits
A gain of £nil (2017: £nil) in respect of the remeasurement of post-retirement medical benefits has been included in the statement of comprehensive income.

16 Inventories

	2018 £m	2017 £m
Raw materials and consumables	**11.2**	10.2
Work in progress	**1.6**	1.4
Finished goods	**31.8**	28.6
	44.6	40.2

17 Trade and other receivables

	2018 £m	2017 £m
Trade receivables	**66.8**	68.8
Prepayments and accrued income	**27.9**	30.7
Other receivables	**10.2**	8.9
	104.9	108.4

Trade receivables are shown net of a provision of £1.5 million (2017: £1.4 million). Other receivables are shown net of a provision of £4.2 million (2017: £3.3 million). The ageing analysis of trade receivables is as follows:

	2018 £m	2017 £m
Neither past due nor impaired	**46.5**	44.9
30 days or less	**14.0**	9.6
31 to 60 days	**2.0**	10.0
Greater than 60 days	**4.3**	4.3
	66.8	68.8

Included within other receivables is an amount of £5.1 million (2017: £5.6 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.

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 29 September 2018 the value of collateral held in the form of cash deposits was £6.7 million (2017: £7.7 million).

18 Assets held for sale

	2018 £m	2017 £m
Properties	**2.3**	2.7

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', properties categorised as held for sale have been written down to their fair value less costs to sell. This is a non-recurring fair value measurement falling within Level 2 of the fair value hierarchy. These Level 2 fair values have been obtained using a market approach, and are derived from sales prices in recent transactions involving comparable properties.

During the current and prior period, all properties classed as held for sale were reviewed for impairment or reversal of impairment. This review identified an impairment of £0.4 million (2017: £0.1 million) which has been recognised in the income statement.

19 Borrowings

Current	2018 £m	2017 £m
Bank borrowings	**–**	(0.7)
Securitised debt	**31.2**	29.5
Finance leases	**7.5**	0.2
Other lease related borrowings	**(0.3)**	(0.2)
Other borrowings	**120.0**	120.0
	158.4	148.8

Non-current	2018 £m	2017 £m
Bank borrowings	**287.3**	277.7
Securitised debt	**745.1**	776.3
Finance leases	**20.1**	27.6
Other lease related borrowings	**336.4**	273.2
Preference shares	**0.1**	0.1
	1,389.0	1,354.9

Bank borrowings of £3.2 million (2017: £nil) are secured against items of property, plant and equipment. All other bank borrowings are unsecured.

Other lease related borrowings represent amounts due under sale and leaseback arrangements that do not fall within the scope of IAS 17 'Leases'. The Group has an option to repurchase each leased property for a nominal amount at the end of the lease. The leases have terms of 35 to 40 years and rents which are linked to RPI, subject to a cap and collar.

Other borrowings comprises the amount drawn down under the securitisation's liquidity facility. During the period ended 4 October 2014 the facility's provider, the Royal Bank of Scotland Group plc, had its short-term credit rating downgraded below the minimum prescribed in the facility agreement and as such the Group exercised its entitlement to draw the full amount of the facility and hold it in a designated bank account. The corresponding balance of £120.0 million (2017: £120.0 million) held in the relevant bank account is included within other cash deposits.

The Group has 75,000 (2017: 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.

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:

	2018			2017		
Due:	**Gross borrowings £m**	**Unamortised issue costs £m**	**Net borrowings £m**	Gross borrowings £m	Unamortised issue costs £m	Net borrowings £m
Within one year	**159.9**	**(1.5)**	**158.4**	150.2	(1.4)	148.8
In more than one year but less than two years	**34.3**	**(1.5)**	**32.8**	39.1	(1.5)	37.6
In more than two years but less than five years	**401.6**	**(4.1)**	**397.5**	386.8	(3.9)	382.9
In more than five years	**984.9**	**(26.2)**	**958.7**	956.6	(22.2)	934.4
	1,580.7	**(33.3)**	**1,547.4**	1,532.7	(29.0)	1,503.7

Fair value of borrowings

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

	Carrying amount		**Fair value**	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Bank borrowings	**290.2**	280.0	**290.2**	280.0
Securitised debt	**781.1**	811.1	**770.0**	808.4
Finance leases	**27.6**	27.8	**27.6**	27.8
Other lease related borrowings	**361.7**	293.7	**361.7**	293.7
Other borrowings	**120.0**	120.0	**120.0**	120.0
Preference shares	**0.1**	0.1	**0.1**	0.1
	1,580.7	1,532.7	**1,569.6**	1,530.0

The fair value of the Group's securitised debt is based on quoted market prices and is within Level 1 of the fair value hierarchy. The fair values of all of the Group's other borrowings approximate to their carrying amounts and are within Level 2 of the fair value hierarchy.

Notes continued

For the 52 weeks ended 29 September 2018

20 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. On 15 January 2014 all of the AB1 notes were repurchased by the Group at par and immediately cancelled.

During the period ended 29 September 2018, 29 (2017: 32) of the securitised pubs were sold to third parties and 1 pub (2017: 1) was sold to another member of the Group. The carrying amount of the securitised pubs at 29 September 2018 was £1,293.3 million (2017: £1,269.8 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.

The tranches of securitised debt have the following principal terms:

Tranche	2018 £m	2017 £m	Interest	Principal repayment period – by instalments	Expected average life	Expected maturity date
A1	**40.1**	60.3	Floating	2018 to 2020	2 years	2020
A2	**214.0**	214.0	Fixed/floating	2020 to 2027	9 years	2027
A3	**200.0**	200.0	Fixed/floating	2027 to 2032	14 years	2032
A4	**172.0**	181.8	Floating	2018 to 2031	13 years	2031
B	**155.0**	155.0	Fixed/floating	2032 to 2035	17 years	2035
	781.1	811.1				

The interest payable on each tranche is as follows:

Tranche	Before step up	After step up	Step up date
A1	3 month LIBOR + 0.55%	3 month LIBOR + 1.375%	July 2012
A2	5.1576%	3 month LIBOR + 1.32%	July 2019
A3	5.1774%	3 month LIBOR + 1.45%	April 2027
A4	3 month LIBOR + 0.65%	3 month LIBOR + 1.625%	October 2012
B	5.6410%	3 month LIBOR + 2.55%	July 2019

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 29 September 2018 Marston's Pubs Limited held cash of £27.5 million (2017: £39.2 million), which was governed by certain restrictions under the covenants associated with the securitisation. In addition, Marston's Issuer PLC held cash of £0.1 million (2017: £0.1 million) and other cash deposits of £120.0 million (2017: £120.0 million) principally in respect of the amounts drawn down under the liquidity facility.

21 Derivative financial instruments

Interest rate swaps	2018 £m	2017 £m
Current liabilities	**(28.9)**	(28.7)
Non-current liabilities	**(148.6)**	(159.2)
	(177.5)	(187.9)

Details of the Group's interest rate swaps are provided in note 25.

22 Trade and other payables

	2018 £m	2017 £m
Trade payables	**123.2**	113.6
Other taxes and social security	**33.1**	30.1
Accruals and deferred income	**82.1**	98.3
Other payables	**13.8**	14.1
	252.2	256.1

23 Provisions for other liabilities and charges

Property leases	2018 £m	2017 £m
At beginning of the period	**30.2**	38.8
Released in the period	**(3.7)**	(6.9)
Provided in the period	**3.0**	3.5
Unwinding of discount	**0.5**	0.5
Utilised in the period	**(4.7)**	(5.7)
At end of the period	**25.3**	30.2

Recognised in the balance sheet	2018 £m	2017 £m
Current liabilities	**2.8**	3.3
Non-current liabilities	**22.5**	26.9
	25.3	30.2

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 51 years (2017: 1 to 52 years).

