MAKING MARSTON'S THE PLACE TO BE

Marston's PLC
Annual Report and Accounts 2017

A Snapshot of 2017

- Revenue and earnings growth; profit growth in all trading segments.
- Profit before tax on a statutory basis £100.3 million.
- Improving quality of pub estate.
- Market leading beer business continues to demonstrate growth.
- Full year dividend up 3% to 7.5 pence per share. Dividend cover maintained at 1.9 times.
- Well positioned for growth in 2018.

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

STRATEGIC REPORT APPROVAL

The Strategic Report, outlined from the inside front cover to page 38 incorporates: A Snapshot of 2017, At a Glance, Our Business Model, Resources and Relationships underpinning our Business Model, Our Marketplace, Chairman's Statement, Chief Executive's Statement, Our Strategy, Our Key Performance Indicators, Our Risks and Risk Management, Our Principal Risks and Uncertainties, Group Operating and Financial Review and Corporate Responsibility.

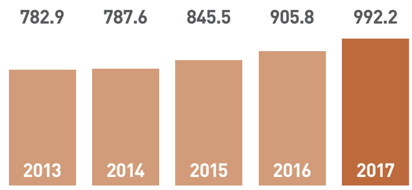
By order of the Board

Ralph Findlay
Chief Executive Officer

30 November 2017

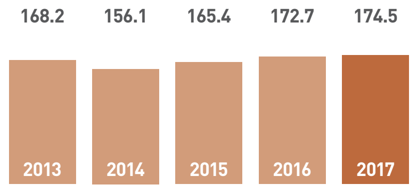
UNDERLYING* REVENUE (£m)

£992.2m
up 10%



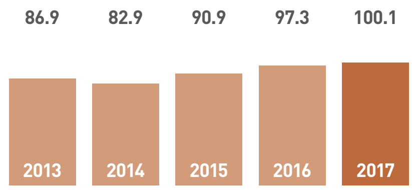
UNDERLYING* OPERATING PROFIT (£m)

£174.5m
up 1%



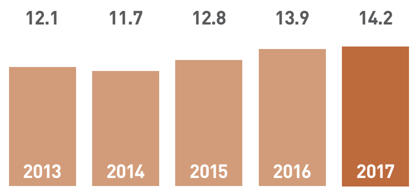
UNDERLYING* PROFIT BEFORE TAX (£m)[Δ]

£100.1m
up 3%



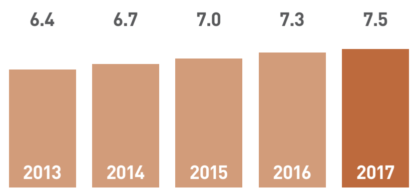
UNDERLYING* EARNINGS PER SHARE (p)

14.2p
up 2%



TOTAL DIVIDEND PER SHARE (p)

7.5p
up 3%



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

On a statutory basis profit before tax was £100.3 million (2016: £80.8 million) and earnings per share were 14.2 pence (2016: 12.7 pence). A reconciliation between the underlying results and the statutory numbers can be found in the Group Income Statement on page 75.

Δ In the prior period the net interest on the net defined benefit asset/liability was presented within underlying items. This has now been represented within non-underlying items to better reflect the nature of this item and to be consistent with the current period presentation.

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

OUR PEOPLE

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

More on page 18

OUR CUSTOMERS

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

More on page 16

OUR SHAREHOLDERS

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

More on pages 13 – 19

We've been running pubs and brewing beer in one form or another for over 180 years. It's a heritage that we're hugely proud of, but a lot has changed in this time. 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 support our clear and consistent strategy.

We have more than 14,500 employees at over 1,600 pubs, inns, breweries, depots and offices across the UK with a culture that is focused on delivering a great customer experience. We do this at the same time as working towards our stated financial objectives.

In 2017, we have continued to embed our ambition, purpose and ways of working to inspire, engage and enable our people to ensure we are all aspiring to the same standards and making Marston's The Place to Be.

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At a Glance

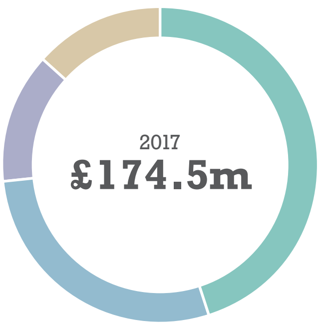
The Place to Be... across the nation

We have five 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 Group Operating and Financial Review on pages 28 to 34.

Underlying Revenue by Segment

	%
Destination and Premium	44
Taverns	25
Leased	6
Brewing	25

Underlying operating profit by segment △



	%
Destination and Premium	51
Taverns	32
Leased	15
Brewing	15

△ Group Services has a 13% (£24m) impact on underlying operating profits by segment.

DESTINATION AND PREMIUM

- Family dining and great value in a relaxed pub environment
- Main Destination formats include: Marston's 'Two for One', 'Milestone Rotisserie', 'Milestone Carvery', and 'Generous George'
- Pitcher & Piano and Revere pubs offer premium food and drink
- Attractive, often iconic, town centre and suburban locations
- 1,269 rooms across 62 pubs with eight new lodges added during the year

397

1,269

Underlying revenue	£438.0m
Movement	+4.5%
2016*	£419.0m
Underlying operating profit	£88.9m
Movement	+2.3%
2016*	£86.9m

TAVERNS

- Community pubs with a more traditional pub ambience
- Includes franchised pubs, managed pubs and tenancies
- Strong community engagement, often with entertainment, sports teams and games

806

Underlying revenue	£246.7m
Movement	+3.4%
2016*	£238.5m
Underlying operating profit	£57.0m
Movement	+0.7%
2016*	£56.6m

LEASED

- Distinctive pubs with a high degree of independence
- Longer term agreements that attract skilled entrepreneurs who develop their own businesses
- Our partnership approach attracts the right lessee and provides business support

365

Underlying revenue	£54.6m
Movement	(0.7)%
2016*	£55.0m
Underlying operating profit	£27.1m
Movement	+0.7%
2016*	£26.9m

BREWING

- A blend of traditional heritage, innovative development and contemporary breweries
- A wide portfolio of beers with appeal for all types of drinker and to suit any occasion
- National distribution network delivering to customers across the UK
- Local approach to beer brand management
- Publican National Cask Ale Supplier of the Year
- Brand collaboration and contract services

6

Underlying revenue	£252.9m
Movement	+30.8%
2016	£193.3m
Underlying operating profit	£25.5m
Movement	+9.9%
2016	£23.2m

GROUP SERVICES

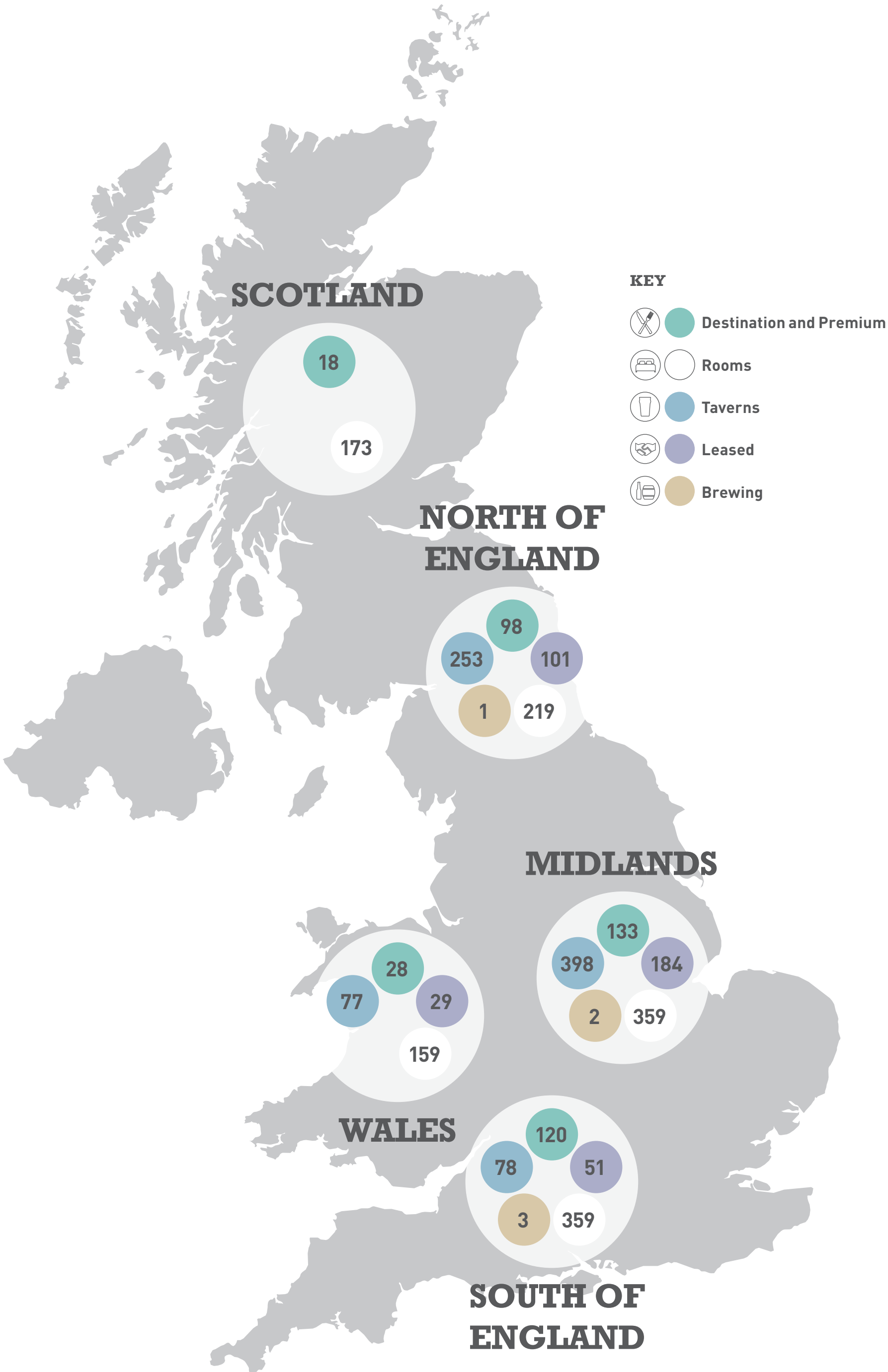
- Our Group Services team provides a range of functional services that support and connect the wider businesses, including IT, HR, Finance, Retail Systems, Company Secretariat, Legal Risk and Compliance.

* The segmental revenue and operating profit for 2016 have been restated to reflect the movement of pubs between segments.

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 and franchise-style pubs, including planned new-builds, investment in lodges and Premium bars that widen our appeal. Our six breweries and 13 depots supply and distribute a wide portfolio of beers to our estate, supermarkets and other pub and leisure businesses across the nation.

MARSTON'S ESTATE 2017



Our Business Model

Our core business is running great pubs and brewing great beer which delivers robust and sustainable returns. We operate in a fast-moving and fiercely competitive market so we need to stand out from the crowd.

Overview

We offer our customers a great experience, whether that's in one of our pubs, our rooms or enjoying one of our beers. We have a broad range of formats and menus across our pub estate that cater for all occasions. The different operating models provide flexibility in maximising the return from each pub. Adjacent lodges broaden our offering and increase the potential for greater returns in our pubs. In addition to brewing our own portfolio of beers, our beer business also brews on behalf of other businesses and offers a variety of other products and services from the exclusive supply of top world beers to an industry-leading 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.

Our people strategy focuses on connecting employees to the Group strategy, raising performance through clear objective setting and review, and creating a competitive advantage through:

- recruiting and developing the best teams;
- encouraging and exploring ways to innovate and improve our customer's experience;
- creating a fun and welcoming place for our customers, employees and our business partners.

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 a central team focused on delivering growth through the strategic, financial and governance framework.

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. Food accounts for 59% of sales in our Destination pubs and 31% of sales in Premium Pubs and Bars.

Taverns

These are typically drinks-led pubs, with food accounting for 16% of sales. For those managed externally, they generate rental income from the licensed property.

Leased

These pubs are managed independently and so our earnings come from the rent of the property, drink sales and gaming machine income.

Brewing

We generate most of our earnings in the beer business from the sale of own beer and exclusive licensed brands within our own pubs and to other customers. We also export our beers directly, and via third parties, to over 65 countries. Premium beer accounts for 72% of the beer we brew and 86% of our beers are sold externally of which over 50% is to major supermarkets. 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 9,500 customers across the UK.

HOW WE ADD VALUE

BEER

- Own-brewed beers reflect and strengthen our regional provenance, increase brand awareness and footfall into our pubs and bars
- Ability to offer a complete customer package for brewing, bottling and distributing
- A wider range of licensed brands strengthens our craft ale and lager credentials
- Proven acquisition capability provides platform for further opportunities

FOOD/DRINK

- Development of branding and format clarity has enabled fast and coherent food and drink innovation
- 'Create your own' sharing platters broadens the appeal to customers
- Higher-margin premium and craft drinks development
- Economies of scale from Group buying power

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
- Identifying opportunities for expansion into new locations

ROOMS

- Increasing our lodge offer adjacent to well-positioned pubs
- Room guests provide an increased contribution from drinking and eating in our pubs
- 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)

For further information see page 20

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.

Resources

Resource	How this supports value creation	Activity during the year	Risks
QUALITY ESTATE			
• New-build programme • Lodge developments • Managed and franchised • Investment in in-pub technology	• Higher quality of earnings • Improved profit per pub • Enhanced customer experience	• 19 pubs/bars and 8 lodges built • Development of Marston's Inns website • 33 conversions to franchise • Piloting a new EPOS system	• Business continuity • IT • Regulatory
ENGAGED COLLEAGUES			
Number of employees: • Pub business: 13,081 • Beer business: 1,463 • Support: 278 People strategy: • Recruit the best • Invest in training and development • Engage and empower	• Our Ways of Working • It's the team that differentiates us • Enhanced customer experience	• Development of performance and talent tools • Apprenticeship programme • Talent Academy online • Training • Employee survey • Focus on recognition	• Our people • Health, safety and food hygiene
VALUED AND RECOGNISED BRANDS			
• Six breweries • 13 own-brand families • Portfolio of local and national brands • Licensed brands • 13 distribution depots • Contract services operation	• Recognised category leader with major national customers • Focus on growth part of the beer market • National trading footprint • Value adding partnerships in licensed brands and supply chain	• Acquisition of Charles Wells Beer Business • Investment in people and innovation • Major new partnerships with Punch, Hawthorn Leisure and Brakspear • Investment in distribution, warehousing and systems to improve efficiencies in meeting customer demand	• Business continuity • Regulatory • Health and safety • IT
INNOVATION AND INSIGHT			
• Drink • Food • Service	• Supports value for money and quality of experience • Retains and attracts customers • Opportunities identified by monitoring market trends	• Increased premiumisation of range • Increased healthy range • Menus pairing food and drink • Collaborations between pub and beer teams to maximise the customer experience	• Regulatory • IT • Our people
FINANCIAL CAPITAL			
• Mix of debt and equity • Gearing policy	• Flexibility to invest in assets to maximise long-term returns	• See Group Operating and Financial Overview for details	• Financial covenants and accounting controls • IT

Relationships

WHO BENEFITS FROM OUR BUSINESS MODEL

Our business model depends on strong relationships with key stakeholders that also benefit from the way we do business. In our corporate responsibility section on page 35, we expand on our approach to, and relationship with our customers, our people, suppliers, the community and our environmental impact.

CUSTOMERS

- We keep our customers at the heart of everything we do:
  - Aiming to improve customer satisfaction at all times.
  - Offering choice and menus to suit all occasions.
  - Offering good value for money.
  - Continual food and drink development.
  - Aiming to provide market-leading support, advice and innovation for our partners.

OUR PEOPLE

- United by a clear purpose and set of values.
- Engaged and enabled employees create a happy workplace.
- As a responsible business we are committed to updating and training our people on a regular basis, offering both formal and self-development courses.
- A rewarding career with benefits clearly linked to performance.

THE ENVIRONMENT

- Operating a sustainable and responsible business.
- Reducing our impact through investment in energy-saving technology and recycling:
  - Emissions CO_2 tonnes per £100,000 of turnover 2017: 13.72 (2016: 15.09).
  - In 2017, 76% of pub waste was recycled (2016: 63%).

INVESTORS

- Focus on increasing return on capital investment.
- Strategy of sustainable growth reflected through progressive dividend policy.
- Long-term debt financing structure underpinning freehold asset base.
- A strong governance framework facilitates disciplined decision making, targeted support and monitoring of Group performance.

SUPPLIERS

- Long-term relationships give security to invest and expand.
- Fair and transparent terms and conditions with maximum 60 days' payment.
- Encouraging innovation and development.

COMMUNITY

- Protecting our reputation – accredited member of FTSE4Good.
- Creating employment in local communities and contributing to local social initiatives:
  - 'Pub is the Hub' sponsor.
  - Responsible drinking promotions.
  - Annual Give Back Week participated in by head office teams and pubs to raise charitable funds.

GOVERNMENT

- Collection and payment of a wide range of taxes.
- Engagement with government health initiatives and 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.

Eat

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

TRENDS

- An increasing demand for great value, yet high quality food.
- Eating out has become less formal with customers looking for more interactive and social dining experiences and increased snacking.
- Broadening customer base with a growth in younger consumers who eat out most frequently.
- Widespread discounting as a means of encouraging visits.
- Healthy eating versus eating-out indulgences and the ability to swap items and customise a dish to make it healthier.
- An increase in demand for customers' differing dietary needs; from vegan to vegetarian dishes as well as 'free from'.