The £0.1 million increase (2017: £1.6 million decrease) in the provision as a result of updating the discount rate assumptions used in the calculation has been classified as a non-underlying item (note 4).

24 Other non-current liabilities

	2018 £m	2017 £m
Other liabilities	**1.5**	0.6

25 Financial instruments

Financial instruments by category

At 29 September 2018	Loans and receivables £m	Total £m
Assets as per the balance sheet		
Trade receivables (before provision)	68.3	68.3
Other receivables (before provision)	14.4	14.4
Trade loans (before provision)	11.5	11.5
Other cash deposits	120.0	120.0
Cash and cash equivalents	41.4	41.4
	255.6	**255.6**

At 29 September 2018	Derivatives used for hedging £m	Liabilities at fair value through profit or loss £m	Other financial liabilities £m	Total £m
Liabilities as per the balance sheet				
Derivative financial instruments	148.6	28.9	–	177.5
Borrowings	–	–	1,547.4	1,547.4
Trade payables	–	–	123.2	123.2
Other payables	–	–	13.8	13.8
	148.6	**28.9**	**1,684.4**	**1,861.9**

At 30 September 2017	Loans and receivables £m	Total £m
Assets as per the balance sheet		
Trade receivables (before provision)	70.2	70.2
Other receivables (before provision)	12.2	12.2
Trade loans (before provision)	12.7	12.7
Other cash deposits	120.0	120.0
Cash and cash equivalents	54.6	54.6
	269.7	**269.7**

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25 Financial instruments (continued)

At 30 September 2017	Derivatives used for hedging £m	Liabilities at fair value through profit or loss £m	Other financial liabilities £m	Total £m
Liabilities as per the balance sheet				
Derivative financial instruments	159.2	28.7	–	187.9
Borrowings	–	–	1,503.7	1,503.7
Trade payables	–	–	113.6	113.6
Other payables	–	–	14.1	14.1
	159.2	**28.7**	**1,631.4**	**1,819.3**

Fair values of financial instruments

The only financial instruments which the Group holds at fair value are derivative financial instruments, which are classified as at fair value through profit or loss or derivatives used for hedging.

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

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

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

	2018				2017			
Liabilities as per the balance sheet	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Derivative financial instruments	**–**	**177.5**	**–**	**177.5**	–	187.9	–	187.9

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

The Level 2 fair values of derivative financial instruments have been obtained using a market approach and reflect the estimated amount the Group would expect to pay or receive on termination of the instruments. The Group utilises valuations from counterparties who use a variety of assumptions based on market conditions existing at each balance sheet date.

The fair values of all non-derivative financial instruments are equal to their book values, with the exception of borrowings (note 19). The carrying amount less impairment provision of trade receivables, other receivables and trade loans, and the carrying amount of trade payables and other payables, are assumed to approximate their fair values.

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), counterparty risk, credit 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 principles for overall risk management, as well as policies covering specific areas, such as interest rate risk, credit risk, investment of excess liquidity and use of derivative and non-derivative financial instruments.

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 its 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.

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 borrowings at floating rates and then often 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, the difference between fixed contract and floating rate interest amounts calculated by reference to the agreed notional amounts.

If interest rates had been 0.5% higher/lower during the period ended 29 September 2018, with all other variables held constant, post-tax profit for the period would have been £0.8 million (2017: £0.7 million) lower/higher as a result of higher/lower interest expense.

25 Financial instruments (continued)

Interest rate swaps designated as part of a hedging arrangement
The Group uses interest rate swaps to fix the interest rate payable on the floating rate tranches of its securitised debt (note 20). The notional principal amounts of these interest rate swap contracts at 29 September 2018 totalled £212.1 million (2017: £242.1 million). These interest rate swaps, including borrowing margins, fix interest at 6.2% and 7.7%. The movement in fair value recognised in other comprehensive income in the period was a gain of £10.9 million (2017: £46.4 million). The movement in fair value recognised in the income statement in the period was a loss of £0.3 million (2017: £2.9 million).

Interest rate swaps not designated as part of a hedging arrangement
On 22 March 2012 the Group entered into two forward starting interest rate swaps of £60.0 million each to fix the interest rate payable on the Group's bank borrowings. These interest rate swaps previously fixed interest at 3.0% until 30 April 2018 and at 4.5% and 4.6% thereafter and were due to terminate on 30 April 2025. In the current period the termination date of the swaps was extended to 30 September 2029 and the terms were amended to fix interest at 2.8% until 30 September 2019 and 3.9% and 4.0% thereafter. In total, the fair value of the two swaps at inception was £(18.9) million. The movement in fair value recognised in the income statement in the period was a net gain of £0.6 million (2017: £9.3 million).

On 30 October 2017 the Group entered into a forward starting interest rate swap of £60.0 million to fix the interest rate payable on the Group's bank borrowings. This interest rate swap commences on 30 April 2025, fixes interest at 2.2% and terminates on 30 April 2029. The movement in fair value recognised in the income statement in the period was a loss of £0.8 million (2017: £nil).

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

	2018			2017		
	Floating rate financial liabilities £m	**Fixed rate financial liabilities £m**	**Total £m**	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Total £m
Borrowings	**679.5**	**901.2**	**1,580.7**	601.5	931.2	1,532.7

The weighted average interest rate of the fixed rate borrowings was 5.5% (2017: 5.2%) and the weighted average period for which the rate is fixed was 12 years (2017: 12 years).

Foreign currency risk:
The Group buys and sells goods denominated in non-sterling currencies, principally US dollars, Canadian 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.

Counterparty risk:
The Group's counterparty risk in respect of its cash and cash equivalents and other cash deposits 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 is regularly monitored.

A provision for impairment of trade receivables, other receivables and trade loans has been estimated by management 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, ensuring the availability of funding through an adequate amount of committed credit facilities and having the ability to close out market positions. Due to the dynamic nature of the underlying business, Group Treasury maintains the availability of committed credit lines to ensure that the Group has flexibility in funding.

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 maintaining debt financing plans, projecting cash flows and considering the level of liquid assets necessary to meet these, and monitoring balance sheet liquidity ratios against internal and external regulatory requirements. The Group's borrowing covenants are subject to regular review.

Notes continued

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25 Financial instruments (continued)

The tables below analyse 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 tables are the contractual undiscounted cash flows.

At 29 September 2018	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
Borrowings	224.5	88.9	563.4	1,688.2	2,565.0
Derivative financial instruments	12.3	25.2	61.2	116.4	215.1
Trade payables	123.2	–	–	–	123.2
Other payables	13.8	–	–	–	13.8
	373.8	**114.1**	**624.6**	**1,804.6**	**2,917.1**

At 30 September 2017	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
Borrowings	212.1	96.2	533.4	1,609.2	2,450.9
Derivative financial instruments	14.5	14.4	72.9	124.8	226.6
Trade payables	113.6	–	–	–	113.6
Other payables	14.1	–	–	–	14.1
	354.3	**110.6**	**606.3**	**1,734.0**	**2,805.2**

26 Subsidiary undertakings

Details of the Group's subsidiary undertakings are provided in note 6 to the Company financial statements.

27 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 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) Deferred bonus. Under this scheme nil cost options are granted to eligible employees in lieu of a cash bonus. Exercise of options is subject to continued employment.

(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 return on capital, free cash flow and relative total shareholder return are met.

In 2010, HM Revenue & Customs (HMRC) approved an Approved Performance Share Plan (APSP) to enable participants in the LTIP to benefit from UK tax efficiencies. As such, awards made in 2010 and subsequent years may 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 (a linked award) is also provided to enable participants to fund the exercise of the approved option. This linked award is satisfied by way of shares held on trust but these additional shares are not generally delivered to the participant. Under these rules the LTIP options are still issued at nil cost to the employee.

The tables below summarise the outstanding share options.

	Number of shares		Weighted average exercise price	
SAYE:	**2018 m**	2017 m	**2018 p**	2017 p
Outstanding at beginning of the period	**8.4**	6.8	**117.8**	123.3
Granted	**4.2**	4.1	**89.0**	110.0
Exercised	**–**	(0.4)	**82.5**	84.9
Expired	**(5.0)**	(2.1)	**117.3**	126.4
Outstanding at end of the period	**7.6**	8.4	**102.3**	117.8
Exercisable at end of the period	**0.7**	1.4	**131.0**	120.1
Range of exercise prices	**78.7p to 136.0p**	76.1p to 136.0p		
Weighted average remaining contractual life (years)	**2.8**	2.7		

27 Share-based payments (continued)

Deferred bonus:	Number of shares 2018 m	Number of shares 2017 m	Weighted average exercise price 2018 p	Weighted average exercise price 2017 p
Outstanding at beginning of the period	**0.2**	0.1	**–**	–
Granted	**0.1**	0.1	**–**	–
Outstanding at end of the period	**0.3**	0.2	**–**	–
Exercisable at end of the period	**–**	–	**–**	–
Exercise price	**–**	–		

LTIP:	Number of shares 2018 m	Number of shares 2017 m	Weighted average exercise price 2018 p	Weighted average exercise price 2017 p
Outstanding at beginning of the period	**6.0**	6.3	**–**	–
Granted	**2.3**	2.4	**–**	–
Exercised	**–**	(0.3)	**–**	–
Expired	**(1.6)**	(2.4)	**–**	–
Outstanding at end of the period	**6.7**	6.0	**–**	–
Exercisable at end of the period	**–**	–	**–**	–
Exercise price	**–**	–		

LTIP and deferred bonus options are exercisable no later than the tenth anniversary of the date of grant.

The fair values of the SAYE, deferred bonus 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:

	2018	2017
Dividend yield %	**7.2 to 7.3**	5.5 to 5.6
Expected volatility %	**21.2 to 22.5**	19.7 to 20.5
Risk-free interest rate %	**0.5 to 0.8**	0.2 to 0.4
Expected life of rights		
SAYE	**3 years**	3 to 5 years
Deferred bonus	**3 years**	1 year
LTIP	**5 years**	3 years

The expected volatility is based on historical volatility over the expected life of the rights.

The weighted average fair value of options granted during the period in relation to the SAYE was 6.4p (2017: 9.5p). The fair value of options granted during the period in relation to the deferred bonus scheme was 97.6p (2017: 113.0p). The fair value of options granted during the period in relation to the LTIP was 84.5p (2017: 105.7p).

The weighted average share price for options exercised over the period was 101.7p (2017: 120.5p). The total charge for the period relating to employee share-based payment plans was £0.5 million (2017: £0.9 million), all of which related to equity-settled share-based payment transactions. After tax, the total charge was £0.5 million (2017: £0.9 million).

28 Equity share capital

Allotted, called up and fully paid	2018 Number m	2018 Value £m	2017 Number m	2017 Value £m
Ordinary shares of 7.375p each:				
At beginning of the period	**660.4**	**48.7**	602.8	44.4
Allotted	**–**	**–**	57.6	4.3
At end of the period	**660.4**	**48.7**	660.4	48.7

In May 2017, the Group issued 57.6 million ordinary shares of 7.375p each. The net proceeds were £75.5 million and as the share issue qualified for merger relief under section 612 of the Companies Act 2006, the excess of the net proceeds over the nominal value of the shares issued was credited to a merger reserve rather than the share premium account (note 29).

29 Other components of equity

The merger reserve of £23.7 million (2017: £71.2 million) arose on the issue of ordinary shares in the prior period and represents the difference between the nominal value of the shares issued and the net proceeds received, less the dividends paid in the current period.

The capital redemption reserve of £6.8 million (2017: £6.8 million) arose on share buybacks.

Own shares represent the carrying value of the investment in treasury shares and shares held on trust for employee share schemes (including executive share option schemes) as set out in the table below. The trustees of the schemes are Banks's Brewery Insurance Limited, a wholly-owned subsidiary of Marston's PLC, and Computershare Trustees (C.I.) Limited.

Notes continued

For the 52 weeks ended 29 September 2018

29 Other components of equity (continued)

	2018 Number m	2018 Value £m	2017 Number m	2017 Value £m
Shares held on trust for employee share schemes	**1.4**	**1.7**	0.3	0.5
Treasury shares	**26.4**	**110.6**	26.4	110.8
	27.8	**112.3**	26.7	111.3

The market value of own shares held is £27.5 million (2017: £29.0 million). Shares held on trust for employee share schemes represent 0.2% (2017: nil%) of issued share capital. Treasury shares held represent 4.0% (2017: 4.0%) of issued share capital. Dividends on own shares have been waived.

The Group considers its capital to comprise total equity (as disclosed on the face of the Group balance sheet) and net debt (note 30). 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 both balances risks and returns at an acceptable level and retains sufficient funds to comply with lending covenants, achieve working capital targets and meet investment requirements. The Board reviews the Group's dividend policy and funding requirements at least once a year.

30 Net debt

Analysis of net debt	2018 £m	Cash flow £m	Non-cash movements and deferred issue costs £m	2017 £m
Cash and cash equivalents				
Cash at bank and in hand	**41.4**	(13.2)	–	54.6
	41.4	(13.2)	–	54.6
Financial assets				
Other cash deposits	**120.0**	–	–	120.0
	120.0	–	–	120.0
Debt due within one year				
Bank borrowings	**–**	–	(0.7)	0.7
Securitised debt	**(31.2)**	30.0	(31.7)	(29.5)
Finance leases	**(7.5)**	0.2	(7.5)	(0.2)
Other lease related borrowings	**0.3**	–	0.1	0.2
Other borrowings	**(120.0)**	–	–	(120.0)
	(158.4)	30.2	(39.8)	(148.8)
Debt due after one year				
Bank borrowings	**(287.3)**	(10.2)	0.6	(277.7)
Securitised debt	**(745.1)**	–	31.2	(776.3)
Finance leases	**(20.1)**	–	7.5	(27.6)
Other lease related borrowings	**(336.4)**	(68.0)	4.8	(273.2)
Preference shares	**(0.1)**	–	–	(0.1)
	(1,389.0)	(78.2)	44.1	(1,354.9)
Net debt	**(1,386.0)**	(61.2)	4.3	(1,329.1)

Other borrowings comprises the amount drawn down under the securitisation's liquidity facility. During the period ended 4 October 2014 the facility's provider, the Royal Bank of Scotland Group plc, had its short-term credit rating downgraded below the minimum prescribed in the facility agreement and as such the Group exercised its entitlement to draw the full amount of the facility and hold it in a designated bank account. The corresponding balance of £120.0 million (2017: £120.0 million) held in the relevant bank account is included within other cash deposits. The amount drawn down can only be used for the purpose of meeting the securitisation's debt service obligations should there ever be insufficient funds available from operations to meet such payments. As such this amount is considered to be restricted cash.

Included within cash and cash equivalents is an amount of £0.3 million (2017: £0.5 million) relating to a letter of credit with Royal Sun Alliance Insurance, an amount of £1.4 million (2017: £1.4 million) relating to a letter of credit with Aviva, and an amount of £6.7 million (2017: £7.7 million) relating to collateral held in the form of cash deposits. These amounts are also considered to be restricted cash. In addition, any other cash held in connection with the securitised business is governed by certain restrictions under the covenants associated with the securitisation (note 20).