CHALLENGES

- Ensuring that children's menus provide healthy and nutritious options as well as something fun and exciting to eat.
- Providing exciting choices for healthy options and restricted diets.
- Appealing to a multi-generational customer base without resorting to discounting which affects profitability.
- 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 too much personal data.

Drink

Our pubs offer a broad range of drinks to suit all customer occasions. Our beer business offers a varied portfolio of brands that appeal to all types of drinkers.

TRENDS

- Pubs are no longer just about selling drinks but about delivering authentic experiences and creating memories in a home from home.
- As consumer spending remains cautious, visits to the pub are decreasing and volume consumption of beer is declining.
- Customers continue to drink less but seek a more premium experience and brand awareness is still important.
- The rising obesity levels among adults and children and the increased levels of diabetes has driven a demand for lower sugar and soft drinks, particularly on occasions that involve food.

CHALLENGES

- Meeting customer demands for premiumisation and 'drinking less but better' and delivering a quality experience.
- Giving customers a compelling reason to visit a pub by providing something that they can't get at home in a great fun environment.
- Ensuring our range of drinks remains relevant and appealing for different occasions and customer groups whilst managing the impact of regulations like the Soft Drinks Industry Levy.
- Too much new product development could flood the market and not meet the differing needs of consumers and customers.

Stay

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

TRENDS

- In 2017 75% of adults planned a staycation, up from 70% last year. Short breaks and UK city breaks are increasingly popular, consumers are looking for great value accommodation.
- The choice, availability and quality of letting rooms is increasing in the UK.
- Inbound tourism has increased because of the weakness of the pound, resulting in an increase in overseas visitors to the UK.
- Undersupply in secondary market towns.

CHALLENGES

- Appealing to both business and leisure guests.
- Increasing competition from peer to peer room rentals like Airbnb.
- Attracting international visitors to regional towns.
- Meeting customer expectations of a quality experience at an attractive price.

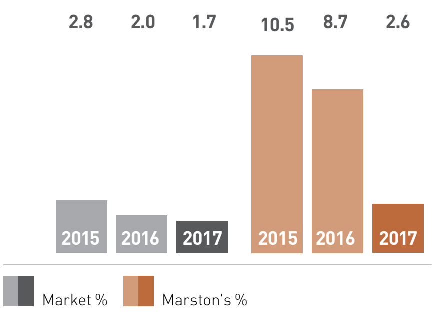
OPPORTUNITIES

- To offer everyday value within our core menu pricing, not constant discounting.
- 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 generic communications.
- By understanding our customers and why they visit different types of pubs we can deliver an appropriate range of dishes giving them the choice to eat more healthily when they want to.

OUR RESPONSE

- All menus feature low calorie meals, healthy switches, vegan and vegetarian dishes and provide further nutritional information online.
- Our menus focus on delivering pub classics alongside more adventurous and specialist dishes, and emerging culinary trends.
- Our children's meals come with at least one of your five a day. In Carvery we are trialling a menu that encourages children to build their meal starting with vegetables first.
- Our range of sharing platters supports the social drinks occasion in our community pubs.
- All marketing campaigns consider what value can be included to reward our customers. Discounting is very occasional and is only reactive to market opportunities.

Eating-out sales growth



OPPORTUNITIES

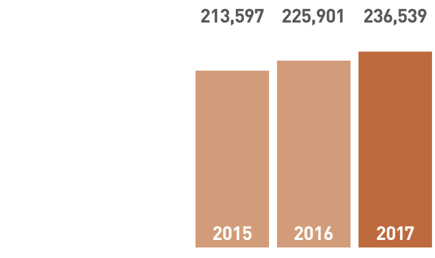
- Leveraging Marston's expertise in brewing and retailing beers to ensure that we have the best offer in the market place and new products which are different to the competition, delivered by passionate and knowledgeable teams.
- Using the wide drinks range available in our pubs to encourage new and more frequent consumption, choosing us over the competition.
- Innovation and development of drinks offer to meet changing customer demands.
- Ensuring that the soft drink and no-alcohol range within our pubs delivers an equal experience for customers.

OUR RESPONSE

- We are working closely with partner suppliers to reduce sugar in the soft drinks we serve.
- We are using our drinks ranges to provide genuine reasons to visit our pubs, from market leading quality ales, non-alcoholic beers, cocktail offerings, gin and beer festivals.
- We make drink/food pairing suggestions throughout our rotisserie menu to emphasise our brewing heritage and expertise in drinks.
- Our in-house beer quality team and our 'best in glass' training programme focuses our pub teams on selling great quality drinks to our customers.

Premium packaged ales (own ale)

(Composite barrels)



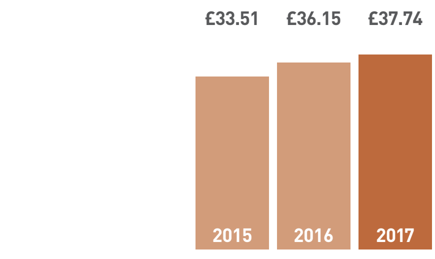
OPPORTUNITIES

- Creating an environment that suits our customers' needs whether for business or leisure.
- Investing in new hotels in towns and cities throughout the UK to meet customer demand.
- Improving the quality of facilities offered to provide a value-for-money experience.

OUR RESPONSE

- Using technology to target our digital social promotional activity to specific catchment areas and customer types per Marston's Inn.
- Developing a brand new booking platform to bring our functionality and user experience in line with hotel best practice.
- Increasing our understanding of our guests, their experiences and preferences through a guest feedback programme.
- Focusing our capital expenditure programme on the parts of the customer experience that matter most.

Revenue per available room (RevPAR)



Chairman's Statement

> **"We have delivered record underlying turnover, 10% higher than last year. This strong growth reflects the success of our pub development plans, the acquisition of the Charles Wells beer business in June 2017, and increased distribution for our beer brands."**
>
> **Roger Devlin**
> Chairman

RESULTS

We have delivered record underlying turnover of £992.2 million, 10% higher than last year. This strong growth reflects the success of our pub development plans, the acquisition of Charles Wells Beer Business (CWBB) in June 2017, and increased distribution for our beer brands.

However, our financial performance was impacted by a variety of market pressures including higher costs, increased competition, and weakening consumer confidence. Many of the higher costs were outside our control – for example, the minimum living wage increase, the Apprenticeship Levy, higher business rates, and food and energy cost inflation. We believe however that we have exercised good cost discipline, and the fact that Marston's is a long-established pub and brewing business with an excellent reputation for service, quality and value, with strong freehold asset backing, enabled us to increase underlying profit before taxation by 3% to £100.1 million (£100.3 million on a statutory basis, up 24%), with a 2% increase in underlying earnings per share to 14.2 pence (14.2 pence on a statutory basis, up 12%).

DIVIDEND

I am pleased to recommend a final dividend of 4.8 pence per share, an increase of 2.1%, which brings the full year dividend to 7.5 pence per share, an increase of 2.7% in line with the growth in earnings. Dividend cover is maintained at 1.9 times.

STRATEGY AND BREXIT

For the new financial year we have trimmed our openings programme to 15 new pubs and bars, and six lodges, recognising that there is greater political and economic uncertainty than was the case a year ago. I believe however that the principal elements of our strategy, as described on page 12, continue to be appropriate for current market conditions.

Since 2010 our strategy has been consistent and has delivered significant improvements in performance. Average profit per pub has increased 70%, brewing profit has increased 60% and our return on capital on £2 billion of mainly freehold assets has also steadily improved. Cash dividend payments have increased by 34%, and we have returned around £300 million to shareholders through dividend payments.

Our financing is long term, at fixed rates of interest, and has a manageable repayment profile. Since 2010 fixed charge cover – the ratio of profits to interest and rent on leasehold properties – has increased from 2.3 to 2.6 times, representing a significant improvement in our ability to service all of our debt obligations, including leases.

In summary, Marston's is in a stronger position than it was in 2010 in the aftermath of the financial crisis. Clearly, Brexit is a cause of current political and economic uncertainty. There are specific risks to our sector around the status of EU workers as approximately 4% of our employees are from the EU, and we urge that their right to live and work in the UK should be protected. Overall however we respect the UK's democratic choice, and will embrace change as we make the most of the opportunities that may arise, and we will mitigate any downsides.

OUR PEOPLE AND THE BOARD

Our people have worked extremely hard to achieve these results, and in particular to integrate CWBB. I thank them all for their commitment and support.

I would like to thank Nick Backhouse, who will stand down as Non-executive Director after the AGM in January. Nick joined the Board in February 2012, and chaired the Audit Committee. I also thank Peter Dalzell, Managing Director of Marston's Inns & Taverns, who left the business in September 2017 after 22 years' service. Matthew Roberts joined as Non-executive Director in March 2017 and will succeed Nick as Chair of the Audit Committee.

OUTLOOK

Our strategy aims to provide excellent service and value to our customers, as well as rewarding careers to our employees. By getting these basics right we believe we will create value for our shareholders over the long term. We have been disappointed that, although our investment and developments have generated returns in line with targets and above our cost of capital, 2017 has been a poor year in terms of share price performance. The Board has considered the reasons for this carefully, and we believe that it largely reflects wider market uncertainty or sector concerns rather than our own results or confidence in the future. We have nevertheless responded by adopting a more cautious approach to investment for the time being, but we are still targeting growth in 2018 and beyond.

Roger Devlin

Chairman

Chief Executive's Statement

GROUP OVERVIEW

We are pleased to report growth in earnings in each of our trading divisions despite the subdued trading experienced across the sector over the summer. We continued our track record for outperformance in each of our pub businesses for the third year in succession and we continued to grow market share in our leading beer business.

STRATEGY AND MARKET

Our results, summarised below, demonstrate the continued validity of our strategy, with growth in revenue and earnings despite challenging market conditions in the second half year which have been well documented. They also demonstrate the resilience of our business model through operating across all elements of the pub market, investing in accommodation and continuing to grow our beer business which now accounts for around 15% of earnings, having risen from 10% in 2007.

We remain focused on delivering sustainable growth and maximising return on capital, with six key components to our strategy. More information on each strategic pillar is set out on pages 13 to 19.

KEY EVENTS

In June we acquired CWBB for an initial cash consideration of £55 million, plus working capital and fair value adjustments of £36 million. The acquisition was funded through a £76 million equity raise in May. The business incorporates a portfolio of well-known brands including Bombardier, Young's and McEwan's ale, together with the UK distribution rights for Estrella Damm, the Catalan lager. The acquisition is consistent with our strategy of focusing on premium beer brands with local provenance, as well as providing opportunities for growth in the developing free trade market. Additionally, the acquisition further strengthens Marston's presence in London and the South East and presents a platform to expand our beer business into Scotland. The integration continues to proceed as planned and we expect to deliver synergies of £2 million in financial year 2018 and total synergies of £4 million by 2019, in line with previous guidance.

During the year the Group also acquired a small package of pubs from Whitbread, to further enhance our Destination and Premium estate for a consideration of £13 million with a refurbishment investment of £3 million. In addition, in May, we acquired three Pointing Dog premium bars for a total consideration of £8 million. The profit contribution of these acquisitions was minimal in 2017 as we undertook a refurbishment programme.

FINANCIAL OVERVIEW

Total underlying revenue increased by 9.5% reflecting the acquisition of CWBB, the contribution from new openings and pub acquisitions and positive like-for-like sales in our pub business. Group operating margins were in line with guidance but behind last year reflecting increased costs in Destination and Premium, the continued impact of converting pubs from tenancy to franchise and the short-term dilution impact of the CWBB acquisition which operates at a lower margin than our existing beer businesses ahead of the synergies to be generated in the next financial year.

Underlying profit before tax was up 2.9% to £100.1 million (2016: £97.3 million), principally reflecting the contribution from new pubs and bars and the strong Brewing performance. Basic underlying earnings per share for the period of 14.2 pence per share (2016: 13.9 pence per share) were up 2.2% on last year, reflecting a lower tax rate in the period, and despite the higher number of shares following the equity issuance referred to above.

On a statutory basis, profit before tax was £100.3 million (2016: £80.8 million) and earnings per share were 14.2 pence per share (2016: 12.7 pence per share). The year-on-year change principally reflects the positive movement in the fair value of interest rate swaps in the period.

Net debt at the period end was £1,329 million (2016: £1,269 million), with the differential driven by working capital from CWBB described above and the timing of new-site expenditure. Net debt excluding property leases is in line with last year. Since the year end we have recovered £15 million of the debtors arising from CWBB.

Chief Executive's Statement continued

OUR PURPOSE AND VALUES

2017 has seen the ongoing integration and adoption of Marston's ambition, purpose and values (our Ways of Working) across the business. Employee processes and touchpoints, such as our appraisal, recognition, training and development, and induction, to name a few, have now been updated and aligned, helping our people to connect with our values and play their part in making our purpose become a reality.

Employees continue to positively embrace all three elements, proactively bringing them to life and linking to them through roadshows, conferences, divisional newsletters and noticeboards, supported by Group-wide communications and support materials. It's important that we continue to keep these front of mind and present in our daily tasks so they become present in all aspects of the Marston's experience and deepen our unique culture.

Great strides have been made to focus on our ambition to make Marston's 'The Place to Be' to ensure our people are not only aware of the business strategy, but also understand how they can personally contribute to business success. In fact the annual employee survey showed a 10% increase in employees understanding the part they play in helping the Group achieve its plans and goals, which is a significant improvement and achievement.

By continuing to encourage our people to work as one team, demonstrate that they care, celebrate our successes and dream big, we know both they and our customers will feel the benefit.

Our purpose

Helping our people and customers feel good by keeping them at the heart of all we do. Our purpose is supported by our six strategic pillars which are listed below. More detailed information on each pillar is set out on the following pages.

1. **Operating a high quality pub estate**
2. **Targeting pub growth**
3. **Increased investment in rooms**
4. **Offering the best consumer experience: quality, service, value and innovation**
5. **Leadership in the UK beer market**
6. **Ensuring people are at the heart of our business**

Our values (Ways of Working)

WE ARE ONE TEAM

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

WE CARE

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

WE CELEBRATE

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

WE DREAM BIG

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

Our Strategy

1

Operating a high quality pub estate

STRATEGIC PRIORITY

To ensure we have the right consumer offer by having a pub estate with flexible operating models that cater for a broad range of customers.

OUR KPIs

- Like-for-like sales versus market
- Number of main meals served
- Average profit per pub
- Employee engagement and enablement

2017 update

We operate a pub estate that caters for a broad range of customers, with flexible operating models. As a consequence we ensure that we have the right consumer offer, accompanied by the most appropriate operating model, to maximise sales and profits for each individual pub. The key elements of this are listed in the next column.

DESTINATION AND PREMIUM – 397 PUBS

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

Our Pitcher & Piano bars and Revere bars and pubs offer premium food and drink in attractive, often iconic town centre and suburban locations.

TAVERNS – 806 PUBS

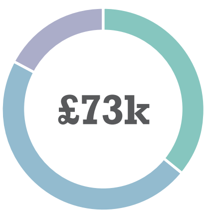
Our community pubs are great 'locals' with a more traditional pub ambience in strong locations. The contribution of the licensee, together with strong community engagement, are critical to the success of the pub with entertainment, teams and games often at the heart of the pub's activities.

LEASED – 365 PUBS

These distinctive pubs benefit from a high degree of independence and committed licensees. The leased model, with longer-term assignable agreements, attracts skilled entrepreneurs who build value through developing their own businesses. We contribute through our expertise in attracting the right lessee, dealing in a fair manner and providing business support.

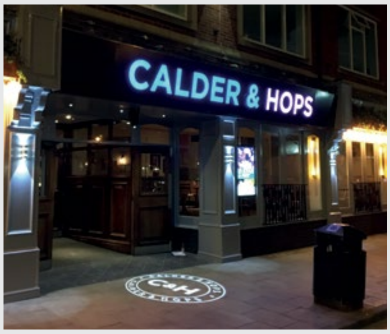
Average profit per pub

2012 Profit → +52% → 2017 Profit



	%
Destination and Premium	36
Taverns	47
Leased	17

	%
Destination and Premium	51
Taverns	33
Leased	16



'The Place to Be'...

Bringing our town centre bars back to life

Historically, many of our town centre bars were shoehorned into different formats, whether or not it was the right decision. We now have a team that is dedicated to rejuvenating these bars. To achieve our vision of 'hosting every social occasion', we need to give customers a reason to visit and ensure our operators have the right tools to do this.

A number of sites had remained un-invested for a long time and with no shortage of ideas for innovation the team focused on the ideas that would really help each site 'come back to life', get customers through the door and produce a financial benefit.

The Calder and Hops in Wakefield (formerly The Gate) had lacked meaningful investment for a long period of time. To put it firmly back on the Wakefield map it needed a complete overhaul and the introduction of lots of talking points! This was achieved with a new colour-changing lighting system for inside and outside signage, full digital 'point of sale', bookable spaces with champagne tables and fridges in booths and, in keeping with Marston's brewing heritage, a cask ale cellar was installed as part of the back bar visual.

As a result of the investment, cask ale sustainability has doubled from two lines per week to four. Sales have increased by over £4k net per week, and return on investment is 54%.

2

Targeting pub growth

STRATEGIC PRIORITY

The new-build programme remains our key growth driver. Our strategy has evolved to capitalise upon other opportunities for expansion where the returns create significant shareholder value.