Reconciliation of net cash flow to movement in net debt	2018 £m	2017 £m
Decrease in cash and cash equivalents in the period	**(13.2)**	(131.0)
Increase in other cash deposits	**–**	120.0
Cash inflow from movement in debt	**(48.0)**	(46.4)
Change in debt resulting from cash flows	**(61.2)**	(57.4)
Non-cash movements and deferred issue costs	**4.3**	(2.3)
Movement in net debt in the period	**(56.9)**	(59.7)
Net debt at beginning of the period	**(1,329.1)**	(1,269.4)
Net debt at end of the period	**(1,386.0)**	(1,329.1)

30 Net debt (continued)

Reconciliation of net debt before lease financing to net debt	2018 £m	2017 £m
Cash and cash equivalents	**41.4**	54.6
Other cash deposits	**120.0**	120.0
Bank borrowings	**(287.3)**	(277.0)
Securitised debt	**(776.3)**	(805.8)
Other borrowings	**(120.0)**	(120.0)
Preference shares	**(0.1)**	(0.1)
Net debt before lease financing	**(1,022.3)**	(1,028.3)
Finance leases	**(27.6)**	(27.8)
Other lease related borrowings	**(336.1)**	(273.0)
Net debt	**(1,386.0)**	(1,329.1)

Changes in liabilities arising from financing activities are as follows:

	2018			2017		
	Borrowings £m	Derivative financial instruments £m	Total financing liabilities £m	Borrowings £m	Derivative financial instruments £m	Total financing liabilities £m
At beginning of the period	**(1,503.7)**	**(187.9)**	**(1,691.6)**	(1,455.0)	(240.7)	(1,695.7)
Cash flow	**(48.0)**	**13.5**	**(34.5)**	(46.4)	14.2	(32.2)
Changes in fair value	**–**	**10.4**	**10.4**	–	52.8	52.8
Other changes	**4.3**	**(13.5)**	**(9.2)**	(2.3)	(14.2)	(16.5)
At end of the period	**(1,547.4)**	**(177.5)**	**(1,724.9)**	(1,503.7)	(187.9)	(1,691.6)

31 Working capital and non-cash movements

Working capital movement	2018 £m	2017 £m
Increase in inventories	**(4.4)**	(3.0)
Decrease/(increase) in trade and other receivables	**4.9**	(4.9)
(Decrease)/increase in trade and other payables	**(2.6)**	46.7
	(2.1)	38.8

Non-cash movements	2018 £m	2017 £m
Income from other non-current assets	**(0.4)**	(0.2)
Movements in respect of property, plant and equipment, assets held for sale and intangible assets	**31.7**	(8.6)
Share-based payments	**0.5**	0.9
	31.8	(7.9)

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 18.

32 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:

	2018		2017	
Due:	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	**20.0**	**0.4**	19.2	0.6
In more than one year but less than five years	**76.7**	**0.2**	70.6	0.6
In more than five years	**371.7**	**–**	331.0	–
	468.4	**0.6**	420.8	1.2

Notes continued

For the 52 weeks ended 29 September 2018

32 Operating leases (continued)

The Group as lessor

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

	2018		2017	
Due:	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	**17.6**	**–**	18.5	–
In more than one year but less than five years	**55.4**	**–**	58.9	–
In more than five years	**66.4**	**–**	77.8	–
	139.4	**–**	155.2	–

33 Finance leases

The Group leases a number of properties under finance leases. The leases have various terms, escalation clauses and renewal rights. Future minimum lease payments under finance leases are as follows:

Due:	2018 £m	2017 £m
Within one year	**8.7**	1.6
In more than one year but less than five years	**5.1**	12.5
In more than five years	**35.0**	36.4
	48.8	50.5
Future finance charges	**(21.2)**	(22.7)
Present value of finance lease obligations	**27.6**	27.8

The present value of finance lease obligations is as follows:

Due:	2018 £m	2017 £m
Within one year	**7.5**	0.2
In more than one year but less than five years	**0.8**	8.0
In more than five years	**19.3**	19.6
Present value of finance lease obligations	**27.6**	27.8

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 potential de-grouping liability now stands at £2.2 million (2017: £2.3 million), all of which relates to CGT.

The Group has issued letters of credit in favour of Royal Sun Alliance Insurance totalling £0.3 million (2017: £0.5 million) and letters of credit in favour of Aviva totalling £2.1 million (2017: £1.4 million) to secure reinsurance contracts. Certain of these letters of credit are secured on fixed deposits (note 30).

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.

35 Charles Wells acquisition

On 2 June 2017, the Group acquired Bedford Canning Company Limited, which contained the beer business of Charles Wells. The business incorporated a portfolio of well-known brands including Bombardier, Young's and McEwan's. The provisional fair values of the assets acquired and liabilities assumed stated in the accounts for the 52 weeks ended 30 September 2017 are now confirmed, with no adjustments made to those previously published.

Company Balance Sheet

As at 29 September 2018

	Note	29 September 2018 £m	30 September 2017 £m
Fixed assets			
Tangible assets	5	**389.8**	382.9
Investments	6	**260.9**	260.9
		650.7	643.8
Current assets			
Debtors			
Amounts falling due within one year	7	**548.9**	549.4
Amounts falling due after more than one year	7	**951.1**	864.1
Cash at bank		**9.5**	10.7
		1,509.5	1,424.2
Creditors Amounts falling due within one year	8	**(700.9)**	(769.5)
Net current assets		**808.6**	654.7
Total assets less current liabilities		**1,459.3**	1,298.5
Creditors Amounts falling due after more than one year	8	**(120.8)**	(121.5)
Provisions for liabilities and charges	9	**(23.1)**	(27.2)
Net assets		**1,315.4**	1,149.8
Capital and reserves			
Equity share capital	13	**48.7**	48.7
Share premium account	14	**334.0**	334.0
Revaluation reserve	14	**78.9**	77.3
Merger reserve	14	**23.7**	71.2
Capital redemption reserve	14	**6.8**	6.8
Own shares	14	**(112.3)**	(111.3)
Profit and loss reserves		**935.6**	723.1
Total equity		**1,315.4**	1,149.8

The profit of the Company for the 52 weeks ended 29 September 2018 was £211.5 million (2017: £81.1 million).

The financial statements on pages 107 to 117 were approved by the Board and authorised for issue on 21 November 2018 and are signed on its behalf by:

Ralph Findlay

Chief Executive Officer

21 November 2018

Company registration number: 31461

Company Statement of Changes in Equity

For the 52 weeks ended 29 September 2018

	Equity share capital £m	Share premium account £m	Revaluation reserve £m	Merger reserve £m	Capital redemption reserve £m	Own shares £m	Profit and loss reserves £m	Total equity £m
At 1 October 2017	48.7	334.0	77.3	71.2	6.8	(111.3)	723.1	1,149.8
Profit for the period	–	–	–	–	–	–	211.5	211.5
Revaluation of properties	–	–	(1.5)	–	–	–	–	(1.5)
Deferred tax on properties	–	–	3.8	–	–	–	–	3.8
Total comprehensive income	–	–	2.3	–	–	–	211.5	213.8
Share-based payments	–	–	–	–	–	–	0.5	0.5
Purchase of own shares	–	–	–	–	–	(1.2)	–	(1.2)
Sale of own shares	–	–	–	–	–	0.2	(0.2)	–
Transfer to profit and loss reserves	–	–	(0.7)	–	–	–	0.7	–
Dividends paid	–	–	–	(47.5)	–	–	–	(47.5)
Total transactions with owners	–	–	(0.7)	(47.5)	–	(1.0)	1.0	(48.2)
At 29 September 2018	**48.7**	**334.0**	**78.9**	**23.7**	**6.8**	**(112.3)**	**935.6**	**1,315.4**

	Equity share capital £m	Share premium account £m	Revaluation reserve £m	Merger reserve £m	Capital redemption reserve £m	Own shares £m	Profit and loss reserves £m	Total equity £m
At 2 October 2016	44.4	334.0	77.7	–	6.8	(113.7)	686.4	1,035.6
Profit for the period	–	–	–	–	–	–	81.1	81.1
Deferred tax on properties	–	–	0.5	–	–	–	–	0.5
Total comprehensive income	–	–	0.5	–	–	–	81.1	81.6
Share-based payments	–	–	–	–	–	–	0.9	0.9
Issue of shares	4.3	–	–	71.2	–	–	–	75.5
Sale of own shares	–	–	–	–	–	2.4	(2.1)	0.3
Disposal of properties	–	–	(0.2)	–	–	–	0.2	–
Transfer to profit and loss reserves	–	–	(0.7)	–	–	–	0.7	–
Dividends paid	–	–	–	–	–	–	(44.1)	(44.1)
Total transactions with owners	4.3	–	(0.9)	71.2	–	2.4	(44.4)	32.6
At 30 September 2017	**48.7**	**334.0**	**77.3**	**71.2**	**6.8**	**(111.3)**	**723.1**	**1,149.8**

Notes

For the 52 weeks ended 29 September 2018

1 Accounting policies

Company information

Marston's PLC is a public company limited by shares incorporated in England and Wales and domiciled in the UK. The registered office is Marston's House, Brewery Road, Wolverhampton, WV1 4JT.