OUR KPIs

- New-builds completed
- Underlying EPS
- FCF
- CROCCE
- Average profit per pub

2017 update

NEW PUBS AND BARS

In our Destination business, we have opened over 200 pub-restaurants in the last ten years, representing around 60% of the current Destination estate. These pubs offer family dining at reasonable prices and generate high turnover, with target sales of around £25,000 per week and a food sales mix of around 60%.

Competition and differentiation are key considerations. We operate in a market with significant investment in casual dining, fast food and restaurants, therefore our pub-restaurant investment is targeted in areas that are less exposed to intense competition, particularly outside London and city centres. We benefit from the broad appeal of the "pub" brand which occupies a unique position in the market and has demonstrated longevity.

In recent years we have invested in, and developed our skills and expertise in our Premium pub business, comprising Pitcher & Piano and Revere. We are seeking to selectively expand the estate through both new-site development and acquisition.

In 2017 we completed 19 pubs and bars in the Destination and Premium estate. In addition, we acquired the three-pub Pointing Dog Group in May and six pubs from Whitbread in June. As described later in the report, we expect to open 15 pubs and bars in 2018.

DEVELOPMENT OF THE FRANCHISE MODEL

We pioneered the introduction of franchise-style agreements in the pub sector. We believe that the franchise operating model in community pubs creates the best experience for our customers and is the most flexible and attractive model for licensees. It is our intention to convert most of our pubs in the Taverns business to this model over time and we continue to review the feasibility of rolling out the franchise model into the Destination estate.

During the year we have taken operational responsibility for 22 pubs from New River Retail. These pubs will be operated under our franchise model on a 15 year lease arrangement.

'The Place to Be'...

Countryside pub conversions: Accent

We have some beautiful country pubs in areas where the demographics do not support conversion to a Revere pub and the building is too iconic for our standard branding within the Destination estate.

Accent is our newest operating format: a great authentic countryside or village pub that is supported by all the hearty food you would expect from a great British country pub, augmented with some exciting twists. The bar celebrates Marston's legendary range of ales but also adds more niche wines and spirits to tempt experimentation!

We needed something to maximise the value of these fantastic locations and with a 27% return on investment the first four have launched to great local acclaim. You also can't underestimate the local delight at having a building transformed into the hub of the community. Accent works really well where we have hotel rooms upstairs and we have developed those rooms to keep tradition with the building below whilst keeping prices aimed at every-day travellers.

We have four more Accent conversions planned before March 2018 and a pipeline of 30 in the next three years.

3

Increased investment in rooms

STRATEGIC PRIORITY

To enhance pub profitability by expanding our rooms offer.

OUR KPIs

- Lodges completed
- Like-for-like sales versus market
- FCF
- CROCCE
- Average profit per pub
- Underlying EPS

2017 update

Accommodation acts as a highly complementary income stream to an existing pub. Organic room income has been consistently strong with growth in both sales and RevPAR for each of the last four years and we anticipate similar trends in the future with growth in leisure and business visitors. We operate around 1,250 rooms across our Destination and Premium pub estate, including 22 lodges. During the year we opened eight lodges and expect to open six during 2017/18 including our largest lodge to date in Ebbsfleet.

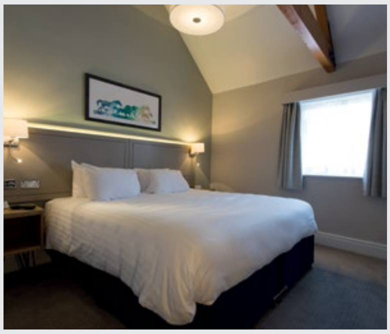
NEW LODGES

Looking forward, we expect accommodation to be increasingly important to our investment plans, and we are acquiring sites for development this year and thereafter. The combination of pub-restaurant with an adjacent lodge is attractive in the context of increasing business and leisure travel.

NUMBER OF ROOMS

	2017	2016
Lodges	**679**	371
Other Destination pubs	**426**	418
Premium	**124**	124
Taverns	**40**	40

Year	Total number of rooms	RevPAR	Year on year	Occupancy
2017	1269	£37.74	4.4%	74.1%
2016	953	£36.15	7.9%	73.3%
2015	797	£33.51	12.5%	71.8%
2014	722	£29.78	14.5%	69.4%



'The Place to Be'...

Growing our rooms business

Marston's Inns is a rapidly growing part of our pub business with sales increasing over the past 12 months. We added 300 rooms last year through extensions and new-build lodges. There will be further expansion in the 2017/18 financial period including the eagerly awaited arrival of our 100-bed flagship lodge in Ebbsfleet. We now stretch from Peterhead, in Northern Scotland, to Exeter with 63 other sleeping locations in between! Our existing lodges were in 11% sales growth for the 2016/17 financial period as awareness of our offer increased and we grew both occupancy and price.

We stay very true to our 'eat well, sleep well' mantra; all of our lodges are located by a great Marston's pub and we know that pub hospitality is key to our success. This is demonstrated by significant ancillary sales for our pubs where we open new lodges. To maximise the 'eat well, sleep well' aim we have developed a new 'less corporate feel' room which embodies warmth and style and this will launch in Nottingham in early 2018.

Mindful of the growing importance of room sales we have appointed two new senior members of the team: an operations manager and a marketing and revenue manager. They will drive operational consistency and sales opportunities to help us maximise the return on our investment.

4

Offering the best consumer experience: quality, service, value and innovation

STRATEGIC PRIORITY

Providing a premium experience in an informal setting at any time of the day and ensuring our offer remains attractive to customers.

OUR KPIs

- Number of main meals served
- Like-for-like sales versus market
- Employee engagement and enablement

2017 update

QUALITY OF FOOD AND DRINK

Given the pace of change and competition in the sector, we prioritise quality and target a food offer with appeal spanning a broad range of age groups. As previously reported, we have introduced Pizza Kitchens, Milestone Rotisserie and Smokehouse into our pub estate as well as updating traditional pub offers such as the Carvery to ensure they are relevant to all customers, young and old.

We continue to develop our offers to ensure we can remain attractive to all customers both now and in the future. In 2016/17 we have introduced new concepts including Firebrand, a new Grill & Pizza offer, and Accent, a premiumised offer with broad demographic appeal, which are intended to enhance the experience for our customers whilst continuing to offer everyday value.

Similarly, we are seeing constant change in trends in beer, wines, spirits and non-alcoholic drinks. Growth in premium drinks continues, with strong consumer interest in new brands and styles, including non-alcoholic drinks. In our Taverns business we are creating the community pubs of the future, incorporating changes to the drinks category to ensure our community pubs are attractive to younger customers, without alienating our more traditional clientele.

We are also utilising the benefits of the integrated model, with our pub and brewing teams working closely together to improve our understanding of the drinks category and deliver growth across the Group. Following the acquisition of CWBB, there are excellent opportunities to develop the drinks range further. In addition to the excellent cask ale brands, there are significant retail opportunities through extending the distribution of Estrella Damm and Founders. Initiatives such as "Masters of Cask" and "Drinks Doctors" between the teams are helping to define optimum ranging in our pubs and enhance the category knowledge in our Brewing sales teams.

SERVICE

We measure service on a pub-by-pub basis through a combination of internal and external mechanisms. We are in the process of investing significantly in high speed broadband and state-of-the-art EPOS equipment which will provide us with better customer information, improved service and are expected to contribute to profit improvement in 2018.

We continue to make focused developments in our digital plans, having developed in house: "Sentifeed" a social media listening tool, "Tap-In" an app-based customer loyalty scheme and "Nudge" an application to develop engagement and performance of our pub teams. Although in the early stages of implementation, all three are providing positive results.

VALUE

Value for money is a key element of our offer. We do not aim to offer the lowest prices in the market but aim to offer a fantastic experience that represents great value for money. Our approach to pricing is to offer "everyday" pricing rather than recourse to heavy discounting and vouchering activity, which has been prevalent in the sector. We believe this approach is preferred by our customers and demonstrated by our continued outperformance of the market over the last three years.

'The Place to Be'...

Carvery menu relaunch

Delighting around 2,500 guests per week at 60 locations nationwide, Milestone Carvery is one of the best loved and most successful pub-restaurant formats in the Destination portfolio.

The latest Milestone Carvery menu launched with a striking new design, a bold selection of new dishes and an energised team more enthusiastic than ever about delivering outstanding customer service and sales growth.

Our approach to menu development is to focus on quality and consistency on the traditional carvery deck, and innovate in the "non-carvery" section of the menu by serving a unique carvery angle on a range of familiar pub classics.

The big change this autumn was to add a range of limited edition seasonal specials with a twist – offering guests an innovative alternative to the typical festive fayre options of roast turkey and Christmas pudding, creating a true point of difference.

Alongside an Italian herb porchetta, a mouth-watering fruity salmon dish and a butternut squash steak vegetarian option, not to mention a festive Camembert sharer and an irresistible cookie fondant for two, the breakaway star of the new menu is the "Yorkie Pud Wrap"... a full roast dinner inside a burrito style Yorkshire Pudding wrap.

In our market place it is very unusual for something new to break in to the top 20 dishes, even more so in Milestone Carvery where over half of our guests choose the carvery itself. So it's amazing that within four weeks we sold 8,500 wraps – ranking 7th most popular dish by volume!

5

Leadership in the UK beer market

STRATEGIC PRIORITY

To provide a portfolio of market-leading brands to meet consumer demand for local provenance and taste, focused on the growth segments of the market.

OUR KPIs

- Market share of premium cask ale
- Market share of premium packaged ale

2017 update

The UK beer market is evolving with consumers seeking a wider choice of beers with local provenance and taste, including craft beers. The off-trade continues to grow, with the strongest growth in the premium bottled ale segment and the craft beer category.

Our established strategy is well-positioned in respect of these trends. We have evolved our business significantly with pro forma operating profits (accounting for a full year of CWBB and synergies) almost double that from ten years ago, exploiting the market trends starting with the acquisition of Refresh in 2008 which increased our scale and expertise in the off-trade, and the acquisitions of Ringwood, Jennings and the Thwaites' beer business, which strengthened our local footprint. The acquisition of CWBB will further consolidate our leading position in this regard.

We have a wide portfolio of beers from our own six breweries, a national distribution network and a local approach to beer brand management. Around 1 in 4 premium bottled ales and 1 in 5 premium cask ales in the UK are Marston's brands. Premium ales now account for around 72% of sales and the mix of sales to the off-trade is 53%.

Our position as category leaders has been recognised across the industry, further evidenced by the number of national awards we received over the year. Our own annual publications, the Cask Ale Report and Premium Bottled Ale Report, continue to be highly valued by both our on-trade and off-trade customers, for insight into current and future market trends.

Our largest brand, Hobgoblin, is the most followed beer brand on social media, and in a recent YouGov survey, Hobgoblin was voted the third most recognised beer brand in the UK, behind two global beer brands. It remains after 10 years "The Unofficial Beer of Halloween".

We also revitalised the Marston's beer brand in 2017, repositioned to be more attractive to younger consumers under the marketing banner "From Burton with Love". Although it remains early days, the consumer feedback has been strong and we have gained new national listings for "61 Deep" Pale Ale and "Pearl Jet" Stout.

Two brands from our recent acquisitions have also received national marketing awards, with both Bombardier "March To Your Own Drum" and Wainwright "Find Your Mountain" achieving awards at the Beer and Cider Marketing Awards.

Outside our own ale brands, collaboration brands also form part of our strategy. We have the UK licences for Estrella Damm, Shipyard, Warsteiner, Kirin, Erdinger, Krusovice and Founders brands and in cider we have the licence for Kingstone Press Cider. All have performed extremely well in the year, and of particular note, Shipyard is now the number one draught craft beer in the UK.

We have a highly experienced and talented brewing and logistics team, who ensure that we are operating at maximum cost efficiency. In addition, we undertake extensive contract services work on behalf of a broad range of competitors who also recognise the benefits of working in partnership with us. In 2016 we invested in additional warehousing at the Marston's Brewery in response to the growth in our own brands and our contract business.

During the year we entered into a five year agreement to become the exclusive distributor to Punch B, comprising a portfolio of c.1,355 leased and tenanted pubs nationwide, in addition to a similar contract to exclusively distribute to Hawthorn Leisure's c.250-strong pub estate in England and Wales. Since the year end we have entered an agreement to be the exclusive distributor to the Brakspear Pub Company with effect from November 2017. As well as driving strong organic growth, we have successfully integrated the acquisition of Thwaites' beer business into the organisation, with earnings slightly ahead of our expectations, and the transformation of Wainwright into one of our fastest growing brands.

'The Place to Be'...

Arena Racing Company contract

In February 2017, Marston's agreed terms with Arena Racing Company (ARC) in an exclusive deal to supply ale, lager, cider and stout to its 15 racecourses across the country.

With ARC having a major footprint in the UK's racing industry, this was a high profile deal involving sponsorship of race days and the opportunity to take customers out for a great day's racing.

The success of our proposition to ARC was largely twofold:

- Our first point of difference, in contrast to the standard deals in the industry: we offered 'differential ranging', that is, the right product for the right racecourse. What might work for Newcastle as a brand range is not necessarily right for Brighton. We were able to do this because of our extensive product range being a mixture of own ale, licensed brands and other third party products.
- Secondly, we offered devolvement of the decision-making process to the local Business Development Manager. This meant that each racecourse would be looked after by a local person who had a personal vested interest in the success of that course. A simple but rare proposition for such a large account.

Whilst only part way though our first year of supply Marston's was nominated in two categories at the recent National Racecourse Catering Awards, winning "Most Effective Brand at a Racecourse".

6

Ensuring people are at the heart of our business

STRATEGIC PRIORITY

If our people feel good and enjoy what they do, our customers will feel the benefits, enjoying and buying more of our products more frequently.

OUR KPIs

- Employee engagement and enablement
- Like-for-like sales versus market
- Number of main meals served

2017 update

Marston's employs around 14,500 people and, although many businesses claim that 'people are our most important asset', it is the case that nothing makes a bigger difference to our business than our people.

At Marston's we know if we develop and inspire our people, they will grow our business. It's their passion for customer service and quality products that makes our business successful – that's why our shared purpose is to keep our people at the heart of all we do.

Key to unlocking the potential of our people is to engage and unite them through our Ways of Working, while also enabling them by providing skills, tools and environments so they can play their part and contribute. As such, we measure both engagement and enablement of our people through our employee survey and whilst our scores are significantly above the comparator group, we continually develop our work in this critical area. One of the highlights of this year's survey is a significant improvement in employee alignment to our overall goals and a notable increase in awareness of the possible career opportunities at Marston's.

Over the last year, we've worked hard to improve our Performance, Career and Development Review (PCDR) process to make sure that our people have absolute clarity about what they need to achieve and how they need to achieve it. However, improving the process is just part of the story, we've worked even harder to upskill our people to ensure that when they go through the different stages of this process, they are having quality conversations, feedback and direction that will really drive individual and business performance.

We've also made it easier than ever for our people to access the training and development they need and want by launching a new online training portal, also available as an app for our front-line team members. It's called the 'Marston's Talent Academy Online' and it's designed to support a blended approach to our training and development, offering both formal courses, as well as employee self-development. This further enhances our commitment to training which sees just over 40% of our workforce receiving formal training.

Attracting new people to work with us is also key to our future success, which is why we've continued to focus on enhancing our established apprenticeship programme. We've been busy developing and introducing apprenticeships across our entire business to increase our pipeline of talent across pub, brewery, logistics and Group service roles. We have developed 304 apprentices this year so far and are on track to train a total of just over 450 by the end of the year. In October, the National Apprenticeship Service highly commended our apprenticeship provision as part of the National Apprenticeship Awards 2017.

We continue to strive to make Marston's 'The Place to Be' for our existing and prospective employees by providing an experience that's attractive and fulfilling for our people and beneficial for our business.

Our gender diversity chart is shown on page 47

'The Place to Be'...

Investing in apprenticeships

At Marston's we now train over 450 apprentices across our pubs every year. We see the importance and value of providing high quality apprenticeships, accessible and relevant at every level, with clear progression pathways to develop the skills, knowledge and behaviours of our people.

Our people challenges

In our pubs...
We operate in a highly competitive and expanding market place with new casual dining outlets opening all the time. Recruiting and retaining talent is a significant challenge, particularly in back of house roles such as head chefs.

In our breweries and supply chain...
Here at Marston's, we have an ageing engineering workforce in our breweries: 60% are over the age of 50, of which 77% are over 60, reflecting the national shortage of skilled engineers.

How apprenticeships are helping

In our pubs
We are part of the Trailblazer Employer Groups for hospitality with our new apprentices all enrolled on the new national standards. One in three of our pubs have an apprentice and three out of four apprentices complete their apprenticeship. Apprenticeships are open to both new and existing team members and are aligned to our ways of working. Our four year chef development apprenticeship programme demonstrates how a young person can progress to become a Head Chef.

Investing in apprenticeships continued

In our breweries and supply chain…
The new Mechatronics standard: a multi-skilled engineering apprenticeship scheme, will support our skilled pipeline for those critical hard-to-fill roles. In August 2017 four 17 year old apprentices started their four year journey with us and the 2018 intake is already in the planning stages! As part of the Brewing Trailblazer Employer Group we are developing industry specific standards such as a Drinks Dispense Technician.

Over 100 applications for our Warehouse to Wheels two year apprenticeship programme were received in under a week. Apprentices on this programme work towards gaining their fork lift truck licence, followed by an LGV licence as part of learning the traditional role of a dray, delivering our products to our customers.

The journey doesn't end here…
We will continue to evolve our apprenticeship offer, embracing the new standards being developed and continuing to meet the needs of our people and our business and the industry challenges we face.

OUR FUTURE PLANS

- Our new-build programme for 2018 will feature an integrated pub-lodge design and our largest lodge to date (100+ rooms) opens in Ebbsfleet in early 2018.
- Continuing evolution of our pub offers with the expansion of new concepts: Firebrand, a Grill & Pizza offer, and Accent, a premiumised offer to a wider audience.
- We have created a new World Beers team, working with some of the best brand owners, focused on extending the range of premium products available to our customers – including US craft beers such as Founders and European premium beers such as Estrella Damm.
- Further collaborations between our pub and brewing teams to optimise our drinks range and enhance category knowledge in our sales teams, using initiatives such as 'Masters of Cask' and 'Drinks Doctors'.
- In-pub technology: in addition to rolling out our new state-of-the-art EPOS system, we are investing more in our understanding of how customers engage with our pubs and lodges across multiple channels so that we can target our digital social promotional activity to specific catchment areas and customer types.
- To complement the development of our internal talent, we are looking to increase our activities to attract talented people by maximising our progress on the people agenda. We are specifically using the work we have done on establishing our Ambition, Purpose and Ways of Working as a basis for recruitment campaigns, developing our employer brand and therefore making Marston's 'The Place to Be' for external recruits.
- We take the privacy of personal data very seriously and, in recognition of forthcoming legislation (GDPR), we are enhancing the way we protect the data we hold without constraining our digital innovation.

ALLOCATION OF GROWTH CAPITAL

In 2018, we expect to open 15 pubs and bars and six lodges. We believe that investment in new pubs and bars continues to create shareholder value, and remains an important component of our strategy to achieve organic growth. The site pipeline remains strong and we will maintain the current pace of site acquisition to continue similar levels of expansion beyond 2018.

CURRENT TRADING AND OUTLOOK

Trading in the current financial year is in line with our plans. Pub like-for-like sales and beer volumes have been in growth for the period, up to the date of this report. Albeit early in the year, there have not been any material changes to market conditions that would impact on our expectations for the full year.

With regard to cost guidance for 2018 there are no material changes to the cost trends highlighted previously. We have protected a significant proportion of our cost base through long-term relationships with suppliers and fixed price contracts, actively managing the risk to our margins.

As set out in our October trading update, we have identified cost savings of approximately £5 million per annum demonstrating that we are alert to opportunities to mitigate ongoing cost increases. We anticipate underlying operating margins in our pub business to be slightly below those achieved in 2017.

In summary, we are targeting further growth in the current financial year, reflecting organic growth and the rollover benefit of the CWBB and pub acquisitions described above, and to make progress against our key financial objectives.

Ralph Findlay
Chief Executive Officer

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 13

More on our principal risks on page 25

More on our Remuneration Report on page 53

Our six strategic pillars

1. Operating a high quality pub estate
2. Targeting pub growth
3. Increased investment in rooms
4. Offering the best consumer experience: quality, service value and innovation
5. Leadership in the UK beer market
6. Ensuring people are at the heart of our business

Financial KPIs

Average profit per pub

Why we have chosen this KPI

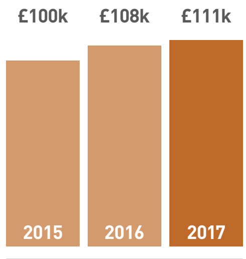
A measure of our success in creating quality pubs that match customers' needs.

How it links to Strategy, Risk and Remuneration

Pillars 1, 2 and 3

Risk – market/operational and regulatory

Impacts bonus measure of Group profit



CROCCE

Why we have chosen this KPI

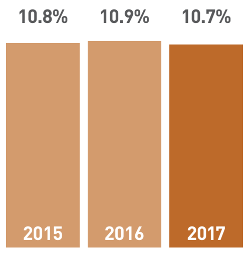
A key driver of shareholder value and reflects progress made on investments, disposals and profitability of our core estate. How we calculate CROCCE is shown on page 34.

How it links to Strategy, Risk and Remuneration

Pillars 2 and 3

Risks – business continuity and regulatory

Annual bonus and Long Term Incentive Plan (LTIP) measure



Free cash flow (FCF)

Why we have chosen this KPI

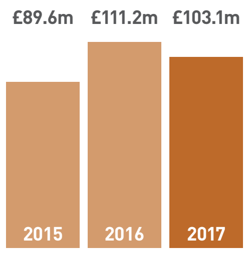
A measure of cash generated and available to reinvest in the business, return to shareholders in the form of dividend or repay debt. FCF is the operating cash flow of the business after tax and interest are deducted. How we calculate FCF is shown on page 34.

How it links to Strategy, Risk and Remuneration

Pillars 2 and 3

Risks – business continuity, regulatory and financial covenants

LTIP measure



Underlying earnings per share (EPS)

Why we have chosen this KPI

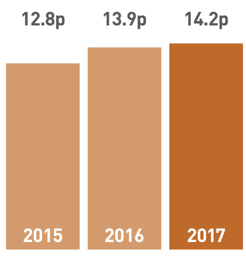
A widely-used profitability and valuation measure.

How it links to Strategy, Risk and Remuneration

Pillars 2 and 3

Risks – business continuity and regulatory

Impacts bonus measure of Group profit



Non-Financial KPIs

New-build pub-restaurants and lodges completed

Why we have chosen this KPI

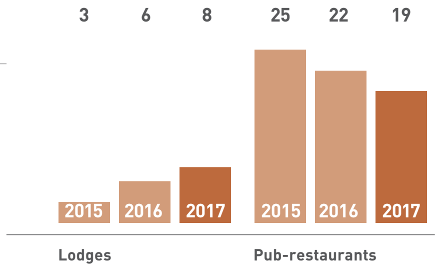
The programme is a key driver of profit and returns growth within our business. Our plan is to open at least 15 pubs and bars and six lodges per annum.

How it links to Strategy, Risk and Remuneration

Pillars 2 and 3

Risks – regulatory, health and safety, IT and financial covenants

Impacts bonus measure of Group profit



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

Why we have chosen this KPI

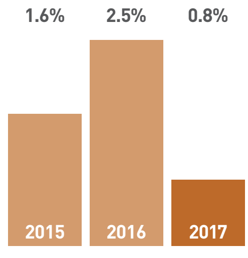
Our aim is to make Marston's 'The Place to Be' and the best way to measure this is to compare our like-for-like sales performance against the market (based on the Coffer Peach Business Tracker).

How it links to Strategy, Risk and Remuneration

Pillars 1, 3, 4 and 6

Risks – IT and our people

Impacts bonus measure of Group profit



Number of main meals served

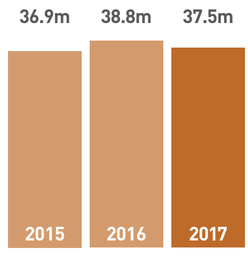
Why we have chosen this KPI

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

Pillars 1, 4 and 6

Risks – market/operational, regulatory, health and safety, IT and our people



Market share of premium ale

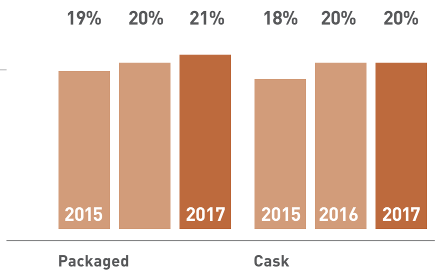
Why we have chosen this KPI

We seek to maintain our lead in the premium cask and packaged ale market through innovation, quality and range of beers. This measure allows us to compare our relative performance to competitors. We have changed the bottled ale measure to packaged ale to include cans, which better reflects the market we operate in.

How it links to Strategy, Risk and Remuneration

Pillar 5

Risks – regulatory and health and safety



Employee engagement and enablement

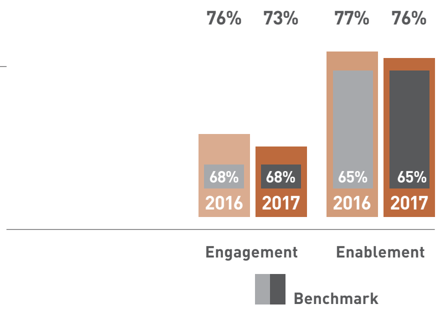
Why we have chosen this KPI

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

Pillars 1, 4 and 6

Risks – health and safety and our people



In Spring 2016 we undertook an improved employee survey process, measuring both engagement and enablement across our business.

As this process is significantly different to past survey data, we are not able to provide any direct like-for-like comparisons for 2015, however, we have also included data for the 'UK Norm' from the Korn Ferry Hay Group Engagement Survey, to provide a comparison.

Our Risks and Risk Management

OUR APPROACH TO RISKS

Managing risks effectively is essential for business growth and adding value to our Group. Risks represent both threats and opportunities. The threats can be external to the Group, often demanding new ways of conducting business, for instance legislative changes or cyber attack. Internally generated risks also occur, necessitating a strong environment of internal controls in order to identify changes, assess their impact and, if required, respond rapidly.

We recognise that opportunities created by risks within our market sector are constantly occurring. In order to respond to these opportunities our business takes advantage of its existing strengths to continually improve upon its operations to meet changes in consumer preferences, high levels of customer service, and excellence in people development. We constantly survey how the business can utilise technological improvements, and identify how future economic factors and changes in legislation impact us.

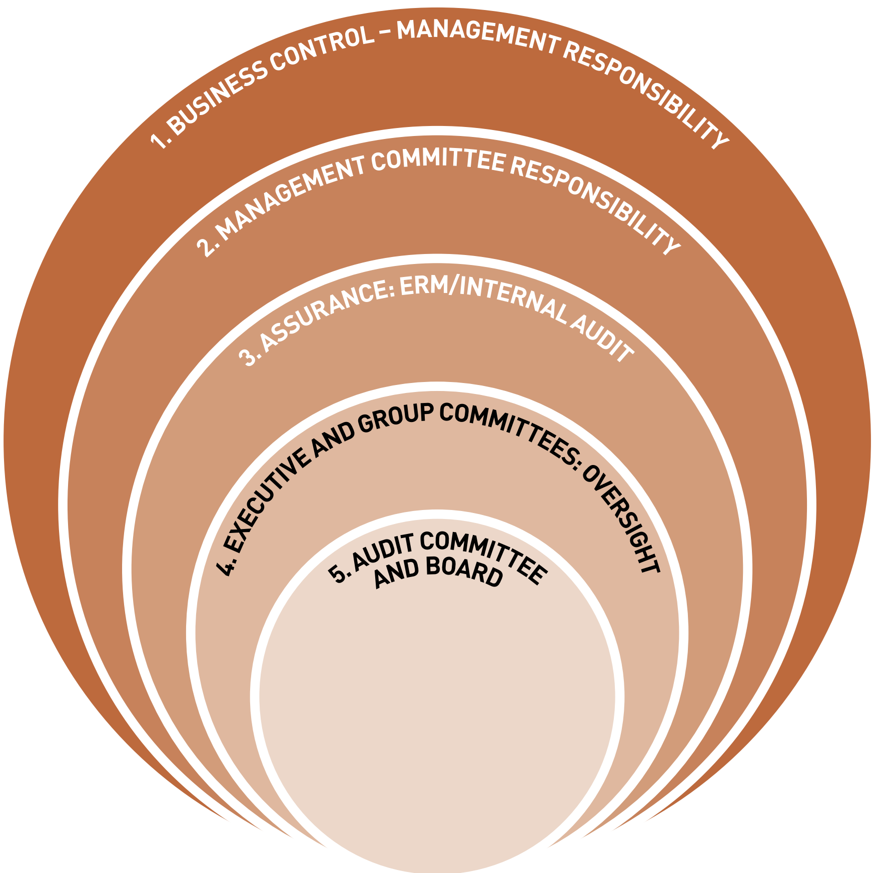
Key actions in 2017:

- Appointment of a new Head of Internal Audit to direct more focus on auditing and greater independence.
- The Internal Audit function has been broadened to cover a wider remit, consolidating corporate auditing, pub financial auditing and pub compliance testing.
- Cyber protection has been consolidated and expanded.
- Storage of personal data has been mapped and processes have been established to continually monitor and record where it is stored.

Future steps for 2018:

- Continuing preparations for the start of the General Data Protection Regulation (GDPR) on 25 May 2018.
- Additional network resilience between our sites.
- Further development of crisis plans to reflect internal site changes and external threats.
- More efficient use of our internal auditors, by training and expanding their scope.
- More detailed cross referencing between internal audits and the key risks within the Corporate Risk Register.
- Compliance testing to have a greater focus upon processes which have changed.

LEVELS OF GOVERNANCE OVER RISK



LEVEL 1

Business controls – management responsibility

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

Senior management are responsible for monitoring and reporting upon the effectiveness of the controls. The managers' assessment of the effectiveness of the key business controls is facilitated by Internal Audit and reported to the Board on an annual basis.

The key features of the internal control system are:

- A clearly defined management structure. The Group operates within a clear set of policies previously agreed with 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;
- Embedding risk management into day-to-day activities and our Ways of Working;
- Ensuring that our operations abide by all applicable laws and regulations;
- Systems that support continual improvement by reporting on effectiveness, recognising weaknesses, 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.

LEVEL 2

Management committee responsibility

Both the PLC Exec and the Marston's Beer Company (MBC) Board meet regularly to consider how to implement the actions required for Marston's to achieve its business objectives, our Ways of Working, and manage its risks and opportunities.

Our Operational Directors within the PLC Exec and the MBC Board take ownership of the business strategy, direct the business to meet operational and financial targets, and design internal controls to reduce risks. To achieve this they must fundamentally understand the risks which impact the business. Information on risks is collected through internal processes and external sources, and directs how management respond to changing conditions impacting upon the business. Both management committees consider, communicate and implement the strategic directions and decisions on risk management made by the Board.

LEVEL 3

Assurance: ERM/Internal Audit

The Group Risk team comprises of the Corporate Risk Director and the Internal Audit Function.

The Corporate Risk Director has a reporting line to the Group Secretary who sits on the PLC Exec. In addition the Corporate Risk Director and Head of Internal Audit have access to all the PLC Exec members and meet with the Audit Committee Chairman independently on a regular basis.

Enterprise Risk Management (ERM)

The Corporate Risk Director operates an enterprise wide risk management process in order to identify, monitor and report those risks which are key to achieving the Group's strategic objectives. The key risks and controls, and their ownership, are continually monitored and, more formally assessed during bi-annual meetings with our managers across the business.

The risks are documented in a corporate risk register, access to which is appropriately shared with the managers who own those risks. We use common risk management tools and language to engender cross-functional consistency and measurement across the Group.

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

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

Internal Audit

The Internal Audit function is managed by the Head of Internal Audit, 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 prepared by the Head of Internal Audit. The plan takes into consideration the key risks within the business, areas of increased risk and the regularity of the areas tested. The Head of Internal Audit 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 by the Head of Internal Audit for approval by the PLC Exec and the Audit Committee.

The internal audit projects are planned with the assistance of senior management and the results are reported back to the business, the Risk & Compliance Committee and the Audit Committee.

Our Risks and Risk Management continued

LEVEL 4

Executive and Group committees: oversight

Marston's operates a number of committees in order to focus Senior Management attention upon particular areas of risk:

PLC Executive Committee (PLC Exec)
(chaired by the Chief Executive Officer)
The members of the PLC Exec are 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 within the divisions of the Group.

Risk & Compliance Committee
(chaired by the Group Secretary)

- The Committee tracks the emergence of new legislation, potential impact on the business and Marston's response to compliance.
- Reviews and challenges the identification of the principal risks.
- Considers the alignment of audit and compliance testing with the risks.
- Conducts a focused examination of areas where risks are significantly changing.

Data Security Committee
(chaired by the Group Secretary)
The protection of personal and commercial data is considered. Network protection is reported. Policies are reviewed to maximise best practice by staff. Preparations for GDPR are reported upon.

Corporate Responsibility Committee
(chaired by the Corporate Risk Director)
The ethical approach by the Group is considered in all respects. The Committee defines the ethical priorities for the Group, and oversees the actions and targets associated with them. The Committee considers the reputation, risks and opportunities arising from adopting such priorities.

Business Continuity Steering Committee
(chaired by the Corporate Risk Director)
The resilience of the Group to events outside of its control are considered, as well as lessons learned from actual incidents or scenario tests.

The Committee considers the threats to operations and the dependency risk the Group may have in connection with partnership processes, resources, sites and suppliers.

LEVEL 5

Audit Committee

The Audit Committee is responsible for understanding the effectiveness of the internal controls over risk. The Committee reviews the work of the Group Risk team and the levels of assurance gained regarding the strength of the controls. Assurance is gained from internal audit projects, external auditors and other independent sources where appropriate. The Committee approve the internal audit strategy and the internal audit plan.

Board

The Board is ultimately responsible for the Group's framework of governance, internal control and risk management. The mitigation of risk is delegated to the Executive Directors and other senior management. The Board is responsible for ensuring that management review and communicate the effectiveness of the internal controls. The Board is also responsible for understanding the principal risks faced by the Group, its risk appetite and the Viability Statement.

Management reporting to the Board must be 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 for Marston's to accomplish its strategic objectives.

The Board has performed a robust assessment of the principal risks faced by the Group, taking into account the ability of the Group 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 described on the following pages. In addition, 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.