Basis of preparation

These financial statements have been prepared in accordance with FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102) and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the Company. Monetary amounts in these financial statements are rounded to the nearest £0.1 million.

The financial statements have been prepared under the historical cost convention modified to include the revaluation of freehold and leasehold properties and the holding of certain financial instruments at fair value. The principal accounting policies adopted are set out below.

The Company is a qualifying entity for the purposes of FRS 102, as it prepares publicly available consolidated financial statements, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group. The Company has therefore taken advantage of the exemptions from the following disclosure requirements in FRS 102:

- Section 4 'Statement of Financial Position' – Reconciliation of the opening and closing number of shares;
- Section 7 'Statement of Cash Flows' – Presentation of a statement of cash flows and related notes and disclosures;
- Section 11 'Basic Financial Instruments' – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument not measured at fair value through profit or loss, and information that enables users to evaluate the significance of financial instruments;
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

These financial statements present information about the Company as an individual entity and not about its group.

As permitted by section 408(3) of the Companies Act 2006, no profit and loss account has been presented for the Company.

At the time of approving the financial statements, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Turnover

Turnover represents rent receivable which is recognised in the period to which it relates.

Current and deferred tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the accounts because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

Fixed assets

- Freehold and leasehold properties are initially stated at cost and subsequently at valuation. 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 their residual values over their useful lives.
- Freehold and long leasehold buildings are depreciated to their residual values 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 20 years.
- 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 three year period, on an open market value basis. Substantially all of the Company's properties have been externally valued in accordance with the Royal Institution of Chartered Surveyors' Red Book. 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.

Notes continued

For the 52 weeks ended 29 September 2018

1 Accounting policies (continued)

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 to the extent they reverse previously charged impairment losses, in which case the reversal is recorded in the profit and loss account.

Disposals of fixed assets

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

Financial instruments

The Company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the balance sheet when the Company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which comprise amounts owed by Group undertakings, other debtors and cash and cash equivalents, are initially measured at the transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method.

Other financial assets

Derivatives, including interest rate swaps, are not basic financial assets and are accounted for as set out below.

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the Company transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Basic financial liabilities

Basic financial liabilities, comprising amounts owed to Group undertakings, other creditors and borrowings, are initially recognised at the transaction price and subsequently carried at amortised cost using the effective interest method.

Other financial liabilities

Derivatives, including interest rate swaps, are not basic financial liabilities and are accounted for as set out below.

Financial liabilities are derecognised when the Company's contractual obligations expire or are discharged or cancelled.

Derivatives

The Company uses derivative financial instruments to hedge the Group's exposure to fluctuations in interest rates. Derivative financial instruments are initially recognised in the balance sheet at fair value and are subsequently remeasured to their fair value at each balance sheet date. The Company has not designated any derivative financial instruments as hedging instruments and as such any gains or losses on remeasurement are recognised in the profit and loss account immediately.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability.

Leases

Leases are classified as finance leases whenever 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.

Assets held under finance leases are recognised as assets at the lower of the assets' fair value at the date of inception of the lease and the present value of the minimum lease payments. The related liability is included in the balance sheet as a finance lease obligation. Lease payments are treated as consisting of capital and interest elements. The interest is charged to the profit and loss account so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Rentals payable under operating leases, including any lease incentives received, are charged to the profit and loss account on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

1 Accounting policies (continued)

Lease premiums received are recognised on a straight-line basis over the life of the lease.

Obligations arising from sale and leaseback arrangements with repurchase options that do not fall within the scope of Section 20 'Leases' of FRS 102 are classified as other lease related borrowings and accounted for as secured loans on an amortised cost basis.

Investments in subsidiaries
Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

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.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where the effect of the time value of money is material, the amount expected to be required to settle the obligation is recognised at present value, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. When a provision is measured at present value the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

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

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
There is an intra group funding agreement in place between the Company and certain other members of the Group. This agreement stipulates that all balances outstanding on any intercompany loan account between these companies which exceed £1 are interest bearing at a prescribed rate.

There is a 12.5% subordinated loan owed to the Company by Marston's Pubs Limited and there are deep discount bonds owed by the Company to Banks's Brewery Insurance Limited. No interest is payable on any other 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, with the exception of the subordinated loan and deep discount bonds, repayable on demand.

2 Judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Critical judgements
The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements:

Lease classification
In determining whether a lease is classified as an operating lease or finance lease, judgements are required in respect of whether the lease has transferred substantially all the risks and rewards of ownership of the leased asset to the lessee, in particular whether the present value of the minimum lease payments amounts to at least substantially all of the fair value of the asset and whether the lease term is for the major part of the economic life of the asset.

Key sources of estimation uncertainty
The following estimates and assumptions have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities:

Tangible fixed assets
The Company carries its freehold and leasehold properties at fair value. These properties are valued by external or internal valuers on an open market value basis, primarily using earnings multiples derived from prices in observed transactions involving comparable businesses. The estimation of the fair values requires a combination of assumptions, including future earnings and appropriate multiples.

Notes continued

For the 52 weeks ended 29 September 2018

2 Judgements and key sources of estimation uncertainty (continued)

The useful lives and residual values of the Company's tangible fixed assets are estimated based on current property market trends, technological advancement, physical condition of the assets and expected future investment. These are reviewed annually and amended when necessary to reflect current estimates. The annual depreciation charge is sensitive to changes in both the useful lives and residual values of the assets.

The carrying amount of tangible fixed assets is shown in note 5 and the useful lives are shown in note 1.

Property lease provisions
The amount provided in respect of onerous property leases is dependent on a number of assumptions including market rents, vacant periods, inflation rates and discount rates. The assumptions made reflect historical experience and current trends and rates.

The amount provided for onerous property leases is shown in note 9.

Valuation of interest rate swaps
The Company's interest rate swaps are held at fair value. The Company utilises valuations from counterparties who use a variety of assumptions based on market conditions existing at each balance sheet date. The fair values are highly sensitive to the inputs to the valuations, such as discount rates and yield curves.

The carrying amount of the interest rate swaps is shown in note 10.

3 Auditors' remuneration

Fees payable to the Company's Auditors for the audit of the Company's annual accounts are disclosed in note 3 to the Group financial statements. Fees paid to the Company's Auditors for non-audit services to the Company itself are not required to be disclosed as the Group financial statements disclose such fees on a consolidated basis.

4 Employees

The average monthly number of people employed by the Company during the period excluding Directors was nil (2017: nil).

5 Tangible fixed assets

	Land and buildings £m	Fixtures, fittings, plant and equipment £m	Total £m
Cost or valuation			
At 1 October 2017	365.6	36.6	402.2
Additions	8.6	10.2	18.8
Transfers from Group undertakings	7.8	1.0	8.8
Revaluation	(20.9)	–	(20.9)
Disposals	–	(2.2)	(2.2)
At 29 September 2018	**361.1**	**45.6**	**406.7**
Depreciation			
At 1 October 2017	4.8	14.5	19.3
Charge for the period	1.9	3.3	5.2
Revaluation	(5.5)	–	(5.5)
Disposals	–	(2.1)	(2.1)
At 29 September 2018	**1.2**	**15.7**	**16.9**
Net book amount at 30 September 2017	360.8	22.1	382.9
Net book amount at 29 September 2018	**359.9**	**29.9**	**389.8**

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

	2018 £m	2017 £m
Freehold properties	**265.6**	261.6
Leasehold properties over 50 years unexpired	**69.4**	76.7
Leasehold properties under 50 years unexpired	**24.9**	22.5
	359.9	360.8

If the land and buildings had not been revalued, the historical cost net book amount would be £272.0 million (2017: £270.7 million).

Interest costs of £0.1 million (2017: £nil) were capitalised in the period in respect of the financing of major projects.

Capital expenditure authorised and committed at the period end but not provided for in the financial statements was £1.4 million (2017: £0.5 million).

5 Tangible fixed assets (continued)

The net book amount of land and buildings held under finance leases at 29 September 2018 was £26.9 million (2017: £28.7 million). The net book amount of land and buildings held as part of sale and leaseback arrangements that do not fall within the scope of Section 20 'Leases' of FRS 102 was £125.8 million (2017: £136.4 million).

The Company has charged property with a value of £4.9 million (2017: £4.7 million) in favour of the Marston's PLC Pension and Life Assurance Scheme (the 'Scheme') as continuing security for the Group's obligations to the Scheme.

Revaluation/impairment

At 28 January 2018 independent chartered surveyors revalued the Company's freehold and leasehold properties on an open market value basis. These valuations were incorporated into the financial statements and the resulting revaluation adjustments were recognised in the revaluation reserve or profit and loss account as appropriate.

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

	2018 £m	2017 £m
Profit and loss account:		
Impairment	**(16.9)**	–
Reversal of past impairment	**3.0**	–
	(13.9)	–
Revaluation reserve:		
Unrealised revaluation surplus	**23.7**	–
Reversal of past revaluation surplus	**(25.2)**	–
	(1.5)	–
Net decrease in shareholders' equity/tangible fixed assets	**(15.4)**	–

6 Fixed asset investments

	Subsidiary undertakings £m
Cost	
At 1 October 2017	318.6
Additions	260.9
Disposals	(318.6)
Capital contribution in respect of equity-settled share-based payments	0.5
At 29 September 2018	**261.4**
Impairments	
At 1 October 2017	57.7
Charged in the period	0.5
Disposals	(57.7)
At 29 September 2018	**0.5**
Net book amount at 30 September 2017	260.9
Net book amount at 29 September 2018	**260.9**

During the current period the Company incorporated an intermediate holding company, Marston's Corporate Holdings Limited, and all of its investments were subsequently transferred to this company, either via a share for share exchange or for nominal consideration.

Notes continued

For the 52 weeks ended 29 September 2018

6 Fixed asset investments (continued)

These financial statements are separate company financial statements for Marston's PLC.

The Company had the following subsidiary undertakings at 29 September 2018:

	Nature of business	Class of share	Proportion of shares held directly by Marston's PLC	Proportion of shares held by the Group
Marston's Estates Limited	Property management	Ordinary 25p	–	100%
Marston's Operating Limited	Pub retailer and brewer	Ordinary £1	–	100%
Marston's Pubs Limited	Pub retailer	Ordinary £1	–	100%
Marston's Pubs Parent Limited	Holding company	Ordinary £1	–	100%
Marston's Telecoms Limited	Telecommunications	Ordinary £1	–	100%
Marston's Trading Limited	Pub retailer and brewer	Ordinary £5	–	100%
Banks's Brewery Insurance Limited	Insurance	Ordinary £1	–	100%
Bedford Canning Company Limited	Non trading	Ordinary £1	–	100%
Marston's Corporate Holdings Limited	Holding company	Ordinary £1	100%	100%
Marston's Acquisitions Limited	Acquisition company	Ordinary 25p	–	100%
		Preference £1	–	100%
Mansfield Brewery Limited	Holding company	Ordinary 25p	–	100%
Marston's Issuer PLC	Financing company	Ordinary £1	–	–
Marston's Issuer Parent Limited	Holding company	Ordinary £1	–	–
Bluu Limited	Dormant	Ordinary £1	–	100%
Brasserie Restaurants Limited	Dormant	Ordinary £1	–	100%
Celtic Inns Holdings Limited	Dormant	Ordinary 1p	–	100%
Celtic Inns Limited	Dormant	Ordinary £1	–	100%
Eldridge, Pope & Co., Limited	Dormant	Ordinary 50p	–	100%
English Country Inns Limited	Dormant	Ordinary 50p	–	100%
EP Investments 2004 Limited	Dormant	Ordinary 1p	–	100%
Fairdeed Limited	Dormant	'A' Ordinary £1	–	100%
Fayolle Limited	Dormant	Ordinary £1	–	100%
John Marston's Taverners Limited	Dormant	Ordinary £1	–	100%
Lambert Parker & Gaines Limited	Dormant	Ordinary £1	–	100%
Mansfield Brewery Properties Limited	Dormant	Ordinary £1	–	100%
Mansfield Brewery Trading Limited	Dormant	Ordinary £1	–	100%
Marston, Thompson & Evershed Limited	Dormant	Ordinary 25p	–	100%
Marston's Developments Limited	Dormant	Ordinary £1	–	100%
Marston's Property Developments Limited	Dormant	Ordinary £1	–	100%
Osprey Inns Limited	Dormant	Ordinary £1	–	100%
Pitcher and Piano Limited	Dormant	Ordinary £1	–	100%
Porter Black (2003) Limited	Dormant	Ordinary £1	–	100%
QP Bars Limited	Dormant	Ordinary £1	–	100%
Refresh Group Limited	Dormant	Ordinary 1p	–	100%
Refresh UK Limited	Dormant	Ordinary 10p	–	100%
Ringwood Brewery Limited	Dormant	Ordinary £1	–	100%
S.K. Williams Limited	Dormant	Ordinary £1	–	100%
SDA Limited	Dormant	Ordinary £1	–	100%
Sherwood Forest Properties Limited	Dormant	Ordinary £1	–	100%
Sovereign Inns Limited	Dormant	Ordinary £1	–	100%
The Gray Ox Limited	Dormant	Ordinary £1	–	100%
The Wychwood Brewery Company Limited	Dormant	Ordinary £1	–	100%
W&DB (Finance) Limited	Dormant	Ordinary £1	–	100%
W. & D. Limited	Dormant	Ordinary £1	–	100%
Wizard Inns Limited	Dormant	'A' Ordinary 1p	–	100%
		Deferred 1p	–	100%
Wychwood Holdings Limited	Dormant	'A' Ordinary 1p	–	100%
		'B' Ordinary 1p	–	100%

The registered office of all of the above subsidiaries is Marston's House, Brewery Road, Wolverhampton, WV1 4JT, with the exception of Banks's Brewery Insurance Limited, Marston's Issuer PLC and Marston's Issuer Parent Limited. The registered office of Banks's Brewery Insurance Limited is Maison Trinity, Trinity Square, St Peter Port, Guernsey, GY1 4AT. The registered office of Marston's Issuer PLC and Marston's Issuer Parent Limited is Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London, EC2R 7AF.

All subsidiaries have been included in the consolidated financial statements.