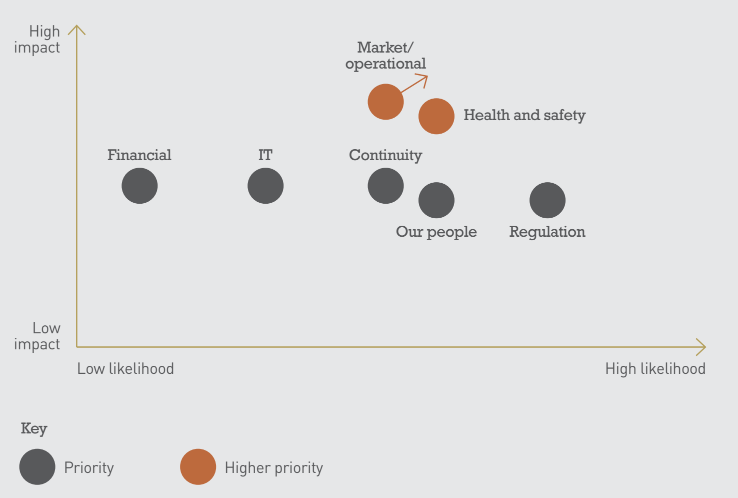
During the period the Group entered into a new £320 million bank facility to the financial period 2021/22 providing our unsecured financing requirements for the next five years. In addition a further £61 million of property lease financing has been secured during the period demonstrating the attractiveness of the Group's pub estate expansion plans to debt providers and a further tranche of property lease financing has been forward committed for January 2018. The Group continues to have strong headroom against the financial covenants underpinning the financing structure, with maintained fixed charge cover.

The Board has assessed the viability of the Group over a five-year period, which is consistent with their strategy review process. Whilst acknowledging that the principal risks all have the potential to affect future performance, with the mitigation plans in place, none of them are considered likely to threaten the viability of the business over the five-year period. Based on this review, the Directors confirm that they believe that the Group will continue to be operationally and financially viable over the five-year period.

Our Principal Risks and Uncertainties

Our principal risks, as shown on the chart below, are assessed in terms of impact and likelihood. The assessment takes into account controls operated by management to reduce the risk. Risks are not static: an arrow indicates if there is currently any pressure on a particular risk to change. Higher priority risks are those which currently present more of a challenge for the business to mitigate.

Risk likelihood and impact



A reminder of our six strategic pillars:

1. Operating a high quality pub estate
2. Targeting pub growth
3. Increased investment in rooms
4. Offering the best consumer experience: quality, service, value and innovation
5. Leadership in the UK beer market
6. Ensuring people are at the heart of our business

The following risks are, in the opinion of the Board, the principal risks which affect Marston's. It is not intended to be a complete analysis of all risks and may change over time.

Market/Operational

Marston's turnover is dependent upon being able to offer, and attract, our customers to an enjoyable experience of high quality at the right price. It is reliant upon attracting back existing customers and winning new customers.

Key strategic pillars affected: 4 5

Movement: The UK market faces increased uncertainty which is making consumers nervous. The economic drivers for our customers in the near future could be employment uncertainty, 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. However, these conditions also present an opportunity to gain market share from other operators who cannot manage the risk as effectively.

The risk

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.

Potential impact

Reduction in sales or heavy discounting in order to attract customers.

Mitigation

- Customer satisfaction surveys, market and consumer insight data.
- Continual analysis of sales performance data of individual sites and by pub format.
- Pricing strategy and cost control.
- Investment, location and design of our pubs.
- Structure of our teams is aligned with our pub formats.

Further mitigating actions are set out in Our Marketplace on pages 8 to 9

Our Principal Risks and Uncertainties continued

Business continuity

Marston's operations depend upon supplies of goods and services often from single sources.

Key strategic pillars affected: 1 4 5

Movement: Marston's recognises the disruptive effect of events outside of the Group's control, that impact upon our ability to manage operations.

In 2018 we will perform detailed audits of resilience at a selection of our major suppliers' sites. This work will be followed by a wider programme of visits to be conducted by our Group Risk team.

The risk

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.

Potential impact

Disruption to trade impacting upon profit.

Mitigation

- Continual assessment of suppliers' resilience and capacity.
- Site visits to our suppliers to assess crisis planning.
- Contingencyplanning identifying how products or services can be substituted.

Regulatory

Marston's activities are predominantly within heavily regulated areas: alcohol licensing, food hygiene, alcohol production, transport and property.

Key strategic pillars affected: 2 3 5 6

Movement: The Pubs Code introduced in 2016 increased the legislative requirements for Marston's across a range of areas when dealing with retailers, tenants and lessees.

Any future increases in the National Minimum Wage or National Living Wage above inflation could impact the Group.

In 2018 we will complete our preparations for GDPR to ensure all personal data is being held and processed in a manner compliant with new legislation. The Risk & Compliance Committee will continue to track and report to the PLC Exec the Group's ongoing compliance and preparations for any legislation, regulation and reporting requirements.

The risk

Changes in regulation impacting upon the cost of business or obstructing growth.

Potential impact

Increased regulation directly affecting Marston's, or our suppliers, could increase the cost of compliance.

Mitigation

- Maintain excellent levels of compliance through policies, training and monitoring.
- Robust health and safety management systems.
- Active consultation with Government, trade bodies and the BBPA.
- Tracking legislative changes and adapting operations.

Health, safety and food hygiene

Key strategic pillars affected: 2 4 5 6

Movement: The number of personal accidents reduced this year in our operating divisions, continuing the trend of a reduction in personal accidents over recent years. Our busy and evolving working environment continues to be a challenge.

For 2018 we have taken steps to invest in more resource for health and safety and repositioned its management within the Group in order to accommodate the need for greater specialisation.

At Marston's food hygiene has been consistently and rigorously controlled.

The risk

Breaches of health and safety or food hygiene regulations now attract increased media attention and higher penalties.

Potential impact

Significant damage to reputation.

Mitigation

- Health, safety and hygiene management systems embedded.
- Dedicatedhealth and safety managers seeking continuous improvement.
- Documented, regular inspections.
- Training of our people.
- Escalation of potential safety threats to senior management.

Information technology

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.

Key strategic pillars affected: 4 5 6

Movement: Global cyber risk has evolved and the theft of personal data is becoming more common, 'ransomware' attacks are now more widespread and 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 plan to enhance central control over remote devices and to engage more with our people to encourage greater awareness of cyber threats and their role in protecting our IT network and data.

The risk

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.

Potential impact

Reduction in the effectiveness of operations, business interruption and loss of profit. Regulatory fine as a result of the loss of data.

Mitigation

- 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.

Our people

Marston's operates in a very competitive environment; as a result the achievement of its strategic objectives relies heavily upon the quality of its people.

Key strategic pillars affected: 4 5 6

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 across the Group enhancing the dialogue regarding expectation, achievement, development and career ambition.

In 2018 PCDR will be embedded further.

The risk

Failure to attract or retain the best people.

Potential impact

Financial targets and strategic objectives are not met.

Mitigation

- Trainingand induction programmes.
- Further development of Marston's Ways of Working.
- PCDR.
- Employeeengagement and enablement survey.

Financial covenants, pension fund deficit and accounting controls

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.

Key strategic pillars affected: 1 2 3 5

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

The risk

Breach of the covenants with our lenders. Inadequate funding of the pension scheme. Incorrect reporting of financial results. Unauthorised transactions.

Potential impact

Loss of investor confidence and reputational damage. Potential loss as a result of fraud. Breach of covenants resulting in additional financial and operating restrictions.

Mitigation

- Detailedmanagement accounts, budgets and forecasts.
- Constant monitoring of financial ratios.
- Audit and authority levels.
- Segregationof duties and access controls.
- Monitoringpension investment yields and contribution levels.

Group Operating and Financial Review

- Underlying profit before tax up 3% to £100.1 million
- Operating cash flow up 17% to £213.6 million, offset by initial working capital impact from CWBB
- Pro forma leverage down 0.1 times to 4.7 times, fixed charge cover unchanged at 2.6 times demonstrating our maintained balance sheet strength

	Underlying revenue		Underlying operating profit		Margin	
	2017 £m	2016* £m	**2017 £m**	2016* £m	**2017 %**	2016* %
Destination and Premium	**438.0**	419.0	**88.9**	86.9	**20.3**	20.7
Taverns	**246.7**	238.5	**57.0**	56.6	**23.1**	23.7
Leased	**54.6**	55.0	**27.1**	26.9	**49.6**	48.9
Brewing	**252.9**	193.3	**25.5**	23.2	**10.1**	12.0
Group Services	**–**	–	**(24.0)**	(20.9)	**(2.4)**	(2.3)
Group	**992.2**	**905.8**	**174.5**	**172.7**	**17.6**	**19.1**

* The segmental revenue and profits for 2016 have been restated to reflect the movement of pubs between segments.

GROUP

Total underlying revenue increased by 9.5% reflecting the acquisition of the Charles Wells Beer Business (CWBB), the contribution from new openings and pub acquisitions and positive like-for-like sales in our pub business. As anticipated, Group operating margins were behind last year reflecting increased costs in Destination and Premium, the continued impact of converting pubs from tenancy to franchise and the short-term impact of the CWBB acquisition which operates at a lower margin than the underlying beer business ahead of the synergies to be generated in the next financial year.

Underlying operating profit of £174.5 million (2016: £172.7 million) was up 1.0%.

Underlying profit before tax was up 2.9% to £100.1 million (2016: £97.3 million), principally reflecting the contribution from new pubs and bars and the strong Brewing performance. Basic underlying earnings per share for the period of 14.2 pence per share (2016: 13.9 pence per share) were up 2.2% on last year, reflecting a lower tax rate in the period and the higher number of shares following the equity issuance referred to in the Chief Executive's Statement on page 11.

On a statutory basis, profit before tax was £100.3 million (2016: £80.8 million) and earnings per share were 14.2 pence per share (2016: 12.7 pence per share). The year-on-year change principally reflects the positive movement in the fair value of interest rate swaps in the period.

Operating cash flow of £213.6 million is £30.8 million higher than last year principally reflecting higher creditors. This is offset in part by the initial working capital impact of the CWBB acquisition.

Cash Return on Cash Capital Employed (CROCCE) of 10.7% was slightly below last year as a result of the timing of the acquisitions and new openings. In 2018 our CROCCE will benefit from the anticipated synergies from CWBB and the full year benefits of the pub acquisitions described in the Chief Executive's Statement on page 11.

Central costs as a proportion of turnover were broadly in line with 2016, absolute costs increased reflecting inflationary pay increases, the impact of both the apprenticeship and pub code levies, and higher training and IT costs.

Destination and Premium

Overview:
Larger food-led managed pubs, premium bars and restaurants, accommodation

Customer proposition:
Marston's Two for One, Generous George, Milestone Rotisserie, Milestone Carvery, Pitcher & Piano, Revere

Typical customers:
Value seekers or those looking for a premium experience

KEY FACTS 2017

397
pubs and bars
(2016*: 377)

11,517
employees
(2016*: 10,817)

449,000
average pints sold per week
(2016*: 439,000)

£88.9m
underlying operating profit representing 51% of underlying Group operating profit
(2016*: £86.9m)

* The segmental revenue and profit for 2016 have been restated to reflect the movement of pubs between segments.

OUR MEDIUM-TERM STRATEGY

Focus

- Estate development: high quality national estate
- Offers a range of trading formats, brands and rooms
- Consumer focus on value for money

Objectives

- Continue to grow by at least 15 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 150 pub-restaurants opened since 2009
- Food sales make up 59% of sales in Destination
- Like-for-like sales and margin growth in last five years

RISK	MITIGATION
Economic pressure on our market Economic change, changing consumer sentiment and levels of discretionary spend.	Ensuring that our pub offers are correctly priced, of the right quality, and our service is at a high standard. Diversifying our business to take advantage of opportunities, for example: building lodges alongside our pubs.
Rising costs for our business Possible inflation increases in the National Minimum Wage and the National Living Wage.	Cost control and setting prices appropriately to maintain margins. Protecting our cost base through long-term relationships with our suppliers and fixed price contracts. Our new-builds are predominantly freehold and not exposed to future rising rent costs.
Operating margin Appropriate margin control to drive profitability.	Ensuring our offer is competitive, innovative and valued by our customers. Cost control disciplines imposed and their effectiveness monitored.

2017 PERFORMANCE

Total revenue increased by 4.5% to £438.0 million reflecting the continued strong performance of our new-build pub-restaurants and growth in like-for-like sales. Underlying operating profit of £88.9 million was up 2.3% (2016: £86.9 million). Profit per pub is up 1.0% compared to last year.

Total like-for-like sales were 0.9% above last year.

Reported operating margin of 20.3% is slightly below last year, reflecting anticipated cost increases in labour, business rates and energy costs.

Priorities for 2017/18

- Developing our food offers
- Building pubs and accommodation
- Increasing premium offers

Taverns

Overview:
Community pub estate of smaller managed, franchised and tenanted pubs

Customer proposition:
Great locals with a licensee who connects with their community

Typical customers:
Those wanting to drink, socialise and be entertained

KEY FACTS 2017

806
pubs and bars
(2016*: 816)

1,274
employees
(2016*: 1,232)

1.1m
average pints sold per week
(2016*: 1.2m)

£57.0m
underlying operating profit representing 32% of underlying Group operating profit
(2016*: £56.6m)

* The segmental revenue and profit for 2016 have been restated to reflect the movement of pubs between segments.

OUR MEDIUM-TERM STRATEGY

Focus
- Great pubs at the heart of their local community
- Commitment to always improving customer experiences
- Offer innovation in drink, food, entertainment and design
- Agreements to suit all, low barriers to entry and working in partnership

Objectives
- Build a stable business through a balance of agreements – managed or franchised
- Outperform the marketplace – clear focus on drinks
- Target licensee stability rate at 90%

Progress
- 687 pubs managed or franchised
- Like-for-like sales growth outperforming the market
- Year-on-year improvements in licensee stability

RISK	MITIGATION
Economic pressure on our customers Increasing squeeze on customer spend.	Maintaining a good balance between wet-led and food-led pubs. A pub estate catering for a broad range of customers. Responding to business data and developing new marketing initiatives.
Rising business costs for our operators Increasing payroll costs for our operators. Inflation on food and drink is likely to continue to rise.	Business insight provided by our Area Managers, data analysis to identify margin trends in order to protect and grow profitability. Protecting our cost base through long-term relationships with our suppliers and fixed price contracts.
Increasing competition Growth in the number of openings and increased investment in our market sector. Increasing levels of price discounting used by competitors to drive turnover.	Data analysis of customer sentiment in order to adjust our offer to meet consumer demand. A marketing strategy that takes advantage of digital opportunities to increase interaction with our customers.

2017 PERFORMANCE

Total revenue increased by 3.4% to £246.7 million, principally reflecting the continued conversion of pubs to our franchise model. Operating profit was up 0.7% on last year reflecting growth in the core business offset by disposals. Profit per pub was up 2.0% on last year.

In our managed and franchised pubs like-for-like sales were up 1.6%.

Operating margin was 0.6% below last year at 23.1%, reflecting the impact of franchise conversions.

Priorities for 2017/18

- Build on innovation of consumer offers and capital investment
- Attract the best partners and managers
- Deliver the best partner and customer experiences

Leased

Overview:
Independently-run pubs

Customer proposition:
Exceptional service and high quality offers from skilled entrepreneurs

Typical customers:
Those looking for a different and individual offer

KEY FACTS 2017

365
pubs and bars
(2016*: 366)

90%
licensee stability rate
(2016: 91%)

330,000
average pints sold per week
(2016*: 346,000)

£27.1m
underlying operating profit representing 15% of underlying Group operating profit
(2016*: £26.9m)

* The segmental revenue and profit for 2016 have been restated to reflect the movement of pubs between segments.

OUR MEDIUM-TERM STRATEGY

Focus
- Stable estate run by high quality entrepreneurs
- Flexible agreements, purchasing power and pub experience offers support and choice

Objectives
- Target licensee stability rate of 90%
- Growth through stable relationships
- Sustainable income through quality estate and strong support

Progress
- Retention rate at 90%
- Rental income growing
- Strong investment returns

RISK	MITIGATION
Economic pressure on our lessees' businesses Discretionary spend choices by our customers could become more restricted.	Support by our Area Managers through their oversight of our lessees' business strategies, commercial initiatives, marketing opportunities and suggestions regarding cost control.
Additional regulation Changes in Government regulation increasing the cost of doing business, putting additional cost on smaller operators.	Anticipation of legislative changes and support given by our Area Managers. Support for the BBPA to lobby for the business interests of our lessees.
Operating margin pressures on our lessees Inflationary pressure, as well as increases in energy levies and beer duty. Future increases in the National Minimum Wage and the National Living Wage.	Support given to our lessees by our Area Managers to adapt models that can sustain their businesses through periods of rising inflation.

2017 PERFORMANCE

Total revenue decreased by 0.7% to £54.6 million and underlying operating profit of £27.1 million was up 0.7% on last year. The performance of the core estate was strong with rental income per pub up 2.0%. Operating margin of 49.6% was up 0.7%, reflecting a higher mix of rental income and sales from premium products. Profit per pub was up 2.0% on last year.

Priorities for 2017/18

- Maintain targeted investment to drive growth
- Continue focus on recruitment, training and developing strong relationships

Brewing

Overview:
Six breweries producing a wide portfolio of cask, keg and packaged beers

Key brands:
Hobgoblin, Pedigree, Wainwright, Bombardier, Banks's, Ringwood, Jennings, Brakspear

Typical customers:
Discerning and knowledgeable drinker at home and away from home (in pubs, clubs and bars)

KEY FACTS 2017

6
breweries
(2016: 5)

1,479
employees
(2016: 1,155)

5.5m
average pints brewed per week
(2016: 4.3m)

£25.5m
underlying operating profit representing 15% of underlying Group operating profit
(2016: £23.2m)

OUR MEDIUM-TERM STRATEGY

Focus
- Four national brands: Pedigree, Hobgoblin, Wainwright and Bombardier
- Strengthening presence in regional markets with Banks's, Jennings, Mansfield, Ringwood, Brakspear and Eagle
- Premium cask and packaged ale
- Innovation driven by relevant consumer insight

Objectives
- To be the UK's number one drinks supplier with category leadership in premium cask and packaged
- To develop new brands that are relevant to the current and future consumer
- Continue to drive value from authenticity and provenance from our six regional breweries and licensed brands

Progress
- Number one position in premium packaged and canned ale maintained and extended
- Expansion of craft portfolio
- Winner of 'Best National Cask Ale Supplier' for the fourth successive year
- New partnership with Estrella Damm for the UK licence

RISK	MITIGATION
Margin erosion Our on-trade customers are sensitive to margin erosion, particularly as a result of the price differential with the off-trade.	Offering our on-trade customers a wide and innovative product range, refreshed and valued by their customers, at a price which supports margin growth in their business. Our wide portfolio of beers including craft beers. High levels of service to our on-trade customers.
Market changes The continual rise in the take home market.	Our business model has the flexibility and capacity to respond to changing demand, for instance the increasing demand for our beer to be supplied in bottles rather than barrels.
Rising costs Inflationary pressure upon our margin.	Matching input costs to sales price changes to maintain margin. Protecting our input costs by entering into long-term purchase contracts where advantageous at fixed prices.

2017 PERFORMANCE

Total revenue increased by 30.8% to £252.9 million, principally reflecting the acquisition of CWBB in June and continued growth in ale volumes in the core business excluding CWBB. Underlying operating profit increased by 9.9% to £25.5 million.

Operating margin of 10.1% was below last year reflecting the CWBB business which has historically operated at a lower margin. We would expect margins to recover as synergies are delivered in 2017/18.

Priorities for 2017/18

- To build on market leadership in premium packaged ale
- Complete the integration of CWBB
- Continue to drive class leading innovation using consumer insight

TAXATION

The underlying rate of taxation of 15.6% in 2017 (2016: 17.9%) 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) increased credits in respect of deferred tax on the Group's property portfolio as a result of higher inflation, and (iii) the cumulative deferred tax benefit of property disposals.

NON-UNDERLYING ITEMS

There is a net non-underlying credit of £0.2 million after tax (2016: charge of £6.9 million). This includes credits of £1.6 million in respect of the change in the rate assumptions used in calculating our onerous lease provisions and £6.4 million in respect of the mark-to-market movement in the fair value of certain interest rate swaps. These are offset by reorganisation and integration costs of £5.5 million, principally from the acquisition of CWBB, a £1.4 million write-off of the unamortised finance costs in respect of our old bank facility and a charge of £0.7 million in respect of the net interest on the net defined benefit pension liability. The revenue of £19.1 million and expenses of £19.3 million in respect of the ongoing management of the remaining pubs from the portfolio disposal in December 2013 have also been included within non-underlying items.

CAPITAL EXPENDITURE AND DISPOSALS

Capital expenditure was £196.3 million in the year (2016: £143.7 million) including £111 million on new pubs including the pub acquisitions described in the Chief Executive's Statement on page 11. We expect that capital expenditure will be around £150-155 million in 2018, including around £70-75 million for the construction of 15 pubs and bars and six lodges. In addition the acquisition cost of CWBB was £90.5 million.

Cash proceeds of £61.2 million have been received from the sale of 41 pubs and other assets, including £38.4 million of leasing transactions. Disposal proceeds of around £45-50 million are anticipated in 2017/18.

FINANCING

During the period the Group entered into a new £320 million bank facility to March 2022, with an additional £40 million accordion facility at improved terms. This facility, together with a long-term securitisation of approximately £806 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 £301 million as at 30 September 2017. This financing is a form of sale and leaseback agreement whereby the freehold reverts to the Group at the end of the term 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 £1,028 million at 30 September 2017 is in line with last year. Operating cash flow of £213.6 million is £30.8 million ahead of last year principally due to an increase in trade creditors, part of which relates to the acquisition of CWBB and offsets some of the acquisition working capital adjustment.

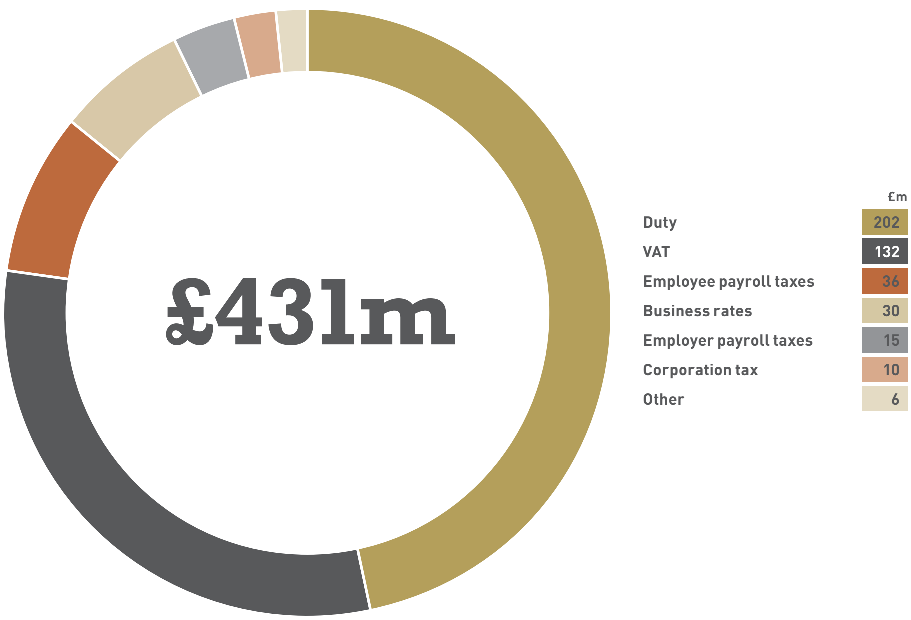
For the period ended 30 September 2017 the ratio of net debt before lease financing to underlying EBITDA was 4.8 times (2016: 4.8 times). On a pro forma basis (incorporating the post synergy EBITDA from CWBB) the leverage figure is 4.7 times. It remains our intention to reduce this ratio over time, principally through EBITDA growth generated from our new-build investment programme.

In May the Group raised £75.5 million from the issuance of 9.9% of the ordinary share capital of the Company to fund the acquisition of CWBB and the Whitbread pubs described in the Chief Executive's Statement on page 11.

PENSIONS

The deficit on our final salary scheme was £5.4 million at 30 September 2017 which compares to the £34.0 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



CALCULATION OF CROCCE

CROCCE has been calculated as follows. For 2017 a weighted average net asset value has been used to reflect the timing of acquisitions in the second half year.

	Balance £m	Depreciation £m	Revaluation £m	Adjusted £m
NON-CURRENT ASSETS:				
Goodwill	230.3			230.3
Other intangible assets	67.6	6.8		74.4
Property, plant and equipment	2,360.7	196.6	(624.2)	1,933.1
Other non-current assets	10.3			10.3
CURRENT ASSETS:				
Inventories	40.2			40.2
Trade and other receivables	108.4			108.4
Assets held for sale	2.7			2.7
LIABILITIES:				
Creditors*	(286.9)			(286.9)
CASH CAPITAL EMPLOYED	**2,533.3**	**203.4**	**(624.2)**	**2,112.5**
Weighted Average				**2,001.9**
EBITDA				**213.7**
CROCCE				**10.7%**

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

FREE CASH FLOW

	2017 £m
Net cash inflow from operating activities	**213.6**
Interest received	**0.3**
Interest paid	**(70.2)**
Proceeds from sale of own shares	**0.3**
Arrangement costs of borrowings	**(7.9)**
Working capital acquired	**(33.0)**
Free Cash Flow KPI	**103.1**

DIVIDEND CONSIDERATIONS

The proposed final dividend of 4.8 pence per share provides a total dividend for the year of 7.5 pence per share, and represents a 2.7% increase on 2016. Dividend cover was 1.9 times (2016: 1.9 times).

In light of the Financial Reporting Council's recommendations on disclosure in respect of dividend policy and sustainability, we have set out below the key considerations in establishing the dividend proposal.

Dividend policy

Our dividend policy remains to target consistent progressive increases in the dividend at a cover of around two times over the medium term. This policy has remained consistent in recent years and is annually reviewed by the Board.

Distributable profit

The Company balance sheet (page 109) demonstrates sufficient headroom in terms of available distributable profits for both current and future delivery of dividends under the policy stated above.

Debt covenants

The Group has sufficient headroom on its financing covenants for both current and future delivery of dividends.

Viability Statement

The dividend policy is underpinned by the Viability Statement shown on page 24.

Subject to the approval at the Annual General Meeting on 23 January 2018, the final dividend will be paid on 29 January 2018.

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 2017 the CR Committee has focused upon a target driven approach, aligned with our CR priorities and to the business's strategic objectives. This cross-functional working group meets several times per year to discuss our strategic framework and inform each other on progress made. With members from teams across the business such as brewing, procurement, risk and communications, the CR Committee is truly representative of the importance that corporate responsibility has for everyone in the business.

We have previously assessed our CR strategy and set CR priorities aligned to the Group's strategic objectives. This year has seen us implementing these objectives, establishing targets and making 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. With publishing our first Modern Slavery Statement this year, we have made an important step towards demonstrating our commitment to go beyond compliance.

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

With these priorities in mind, we have formulated focus areas for each of the Marston's Group strategic objectives that guide the commercial side of our business:

<table>
<tr><th></th><th>WE INVEST IN OUR PEOPLE</th><th>WE PARTNER WITH SUPPLIERS WHO SHARE OUR VALUES</th><th>WE CARE ABOUT OUR CUSTOMERS' WELLBEING</th><th>WE CELEBRATE OUR LOCAL COMMUNITIES</th><th>WE REDUCE OUR ENVIRONMENTAL IMPACTS</th></tr>
<tr><td rowspan="5">STRATEGIC OBJECTIVES</td><td>ENSURING PEOPLE ARE AT THE HEART OF OUR BUSINESS</td><td colspan="4">OFFERING THE BEST CONSUMER EXPERIENCE: QUALITY, SERVICE, VALUE AND INNOVATION</td></tr>
<tr><td></td><td colspan="4">TARGETING PUB GROWTH</td></tr>
<tr><td></td><td></td><td>INCREASED INVESTMENT IN ROOMS</td><td></td><td></td></tr>
<tr><td></td><td></td><td colspan="3">OPERATING A HIGH QUALITY PUB ESTATE</td></tr>
<tr><td colspan="5">LEADERSHIP IN THE UK BEER MARKET</td></tr>
<tr><td rowspan="3">AREAS OF FOCUS DURING 2016/17</td><td>Apprenticeships</td><td>Pub food supplier charter</td><td>Healthy options on our menus</td><td>Support for local charities</td><td>Food recycling in our pubs</td></tr>
<tr><td>Training in our pubs</td><td>Improve our supplier audit programme</td><td>Nutritional information</td><td>Head office involvement with local charities</td><td>Energy consumption</td></tr>
<tr><td>Engagement and enablement</td><td>Modern slavery</td><td>Engagement with Drinkaware</td><td>Support teams' individual contributions</td><td>Recycling rates</td></tr>
</table>

Corporate Responsibility continued

WE INVEST IN OUR PEOPLE

Keeping people at the heart of our business is essential to our success, wherever they work in Marston's. Every year we create new jobs within our new-build pubs and lodges and every year we track the engagement and enablement scores of our people. This is what makes Marston's 'The Place to Be'. That is why all our training and development programmes are built around customer service because, in our view, personal fulfilment translates into customer satisfaction and long-term corporate success.

We carefully track the numbers of our people achieving training levels in our pubs. This has been achieved through creating greater flexibility, allowing our people to complete much of their training at home through e-learning as well as on-site training. This year 6,000 people have been trained through the Marston's Talent Academy Online.

Over 450 apprentices have worked through our apprenticeship programme this year. For many of those apprentices, working at Marston's has been their first experience of full or part-time work.

CR targets this year and how we have performed

1. **Increase levels of training amongst our people**
   There has been a significant increase in the completion of initial and refresher training programmes across all pub formats.

2. **We continue to monitor our engagement and enablement score against other employer scores.**
   We achieved an engagement score of 73% (2016: 76%) and an enablement score of 76% (2016: 77%).

MARSTON'S TALENT ACADEMY

Talent Academy launch

This year we launched the new Marston's Talent Academy brand and online learning platform: Marston's Talent Academy Online, delivering high quality, tailored, flexible learning for our pub team members at all levels.

More detail on our people can be found at **www.marstons.co.uk/responsibility**

WE PARTNER WITH SUPPLIERS WHO SHARE OUR VALUES

At Marston's we recognise that our suppliers are an integral part of our success and profitability and we strive for long-term relationships with those who share our 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, renewal periods, data transfer and security.

All our main food suppliers are either British Retail Consortium, or equivalent standard, approved, or audited independently on all aspects of hygiene, traceability, quality and ethical approach.

Online we provide information on how we source food, ingredients, traceability, animal welfare and sustainability, particularly regarding meat, fish and eggs.

In 2017 we issued our first statement on Modern Slavery and, since then, we have contacted 55 suppliers in order to understand their own policy regarding the employment conditions of staff in their supply chain.

CR targets this year and how we have performed

1. **Issue a supplier charter**
   In 2017 we developed a Pub Food Supplier Charter which is now issued to all current and potential food suppliers and sets out our expectations regarding quality of product, traceability of ingredients, ethical approach, sustainable sourcing and employment rights.

2. **Improve our supplier audits**
   All of our brewery suppliers for key ingredients have been audited during the year as well as a third of our pub food suppliers. We have appointed a new service provider (Acoura) in order to improve on the number of suppliers audited and taken the opportunity to expand our audit protocol. Since the new audit protocol was launched in May we have scheduled or audited over 50% of our food supplier base.

Ethical and sustainable sourcing

The bed linen in our lodges is purchased from The Fine Bedding Company which shares our values on the sustainability of their sources of supply and an ethical approach to production. We also partner with Brew Tea, founded in 2012, for a range of hot drinks offered in our P&P bars, Revere, Accent and Milestone Rotisserie pub-restaurants. Our English breakfast tea is 100% rainforest certified.

More detail of how we partner with our suppliers and our Modern Slavery statement can be found online at **www.marstons.co.uk/responsibility**

WE CARE ABOUT OUR CUSTOMERS' WELLBEING

We like to ensure that our guests have a great experience in our pubs and we offer a range of dishes that cater to various lifestyles, priorities and tastes, which assist in making informed choices. In the past year, we have deepened our engagement with key stakeholders and have made significant progress in broadening our menu choices.

We continue to monitor consumer trends and collect customer feedback to ensure that our menus remain relevant to changing diets and lifestyles.

As part of our continuing engagement with Public Health England we are working on sugar reduction in our dishes.

All of our pub team members undertake food hygiene training. We have a robust independent audit programme that monitors health and safety standards and a documented food safety management system. A catering hotline for any food-related queries is available to our pub teams 365 days per year.

Operating a high-quality pub estate requires responsible marketing of alcoholic beverages. This year we re-joined Drinkaware, a national initiative providing information and advice to consumers.

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. **Give more nutritional information to customers**
   Specifications maintained on all products used on our menus detailing ingredients, nutrition and allergen information. All core menus have an allergy app available providing allergen information on all menu items.
3. **Maintain the level of test purchases and age verification checks**
   All managed and franchised pubs receive at least one test purchase visit per annum.

Developing Healthier menus

Healthy menus: All of our core menus have nutritional information available online and include a range of dishes where we have controlled the calorie content and these are highlighted on menus. We endeavour to ensure that all of our menus have vegan options available. All of our Christmas 2017 menus have vegan options for each course. We have launched our first dessert with less than 300 calories and five-a-day fruit and vegetable portions are highlighted on our Children's menus.

More detail about our customers' wellbeing can be found online at **www.marstons.co.uk/responsibility**

WE CELEBRATE OUR LOCAL COMMUNITIES

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. Each year we actively involve ourselves 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. We operate two charity schemes for our people to contribute to charitable causes from their pay and Marston's matches those contributions each year.

CR targets this year and how we have performed

1. **Encourage our pubs to engage with their local communities**
   Marston's Give Back Week was again in operation this year, encouraging all our managed pubs to run activities to raise funds for charities of their choice.
2. **To match any contributions made to charities by our people through the payroll**
   Contributions made through both the Marston's Inns and Taverns Charitable Trust and the Marston's Employee Charitable Fund were matched.
3. **For our people at head office to offer direct support to local charities**
   Marston's is a Founder Patron of The Way in Wolverhampton. This modern state-of-the-art Youth Zone, close to Marston's head office, has over 2,000 members. This year we participated in their 'Get a Job' campaign, helped young people with their CVs and interview preparation and decorated their Intervention Room.

Community involvement

All of our breweries involve themselves in their local towns at fairs, open days, celebrations and seasonal events such as the Beertown Brewery Bash event in Burton.

More detail of how we celebrate our local communities can be found online at **www.marstons.co.uk/responsibility**

Corporate Responsibility continued

WE REDUCE OUR ENVIRONMENTAL IMPACT

We aim to reduce our environmental impact. This impact is monitored constantly for our pubs, breweries and logistics operations. Across all of our operations approximately 140,000 tonnes of CO_2 are emitted from energy use. The majority of this 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, voltage optimisation, heating controls and cellar cooling. This year we will install a new boiler at our Wolverhampton brewery which aims to reduce energy usage for production at the site by more than 20%.