Although the Group does not hold any shares in Marston's Issuer PLC and its parent company, Marston's Issuer Parent Limited, these companies are treated as subsidiary undertakings for the purpose of the consolidated financial statements as it is considered that they are controlled by the Group. Marston's Issuer PLC was set up with the sole purpose of issuing debt secured on the assets of Marston's Pubs Limited. Wilmington Trust SP Services (London) Limited holds the shares of Marston's Issuer Parent Limited under a declaration of trust for charitable purposes.

7 Debtors

Amounts falling due within one year	2018 £m	2017 £m
Amounts owed by Group undertakings	**520.5**	520.5
Derivative financial instruments	**28.1**	28.7
Prepayments and accrued income	**0.1**	0.1
Other debtors	**0.2**	0.1
	548.9	549.4

Amounts falling due after more than one year	2018 £m	2017 £m
12.5% subordinated loan owed by Group undertaking	**951.1**	864.1

8 Creditors

Amounts falling due within one year	2018 £m	2017 £m
Amounts owed to Group undertakings	**654.4**	725.9
Finance leases	**0.2**	0.2
Other lease related borrowings	**(0.1)**	(0.1)
Corporation tax	**9.3**	7.4
Derivative financial instruments	**28.1**	28.7
Accruals and deferred income	**9.0**	7.4
	700.9	769.5

Amounts falling due after more than one year	2018 £m	2017 £m
Finance leases	**20.1**	20.3
Other lease related borrowings	**88.0**	88.0
Preference shares	**0.1**	0.1
Accruals and deferred income	**12.1**	12.8
Other creditors	**0.5**	0.3
	120.8	121.5

The preference shares carry the right to a fixed cumulative preferential dividend. 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.

Other lease related borrowings represent amounts due under sale and leaseback arrangements that do not fall within the scope of Section 20 'Leases' of FRS 102. The Company has an option to repurchase each leased property for a nominal amount at the end of the lease. The leases have terms of 35 to 40 years and rents which are linked to RPI, subject to a cap and collar.

The amount falling due for payment after more than five years from the balance sheet date on debts repayable by instalments was £107.8 million (2017: £107.9 million). Debts of £0.1 million (2017: £0.1 million) were repayable otherwise than by instalments after more than five years from the balance sheet date.

9 Provisions for liabilities and charges

	Deferred tax £m	Property leases £m	Total £m
At 1 October 2017	23.6	3.6	27.2
Provided in the period	–	1.1	1.1
Released in the period	–	(0.1)	(0.1)
Unwinding of discount	–	0.1	0.1
Utilised in the period	–	(0.8)	(0.8)
Credited to profit and loss	(0.6)	–	(0.6)
Credited to other comprehensive income	(3.8)	–	(3.8)
At 29 September 2018	**19.2**	**3.9**	**23.1**

Payments are expected to continue in respect of these property leases for periods of 1 to 26 years (2017: 1 to 27 years).

Deferred tax

The amount provided in respect of deferred tax is as follows:

	2018 £m	2017 £m
Excess of capital allowances over accumulated depreciation	**6.1**	5.4
Property related items	**13.1**	18.2
	19.2	23.6

Notes continued

For the 52 weeks ended 29 September 2018

10 Financial instruments

Carrying amount of financial assets	2018 £m	2017 £m
Measured at fair value through profit or loss	**28.1**	28.7

Carrying amount of financial liabilities	2018 £m	2017 £m
Measured at fair value through profit or loss	**28.1**	28.7

The only financial instruments that the Company holds at fair value are interest rate swaps. The fair values of the Company's interest rate swaps are obtained using a market approach and reflect the estimated amount the Company would expect to pay or receive on termination of the instruments. The Company utilises valuations from counterparties who use a variety of assumptions based on market conditions existing at each balance sheet date.

11 Operating lease commitments

At 29 September 2018 the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases as follows:

Due:	2018 £m	2017 £m
Within one year	**6.6**	7.0
In more than one year and less than five years	**23.2**	22.8
In more than five years	**70.4**	60.7
	100.2	90.5

12 Finance lease obligations

The Company leases a number of properties under finance leases. The leases have various terms, escalation clauses and renewal rights. Future minimum lease payments under finance leases are as follows:

Due:	2018 £m	2017 £m
Within one year	**1.3**	1.3
In more than one year and less than five years	**5.1**	5.0
In more than five years	**35.0**	36.4
	41.4	42.7
Future finance charges	**(21.1)**	(22.2)
Present value of finance lease obligations	**20.3**	20.5

13 Equity share capital

	2018		2017	
Allotted, called up and fully paid	Number m	Value £m	Number m	Value £m
Ordinary shares of 7.375p each	**660.4**	**48.7**	660.4	48.7

14 Reserves

The share premium account comprises amounts in excess of nominal value received for the issue of shares less any transaction costs.

When freehold and leasehold properties are revalued any gains and losses are recognised in the revaluation reserve, except to the extent that a revaluation gain reverses a revaluation loss previously recognised in profit or loss or a revaluation loss exceeds the accumulated revaluation gains recognised in the revaluation reserve; such gains and losses are recognised in profit or loss. The associated deferred tax on revaluations is also recognised in the revaluation reserve. Amounts representing the equivalent depreciation are transferred to profit and loss reserves annually and the full amount is transferred on disposal of the associated property.

The merger reserve arose on the issue of ordinary shares in the prior period and represents the difference between the nominal value of the shares issued and the net proceeds received, less the dividends paid in the current period.

The capital redemption reserve arose on share buybacks.

Details of own shares are provided in note 29 to the Group financial statements.

15 Guarantees and 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.

The Company has guaranteed the obligations of Trading under its banking facilities and the obligations of Marston's Estates Limited under various property leases.

Additional Information

Information for Shareholders

Annual General Meeting (AGM)

The Company's AGM will be held on 23 January 2019 at 10:30am at Wolverhampton Wanderers Football Club, Molineux Stadium, Waterloo Road, Wolverhampton, WV1 4QR.

Financial calendar	
Ex-dividend date for final dividend	13 December 2018
Record date for final dividend	14 December 2018
AGM and Interim Management Statement	23 January 2019
Final dividend payment date	28 January 2019
Half-year results	15 May 2019
Ex-dividend date for interim dividend	May 2019
Interim dividend payment date	July 2019
Full-year results	27 November 2019

These dates are indicative only and may be subject to change.

The Marston's website

Shareholders are encouraged to visit our website **www.marstons.co.uk** for further information about the Company. The dedicated Investors section on the website contains information specifically for shareholders, including share price information, historical dividend amounts and payment dates together with this year's (and prior years') Annual Report and Accounts.

Registrars

The Company's shareholder register is maintained by our Registrar, Equiniti. If you have any queries relating to your Marston's PLC shareholding you should contact Equiniti directly by one of the methods below:

Online: **www.shareview.co.uk** – from here you will be able to securely email Equiniti with your query

Telephone: 0371 384 2274*

Text phone: 0371 384 2255*

By post: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA

* Lines are open from 8.30am to 5.30pm (UK time), Monday to Friday, excluding English public holidays.

Dividend payments

By completing a bank mandate form, dividends can be paid directly into your bank or building society account. Those selecting this payment method will benefit from receiving cleared funds in their bank account on the payment date, avoiding postal delays and removing the risk of any cheques being lost in the post. To change how you receive your dividends contact Equiniti or visit **www.shareview.co.uk.**

Duplicate documents

If you have received two or more sets of the documents concerning the AGM this means that there is more than one account in your name on the shareholder register, perhaps because either your name or your address appear on each account in a slightly different way. If you think this might be the case and would like to combine your accounts, please contact Equiniti.

Moving house?

It is important that you notify Equiniti of your new address as soon as possible. If you hold 1,500 shares or fewer, and reside in the UK, this can be done quickly over the telephone. However, for holdings greater than 1,500 shares your instruction will need to be in writing, quoting your full name, shareholder reference number (if known), previous address and new address.

Electronic communications

Changes in legislation in recent years allow the Company to use its corporate website as the main way to communicate with shareholders. Annual Report and Accounts are only sent to those shareholders who have opted to receive a paper copy. Registering to receive shareholder documentation from the Company electronically will allow shareholders to:

- view the Annual Report and Accounts on the day it is published;
- receive an email alert when the Annual Report and Accounts and any other shareholder documents are available;
- cast their AGM votes electronically; and
- manage their shareholding quickly and securely online, through **www.shareview.co.uk**.

This reduces our impact on the environment, minimises waste and reduces printing and mailing costs. For further information and to register for electronic shareholder communications visit **www.shareview.co.uk**.

Buying and selling shares in the UK

If you wish to buy or sell Marston's PLC shares and hold a share certificate, you can:

- use the services of a stockbroker or high street bank; or
- use a telephone or online service.

If you sell your shares in this way you will need to present your share certificate at the time of sale. Details of low cost dealing services may be obtained from **www.shareview.co.uk** or 0345 603 7037**.

**Lines are open Monday to Friday, 8.00am to 4.30pm for dealing and until 6.00pm for enquiries (UK time), excluding English public holidays.

Information for Shareholders continued

Ordinary shares

Range of shareholding

Balance Ranges	Total Number of Holdings	Percentage of Holdings	Total Number of Shares	Percentage Issued Capital
1–1,000	3,700	39.6%	1,536,833	0.2%
1,001–10,000	4,272	45.7%	16,422,969	2.5%
10,001–100,000	1,064	11.4%	29,377,989	4.4%
100,001–1,000,000	205	2.2%	70,379,782	10.7%
1,000,001–Highest	107	1.1%	542,644,621	82.2%
Total	**9,348**	**100.00%**	**660,362,194**	**100.00%**

An analysis of the register by shareholder type can be found in the Governance section on page 50.

Company details

Registered office: Marston's House, Brewery Road, Wolverhampton, WV1 4JT

Telephone: 01902 711811

Company registration number: 31461

Investor queries: investorrelations@marstons.co.uk

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

Advisers
JP Morgan Cazenove, 20 Moorgate, London, EC2R 6DA

Numis Securities Limited, The London Stock Exchange Building, 10 Paternoster Square, London, EC4M 7LT

Solicitors
Freshfield Bruckhaus Deringer LLP, 65 Fleet Street, London, EC4Y 1HS

Shoosmiths LLP, 2 Colmore Square, 38 Colmore Circus Queensway, Birmingham, B4 6BJ

Squire Patton Boggs (UK) LLP, Rutland House, 148 Edmund Street, Birmingham, B3 2JR

Pinsent Masons LLP, 55 Colmore Row, Birmingham, B3 2FF

Share fraud warning

Share fraud includes scams where investors are called out of the blue and offered an inflated price for shares they own or shares that often turn out to be worthless or non-existent. These calls come from fraudsters operating 'boiler rooms' that are mostly based abroad. While high profits are promised, those who buy or sell shares in this way usually lose their money. The Financial Conduct Authority (FCA) has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200 million lost in the UK each year.

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

Get the name of the person and organisation contacting you.

Check the Financial Services Register at **www.fca.org.uk/register** to ensure they are authorised.

Use the details on the FCA Register to contact the firm.

Call the FCA Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or you are told they are out of date.

Search the FCA list of unauthorised firms and individuals to avoid doing business with.

Remember, if it sounds too good to be true, it probably is.

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme if things go wrong.

If you are approached about a share scam you should tell the FCA using the share fraud reporting form at **www.fca.org.uk**, where you will find out about the latest investment scams. You can also call the Consumer Helpline on 0800 111 6768.

Glossary

ALMR The Association of Licensed Multiple Retailers

BBPA British Beer & Pub Association – a body representing Britain's brewers and pub companies

BIS Department for Business, Innovation and Skills – Government department of economic growth

BRC British Retail Consortium

CAGR Compound Annual Growth Rate

Challenge 21 BBPA scheme to prevent underage sales – if a customer buying alcohol looks under the age of 21 they will be asked to provide proof of their age

Challenge 25 Extension to Challenge 21 – scheme where customers will be asked to prove their age if they look under 25

Circular Economy An alternative to a traditional linear economy (make, use, dispose) in which resources are kept in use for as long as possible, extracting the maximum value from them, then recovering and regenerating products and materials at the end of each service life

Coffer Peach Business Tracker Sales trends for the UK eating and drinking out market

CROCCE Cash Return on Cash Capital Employed – calculated in the same way as ROC

CR Corporate Responsibility – businesses' response to their impact on society

CWBB Charles Wells Beer Business

EBIT Earnings before interest and tax

EBITDA Earnings before interest, tax, depreciation and amortisation

EHO Environmental Health Officer

EPOS Electronic point of sale

EPS Earnings per share

Export Anything sold outside the UK

FCF Free Cash Flow – operating cash flow of the business after tax and interest

FRC Financial Reporting Council – independent regulator

Free trade Independently owned pubs and clubs

FTSE4Good Ethical stock market indices launched in 2001, with inclusion based on a range of Corporate Responsibility criteria

Generous George Destination pub brand

Give Back Week Internal annual charity activities across head office and pub sectors

LPG (emissions) Liquefied petroleum gas, used as a fuel in heating appliances, cooking equipment and vehicles

Like-for-like Sales this year compared to sales in the previous year, of all pubs trading in the same two periods, expressed as a percentage

InMoment External customer experience management company

MBC Marston's Beer Company, internal division

MIT Marston's Inns and Taverns, internal division

National on-trade Managed house pub groups, tenanted pub groups, brewers

NAV net asset value

NED Non-executive Director

NGCI Non gluten containing ingredient

NPD New product development

Off-trade Business with food and drink retailers, such as supermarkets (also known as take home)

On-trade Business with hotels, bars, restaurants and pub companies

Packaged Includes bottles and cans

PBT Profit before tax

PBA Premium bottled ale

PCA Pubs Code Adjudicator

PCDR Performance, Career & Development Review

PCI Payment card information

PETA People for the Ethical Treatment of Animals

POS Point of sale, for example, back bar runners, pump clips

RevPAR Revenue per available room

ROC Return on Capital – a measure of how effectively we use the capital invested in our business

Take home Supermarkets, cash and carry, convenience stores (also known as off-trade)

Taverns & Leased These two segments were combined in September 2018 and are now known as Taverns

The Pubs Code Statutory regulation effective 21 July 2016

TSR Total Shareholder Return – a combination of share price appreciation and dividends paid

Pub-restaurants and lodges completed during the period

Scotland

Old Gatehouse, Lenzie, Kirkintilloch, G66 3FB

Three Witches, Inverness, IV2 6ET

Harbour Spring Lodge, Peterhead, AB42 3GT

Ravens Cliff, Ravenscraig, ML1 2UE

North

Eight-foot Way, Sheffield, S5 9QY

Lost & Found Leeds Club, Leeds, LS1 6JL

Station Pilot, Crewe, CW2 5UZ

Iron Forge, Scunthorpe, DN17 2AB

Longacre, Skelton, TS12 2LH

Fly Line, Garforth, LS25 2EB

Pitcher & Piano, Sheffield, S1 2GT

Queen of Hearts, Runcorn, WA7 6SA

Kings Chamber Lodge, Doncaster, Thorne, DN8 4JE

Midlands

Tulip Queen and Lodge, Spalding, PE12 6AE

Woodcocks, Lincoln, LN1 2BE

Gamston Lock Lodge, Gamston, NG2 6NP

South

Lost & Found, Bristol, BS8 1QS

Spring River Lodge, Ebbsfleet, DA10 1AZ

Wales

Clock Works, Ystradgynlais, SA9 1AD

Sun Verge, Rhyl, LL18 3AF

Picture Reference

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