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. This year, we have achieved a 98% rate of glass recycling, compared to 89% in the previous year.

CR targets this year and how we have performed

1. **Increase food recycling**
   Food recycling is now taking place in 73% of sites with a food offering (52% last year) and we are aiming for 80% next year.
2. **Reduce CO_2 emissions in relation to activity**
   An increase in Group activity across our pub estate and our breweries has resulted in an overall increase in energy usage. However, carbon emissions have reduced due to our programme of installing LED lighting, cellar cooling, voltage optimisation and heat recovery systems. We have also benefited from a higher proportion of the UK's energy supply coming from non-fossil fuels.
3. **Recycle 70% of waste from pubs and inns where Marston's provides waste services:**
   Currently 76% of waste from our pubs is recycled, up from 63% last year through a bin rationalisation project. Next year we are expecting further improvement with a target of 80%.

Diverting waste from landfill

Awareness of our commitment to reduce waste going to landfill has increased amongst our pub teams following our 'Wise up to Waste' campaign this year. In addition, food collections from our pubs have increased dramatically since appointing a new contractor, UK WSL, in 2016.

More detail about how we reduce our environmental impact can be found online at **www.marstons.co.uk/responsibility**

OUR FUTURE PLANS

We invest in people
- Expansion of our training courses available on Marston's Talent Academy Online and the provision of our apprenticeship programme across the Group.
- Further embedding of our PCDR process to ensure our people have absolute clarity about what they need to achieve and how they can work to achieve it.

We partner with suppliers who share our values
- To investigate a range of ethical sourcing issues with our suppliers.
- Following the introduction of our Pub Food Supplier Charter, we will consider how similar expectations can be communicated to our other key suppliers.
- Modern Slavery: we intend to extend the coverage of our supply chain base and publish a policy on Modern Slavery during the year.

We care about our customers' wellbeing
- Work with our suppliers to identify ways in which the calorie content of our meals can be reduced.
- Monitor consumer healthy eating trends and develop our menus accordingly.
- Strive to support Drinkaware's campaigns and initiatives.

We celebrate our local communities
- Encourage our teams to donate their time to support local charities.
- Report more stories of how our teams support charities, fund raising events and local projects.
- Look at engaging with the Onside Youth Zone charity nationally, particularly where they have youth centres in proximity to our pubs, breweries and depots.

We reduce our environmental impact
- Relaunch our Energy Heroes employee engagement programme.
- Future technical initiatives: continue to install LED lighting in back of house areas, cellar temperature management and voltage optimisation.
- Energy saving trials next year: building management systems and battery storage.
- Reporting of water usage by site to be enhanced.
- Achieve zero waste from our pubs to landfill.

GOVERNANCE


WHAT'S YOUR BEEF?
GRILL & PIZZA


61 DEEP PALE ALE
MARSTON'S
61 DEEP PALE ALE


THE SPRING RIVER

Chairman's Introduction

Roger Devlin
Chairman

"Our governance framework continues to support the delivery of our strategic priorities and protect the interests of our stakeholders."

DEAR SHAREHOLDER

We believe that good governance is fundamental to achieving our aim of making Marston's 'The Place to Be' for our people, our customers and our shareholders. As a Board we are responsible for demonstrating the desired values and behaviours that we want to embed within the culture of our business. Our governance framework, set out on the following pages, supports 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 main principles of the Code.

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.

BOARD EFFECTIVENESS

The Board is mindful of the need for continuous review of its own effectiveness, in order to support the Group in its ambitions. Last year's annual Board evaluation was conducted by Independent Audit, a corporate governance consultancy. Progress made during this year on the key points identified during last year's evaluation to improve and develop the efficiency of the Board are set out on page 46. This year the Board have conducted a self-assessment evaluation by means of a questionnaire and individual meetings between myself and each member of the Board. The outcomes of both were discussed in detail at our October Board meeting and the agreed actions arising are summarised on page 46. Profiles of each Director, together with information on their experience relevant to the Group, are set out on pages 42 to 43.

BOARD AND COMMITTEE SUCCESSION

As announced last year, following the retirement of Neil Goulden after the Annual General Meeting ('AGM') in January 2017, Carolyn Bradley assumed the role of Senior Independent Director and also became a member of the Remuneration Committee, and Catherine Glickman took over as Chair of the Remuneration Committee. Prior to the announcement of our 2016/17 results, we announced that Nick Backhouse will retire from the Board at the conclusion of the 2018 AGM. I would like to thank Nick on behalf of the Board for his valued contribution to Marston's during his tenure with the Company. Nick will be succeeded as Chairman of the Audit Committee by Matthew Roberts. Carolyn Bradley will also join the Audit Committee from the same date. Further details on the Board's composition are given on page 41.

REMUNERATION POLICY

The Policy approved by shareholders at the 2017 AGM applied throughout the year and all payments made to Directors during the year have been made in line with that Policy. Further details are provided in the Remuneration Report on pages 53 to 62.

AUDIT

As previously announced, during the year we conducted a formal tender of our external audit provider. Following a thorough process overseen by an internal panel, the Audit Committee recommended the appointment of KPMG as the next external auditor. It is the Board's intention to appoint KPMG after the conclusion of the 2018/19 audit. The Audit Committee has continued to focus on the development of the internal audit strategy, with the appointment of a new Head of Internal Audit, and key deliverables from the internal audit plan for the year. During the year, as part of their normal monitoring procedures, the Financial Reporting Council (the 'FRC') reviewed the Group's 2016 Annual Report and Accounts. I am pleased to report that no changes were required to our accounting policies, but we have enhanced our disclosures in certain areas of our 2017 Annual Report and Accounts. Further details are provided in the Audit Committee Report on pages 50 to 52.

Roger Devlin
Chairman
30 November 2017

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

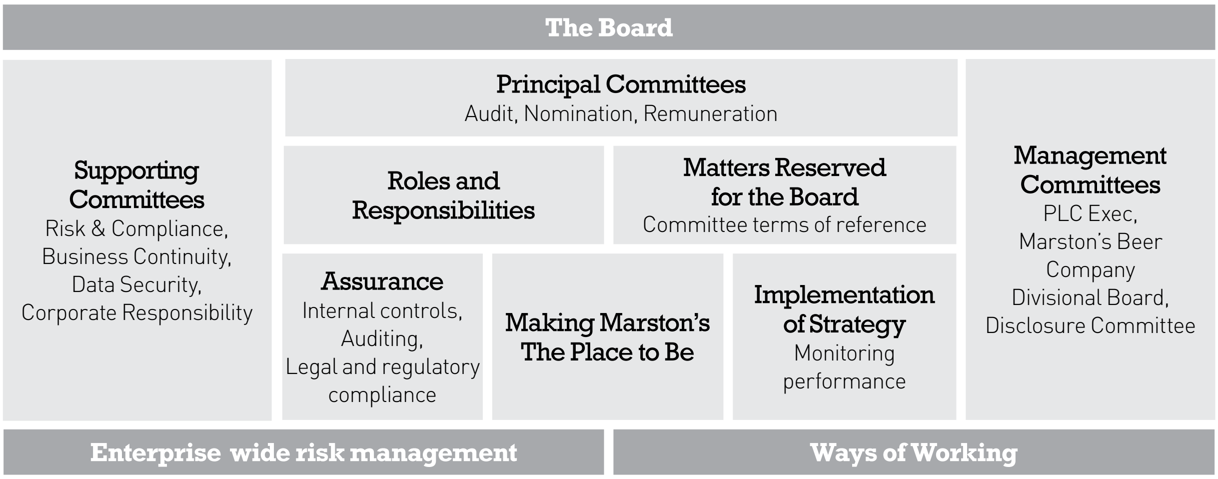
4. Accountability
Details of our internal processes and our Audit Committee's report start on page 50

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

Corporate Governance Report

1. Leadership

GOVERNANCE FRAMEWORK



The Board is collectively responsible to shareholders for the long-term success of the Group. Our governance framework allows the Group to operate within a set of prudent and effective controls by establishing roles and responsibilities, accountabilities and risk management processes thereby enabling the sustainable delivery of our strategic objectives.

The principal decision-making body within the Group is the Board and the schedule of matters reserved to the Board sets out the extent of their responsibilities. This schedule is reviewed annually. Certain roles and responsibilities have been delegated by the Board to its principal Committees, with the Chairman of each Committee reporting to the Board on decisions and actions taken.

The Terms of Reference for each Committee are reviewed annually by the Board to ensure they remain fit for purpose and comply with the provisions of the Code.

THE SCHEDULE OF 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 2017, 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.

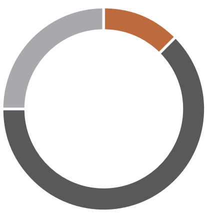
This framework is supported and enabled by the risk management process (see page 22) and our Ways of Working (see page 12).

BOARD COMPOSITION

Our Board currently comprises eight Directors. In addition to the Chairman Roger Devlin, there are five Non-executive Directors and two Executive Directors. As previously announced, Nick Backhouse will retire from the Board at the conclusion of the 2018 AGM. He will be succeeded as Chairman of the Audit Committee by Matthew Roberts. When considering the need to appoint a new Director, the Nomination Committee considers the balance of skills, knowledge and experience on the Board to ensure it remains relevant, appropriate and effective.

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



Chairman	1
Non-executive	5
Executive	2

Male/female representation on the Board

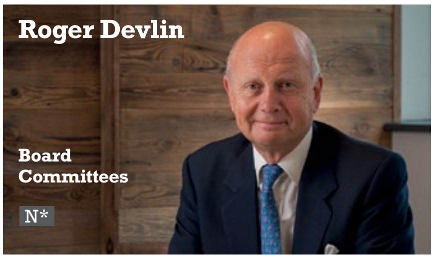
Male	6
Female	2

Tenure of Chairman and Non-executive Directors

0–3 years	1
3–6 years	4
6+ years	1

Board of Directors

CHAIRMAN



Independent
Yes

Appointed to the Board
September 2013

Other appointments
Chairman of SIS

Independent Non-executive Director of the Football Association

Past experience
Previously Non-executive Director of National Express and RPS Group

Previously Chairman of Principal Hayley Group, Porthaven Nursing Homes and Corporate Development Director at Hilton International

EXECUTIVE DIRECTORS

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
Non-executive Director and Chair of Audit Committee at Bovis Homes Group PLC

Chair of Council and Pro Chancellor at Keele University

Director of BBPA

Past experience
Roles held at Geest Plc and Bass Plc

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

SENIOR INDEPENDENT DIRECTOR

Independent
Yes

Appointed to the Board
October 2014

Other appointments
Non-executive Director at Legal and General Group Plc

Director of The Mentoring Foundation

Trustee of Cancer Research UK

Non-executive Director of Majid Al Futtaim Retail LLC

Past experience
UK Marketing Director at Tesco

Trustee of the DrinkAware Trust

GROUP SECRETARY

Appointed as Secretary
October 2014

Joined the Company in 1998

Qualified Chartered Secretary and Chartered Accountant

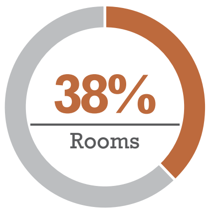
Key

- A — Audit Committee
- N — Nomination Committee
- R — Remuneration Committee
- * — Denotes Committee Chairman

Skills directly relevant to our business model

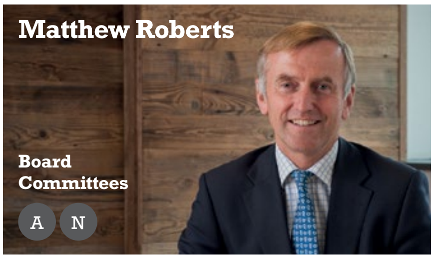
50% of our Board have experience in beer businesses

50% of our Board have pubs and bar experience



38% of our Board have experience in hotels and lodges

NON-EXECUTIVE DIRECTORS



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

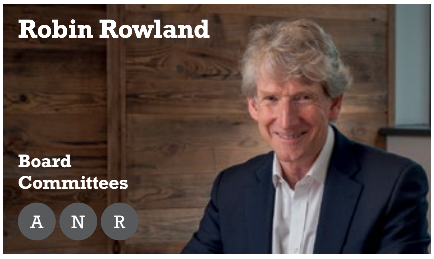
Independent
Yes

Appointed to the Board
December 2014

Other appointments
Member of the Institute of Personnel and Development

Past experience
Group HR Director of Genus Plc

Group HR Director at Tesco



Independent
Yes

Appointed to the Board
September 2010

Other appointments
Chief Executive of YO! Sushi Limited

Non-executive Director at Eathos Limited and Caffè Nero Group Limited

ALMR Board Director

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

Independent
Yes

Appointed to the Board
February 2012

Other appointments
Senior Independent Director of Hollywood Bowl Group plc

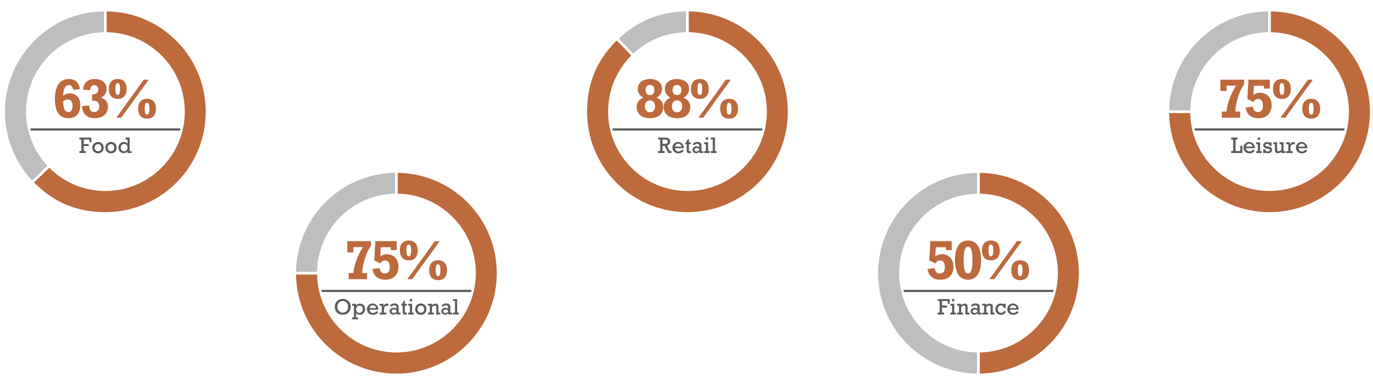
Director of Chichester Festival Theatre

Fellow of the Institute of Chartered Accountants

Past experience
Senior Independent Director of Guardian Media Group

Senior management positions in the pub, leisure and financial sectors

Other relevant experience of our Board



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

Roger Devlin is responsible for:

- The operation, leadership and governance of the Board.
- The effectiveness of the Board.
- 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 when the normal channels have failed to resolve, or for when such contact would be inappropriate.

NON-EXECUTIVE DIRECTORS

The roles of Nick Backhouse, 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 Executive Directors 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.
- Delivering the financial performance 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:

- 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 of the CEO, CFO, Managing Director (MD) of Marston's Beer Company (MBC), Group Estates Director, Group People Director, Group Secretary and the Operations Directors of each of the pub operating segments: Destination, Premium, Taverns and Leased. It meets monthly to review operational performance and controls; consider property proposals, capital investment and new initiatives; people development, and to approve internal policies and 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	Lodge development and expansion	Key personnel succession planning	Effectiveness of Board and Committees	Review of results announcements and Annual Report and Accounts
Annual plan	Retail systems update	Appraisal and career development assessment process	Matters Reserved for the Board and delegated authorities	Dividend proposals
Acquisition of pubs package	Health, safety and food hygiene review	Apprenticeships programme	Group risks and risk management review	Going concern and Viability Statement review
Acquisition of Charles Wells beer business	Pubs Code update		Assessment of key business and financial controls	AGM preparation
Financing proposals	Corporate responsibility strategy and update		Fair, balanced and understandable review of Annual Report and Accounts	Non-pre-emptive cash placing of ordinary shares
Refinancing main bank facility	Annual insurance renewal		New auditor appointment	Shareholder feedback and perceptions
MBC strategy			Modern Slavery Statement	Investor feedback

BOARD AND COMMITTEE MEETING ATTENDANCE

The Board met nine 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 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, 50 and 53. The table below shows each Director's attendance throughout the year:

Name	Board	Nomination	Audit	Remuneration
Andrew Andrea	9/9	–	–	–
Nick Backhouse	9/9	2/2	4/4	–
Carolyn Bradley[1]	9/9	2/2	–	2/3
Peter Dalzell[2]	8/9	–	–	–
Roger Devlin	9/9	2/2	–	–
Ralph Findlay	9/9	2/2	–	–
Catherine Glickman	9/9	2/2	–	4/4
Neil Goulden[3]	3/4	–	1/1	1/1
Robin Rowland	9/9	2/2	4/4	4/4
Matthew Roberts[4]	5/5	2/2	3/3	

1. Carolyn Bradley joined the Remuneration Committee with effect from 24 January 2017.
2. Peter Dalzell stepped down from the Board with effect from 29 September 2017.
3. Neil Goulden retired from the Board on 24 January 2017.
4. Matthew Roberts was appointed as a Director with effect from 1 March 2017.

2017 STRATEGY DAY – ON THE AGENDA

The annual strategy day enables the Board to focus in-depth on the strategy, progress and implementation. In 2017, a number of senior managers attended the Strategy Day to present proposals on their areas of responsibility, helping to inform the debate around the continued development of strategy. Once again the Board were joined for dinner by a number of senior managers from across the business, enabling Non-executive Directors to engage, discuss and debate with those in attendance. The key themes of the Strategy Day comprised:

- General market trends, regulatory challenges, performance and priorities.
- Five year financial plan, capital allocation and corporate opportunities.
- Evolution of property development expertise.
- Progress and plans in developing the digital strategy for Marston's pubs.
- Organisational and behavioural change in operating pubs.

Corporate Governance Report continued

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 Group to discharge their responsibilities effectively and this is reviewed by the Chairman as part of the annual evaluation process.

Evaluation

The Code recommends that an annual evaluation of the effectiveness of the Board and its Committees is conducted and that this process is externally facilitated at least every third year. Last year's evaluation was conducted by Independent Audit, an external corporate governance consultancy, and progress made against key action points is summarised below. This year's annual Board evaluation was carried out internally; a questionnaire was circulated to all Board members and this formed the basis of individual meetings between the Chairman and each Director. The discussion covered the constitution and conduct of the Board, the contribution of each Director and the structure of the Board Committees. The Chairman concluded that the current composition of the Board is appropriate, meetings are conducted in an open and honest manner and with greater levels of constructive challenge. Each Director is considered to own their individual specialism and make an effective contribution to meetings. The Board Committee structure is working well and the NEDs will continue to meet informally with the CEO being invited on occasions.

Agreed action points, together with an update on progress against the action points from the 2015/16 evaluation are shown below:

BOARD EVALUATION SUMMARY

Our 2016 recommendations	Update	Our 2017 recommendations
• Bi-annual dinners with the Leadership Group. • NEDs to meet three times per year without the Executive Directors. • NEDs to provide more constructive and rigorous challenge that will be minuted for regular review. • Future Board presentations will have greater clarity of purpose. • A more rigorous approach to risk reviews will be adopted to ensure the framework reflects the processes and remains relevant and robust. • A forward calendar of internal meetings and events will be circulated to allow NEDs greater opportunity to interact with the business. • Electronic Board papers to be offered in addition to a hard copy option.	• The Board hosted two dinners with senior managers during the year. • NEDs met three times during the year without the Executive Directors. • Minuted challenges from the NEDs are followed up on a regular basis. • The Board and presenters are briefed on the purpose and desired outcomes from presentations. • Organisational changes have been made to the risk management process and a restructure of Health and Safety management is underway. Proposals are being developed to deepen Board engagement with specific risk scenarios. • A forward calendar of internal events has been circulated. • The majority of Board members now receive their Board papers electronically.	• Senior management to attend Board meetings on a regular basis. • Future presentations requested on employee and customer feedback. • Board meetings to be held at our pubs and brewery sites when practicable. • NEDs to meet 2-3 times per annum without the Executive Directors; the CEO to be invited occasionally. • Strategy Day papers to adopt a more rigorous review of evidence-based data to support proposals.

TRAINING AND DEVELOPMENT

As part of the 2017 Board evaluation, the Chairman conducted individual development reviews with each Director. Part of the Chairman's role is to ensure the effectiveness of the Board and, as such, he takes responsibility for ensuring that Directors continually update their skills, knowledge and familiarity with the Group. Where specific training needs are identified these are incorporated into the Board forward agenda or a personal development plan if appropriate. The Group provides the resources to meet relevant development requirements for individual Directors as and when required and it will continue to review development initiatives for Directors. The NEDs attend a number of external technical seminars run by professional advisers and the Group Secretary continues to monitor the need for briefings and updates on compliance and regulation. During the year, for example, the Board received an update on the Group's compliance with the Pubs Code regulations.

To be able to continue to constructively challenge proposals on strategy and contribute to the ongoing development and implementation, the NEDs spend time with the Executive Directors and other senior managers as well as visiting a range of pubs and brewery outlets. NEDs are also encouraged to engage with our people across the business to further enhance their understanding of the business.

Induction programmes are tailored for each individual Director when joining the Board. A comprehensive information pack is compiled covering an explanation of the Group's financing structure, relevant statutory and regulatory guidance notes including, for example, the UK Corporate Governance Code, the Company's Share Dealing Policy and guidance on Directors' duties. Also included are Group policies, structure charts, matters reserved for the Board and Committee terms of reference. An induction programme will include site visits and meetings with relevant colleagues and advisers. As part of his introduction to the Group, Matthew Roberts undertook tours of Banks's Brewery in Wolverhampton and Wychwood Brewery in Witney, with the MD of MBC and local management teams to understand how the beer business operates. He also received a summary overview of the pubs division to understand the challenges they face and visited a number of pubs with senior management to reinforce the briefings. Further meetings took place with the CEO and CFO, to hear about investor feedback and City sentiment, with the Group Secretary to assess how the Company is governed and with the Corporate Risk Director to understand the main corporate risks to the business and how they are monitored and managed. The external audit partner also provided a briefing ahead of Matthew's first Audit Committee meeting. Matthew has also met with the Head of Treasury and the new Head of Internal Audit.

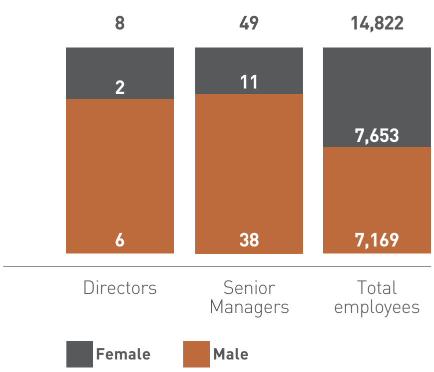
The Group Secretary advises the Board on all governance matters and makes herself available to all Directors for advice and services. If necessary, Directors may seek independent professional advice at the Company's expense in the performance of their duties.

DIVERSITY POLICY

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 process. Our Ways of Working are shared throughout Marston's: we recruit the best people, invest in our people and put people first – whether that's the Marston's team, our customers or our suppliers. We do not discriminate in any way, always seeking to appoint the candidate that best fits the role, regardless of gender, race or background. We have a Whistleblowing Policy, the purpose of which is to ensure that our people feel secure when raising any concerns they may have without any adverse effect on their career and development at Marston's. Further details of Marston's approach to diversity and our equal opportunities policy can be found on our website at **www.marstons.co.uk**

Gender diversity

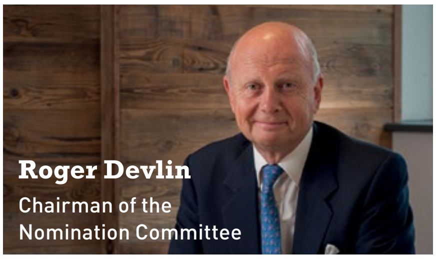
Number of employees at 30 September 2017



RE-ELECTION OF DIRECTORS

With the exception of Nick Backhouse 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



DEAR SHAREHOLDER

This year has seen some changes to the Board. As a consequence of the restructuring of our pub operations, Peter Dalzell left the Board and, as previously disclosed, Nick Backhouse our Audit Committee Chairman, will retire from the Board with effect from the AGM in January 2018. At its November meeting, the Nomination Committee considered the key roles affected by this and, as previously announced, Matthew Roberts will assume the role of Chairman of the Audit Committee following Nick's retirement. Carolyn Bradley will join the Audit Committee from the same date.

The Nomination Committee has considered the skills and experience required to support the Board and Group in the context of strategy, the current climate and longer-term succession planning. As a result the Committee has recommended and the Board has accepted that no additional Directors are required at this stage. In the interests of future refreshment and succession planning, the Committee will however continue to have regard to suitable candidates for future appointments.

DIVERSITY POLICY

Our approach to diversity is unchanged: we continue to take note of the guidance provided and we require any search agency that we engage 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 eight Board Directors are female.

MEMBERSHIP

Roger Devlin (Chairman)

Ralph Findlay

Nick Backhouse

Carolyn Bradley

Catherine Glickman

Neil Goulden (until 24 January 2017)

Robin Rowland

Matthew Roberts (from 20 July 2017)

OUR RESPONSIBILITIES

- 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, including gender 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

- Ensuring that succession planning is aligned with the ongoing leadership requirements of the business.
- Refreshment of committees and appointment of Audit Committee Chairman following the retirement of Nick Backhouse.
- Reviewing the contribution and tenure of each Director before recommending for re-election by shareholders.
- Considering future succession planning for the Board.

RE-ELECTION AND EVALUATION

The Committee considered the time required from each Non-executive Director, their effectiveness and the experience brought to the Board. Noting that Nick Backhouse will be retiring from the Board in January 2018, I believe that the tenure of the remaining Board members provides the right balance, together with their broad range of skills and relevant experience.

In accordance with our terms of reference, the Committee has also considered its own effectiveness during the year. This allows the Committee to formally review the way we work and whether our strategy for discharging our duties remains appropriate. The Committee is satisfied that it continues to perform its duties in accordance with its terms of reference.

Having discussed the 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 the re-election of each Director standing for re-election at the 2018 AGM.

CHANGES IN EXECUTIVE MANAGEMENT

As previously mentioned, Peter Dalzell left the business at the end of the year as a result of an internal restructuring. The Board has noted its appreciation to Peter for his 22 years of service to the Group. The Committee has considered whether a Board containing two Executive Directors is appropriate and sufficient. The rationale for the restructuring was to create a leaner structure with more agility and greater pace by removing a management layer. To ensure good visibility into operations and accountability for performance, non-Board members will be invited to attend Board meetings from time to time. On this basis and in view of the current economic climate the Committee is currently satisfied that the Board will continue to effectively discharge its duties with two rather than three Executive Directors. The Committee will keep this under review.

Roger Devlin

Chairman of the Nomination Committee

DEVELOPING THE NON-EXECUTIVE TEAM

Senior Independent Director

In January, Carolyn Bradley took over as Senior Independent Director from Neil Goulden when he retired from the Board. During the remainder of this year, Carolyn has met with advisers to better understand the key areas of focus for our major stakeholders. After the announcement of our results, Roger Devlin and Carolyn will arrange meetings with our top investors to gain direct insight and feedback on the Group. Carolyn brings to the role her experiences gained from her time at Tesco as well as her other Non-Executive roles. Separately, Carolyn has met with Deloitte, remuneration advisers to the Remuneration Committee, as part of her induction in becoming a member of that Committee.

Remuneration Committee Chairman

Also in January, Catherine Glickman assumed the role of Remuneration Committee Chairman. With her extensive experience in human resources at Genus and Tesco, Catherine has the right skillset to succeed Neil Goulden. During the year, Catherine has spent time with the Group Secretary, Group People Director and Deloitte to understand the Group's approach to remuneration as well as matters currently subject to consultation and external factors relevant to a group of our size and complexity. Catherine works closely with the Group People Director and Company Secretariat to drive the Committee agenda and ensure decisions are relevant and appropriate for the Group.

Audit Committee Chairman and membership

The Committee considered the composition and chairmanship of the Audit Committee for when Nick Backhouse steps down from the Board at the conclusion of the AGM in January 2018. Matthew Roberts is a Chartered Accountant and current CFO at Intu Properties Plc, and as such has strong current and relevant financial experience that leaves him well placed to take over as Chairman of the Audit Committee after the AGM. Although Matthew only joined the Board in March, he has already made a valuable contribution to the role of the Audit Committee. To ensure that the Audit Committee remains compliant with the Code, Carolyn Bradley will become a member following the AGM.

3. Shareholder relations

We want Marston's to be the place for long-term investors who support our strategy. Engagement with our shareholders is essential, supporting their understanding and confidence in the development and implementation of the medium and longer-term strategy of the Group.

The investor relations programme focuses on institutional shareholders, fund managers and analysts and is managed by the Executive Directors. The CEO and CFO meet with private client fund managers on a quarterly basis to discuss strategy, performance, management and governance, within the constraints of information which is already publicly available.

The key topics discussed with investors each year are:

- Current market conditions and consumer behaviour.
- A review of the pub and beer strategy, including future expansion plans.
- A review of performance in the year.
- Understanding the cost outlook.
- A review of financing and covenants.

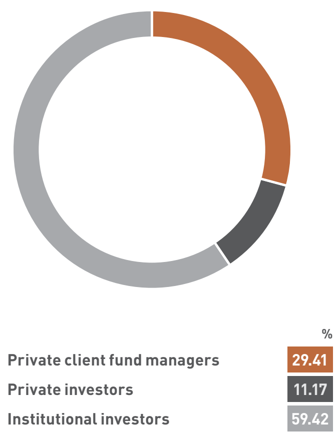
This year, there was an additional discussion of the rationale behind the CWBB acquisition and the equity financing of the transaction.

Formal written feedback from analysts and institutional shareholders is received twice each year following meetings with the CEO and CFO and this is reviewed by the Board to ensure that shareholder views and any issues of concern are heard by all Directors. 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 Group Secretary oversees communication with private individual shareholders on behalf of the Board. The investor section of the Marston's website is the key source of information available to all shareholders and provides share price information, results presentations and announcements, financial calendars and general information on the business. The Annual Report and Accounts is the main communication tool providing a comprehensive review of the business, details of our governance arrangements 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 the AGM the CEO presents an update on recent trading performance and developments in the business. Shareholders are able to ask questions during the meeting, followed by an opportunity to meet with the Directors on an informal basis. All of our Directors attend the AGM and the Chairman of the Board and each Committee are available to answer shareholder questions during the formal business of the meeting. The senior management team also attend and meet with shareholders before and after the meeting thus providing an opportunity for a deeper engagement. The voting on all resolutions at the AGM is conducted by way of a poll. This is to allow all shareholders who are present in person, by proxy or unable to attend, to vote on all resolutions in proportion to their shareholding. The Company releases the results of voting, including proxy votes on each resolution, on its website on the next business day at **www.marstons.co.uk/investors** and announces them through a Regulatory News Service. Details of the 2018 AGM are set out in the separate Notice of Meeting.

Analysis of shareholder register by investor type



Shareholder engagement summary: key communication channels

Institutional shareholders and analysts	Private client fund managers	Private shareholders
• Rolling investor relations programme. • Bi-annual written feedback received. • Chairman and Senior Independent Director available to meet with our largest shareholders.	• Quarterly meetings with CEO and CFO.	• AGM with full Board and senior management present. • Annual Report and Accounts and website. • Group Secretary oversees communication on behalf of the Board.

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 coordinated 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 22 to 24.

DEAR SHAREHOLDER

As Chairman of the Audit Committee, I am pleased to present the Audit Committee's Report for the period ended 30 September 2017.

The Committee is comprised of three NEDs, all of whom are independent. Each Committee member contributes 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 both Matthew Roberts and 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, statements and findings presented to us. In addition, we continue to monitor changes in regulation and the potential impact on the Group's financial reporting and assurance processes. The Committee has reviewed the assurance process and risk management framework 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 function where, this year, we have appointed a new Head of Internal Audit, reporting to the Corporate Risk Director. The Committee has worked closely with both 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.

Having reviewed the external audit process, the Committee believes that PricewaterhouseCoopers (PwC) continue to provide an effective audit service and recommends their re-appointment to shareholders. As previously mentioned, the Group conducted a full tender of the external audit during the year and it is our intention to appoint KPMG at the conclusion of the FY19 audit. Details of the tender process and the timing of the appointment of the new external auditor are set out on page 52.

During the year, the Company received a request for information from the Financial Reporting Council (FRC) in respect of the 2015/16 Annual Report and Accounts. Having explained all matters raised to the satisfaction of the FRC no adjustments to prior periods are required. The review was helpful in highlighting certain areas that would benefit from clearer communication and, as a result of the review, we have included additional disclosure in this year's Annual Report and Accounts. Further details are set out on page 52.

Finally, I should like to take this opportunity to say that I have thoroughly enjoyed serving on the Board and Audit Committee of Marston's for the last six years and, when I hand over the chairmanship of the Audit Committee to Matthew Roberts after the 2018 AGM, I am confident that the financial scrutiny and challenge will continue to ensure Marston's remains focused on maximising its return on capital investment and delivering sustainable growth.

Nick Backhouse
Chairman of the Audit Committee

MEMBERSHIP

Nick Backhouse (Chairman)

Robin Rowland

Matthew Roberts (from 1 March 2017)

Neil Goulden (until 24 January 2017)

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.
- Considering and recommending the appointment of new external Auditors.
- 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 are usually invited to attend all or part of the Committee's meetings.

COMMITTEE MEETINGS

The Corporate Risk Director attends each Committee meeting providing ongoing assurance and regular updates on the Group's main risks and the scope and findings of internal audit. A number of standing items were reviewed by the Committee during the period including an updated Whistleblowing Policy, matters arising from internal audits and compliance and legal developments.

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 satisfied itself that the Risk Management Framework provides sufficient assurances.
- Approving a viability statement that assesses the prospects of the Group over an appropriate period. The Committee considers that the Group's existing five year financial planning horizon makes that time period most appropriate.
- Considering the Annual Report and Accounts and Interim Results prior to review by the Board.
- Development of the Internal Audit strategy, review of the Internal Audit plan and appointment of a new Head of Internal Audit.
- Review of accounting policies and standards, and ongoing preparation for the new lease accounting standard (effective 2020).
- Adoption of a policy on the provision of non-audit services by the external Auditors.
- Review of compliance with the Pubs Code Regulations.

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:

Valuation of the estate.

- The Committee considered management's view of the carrying value of property assets at the period end based on a consideration of market indicators and other possible triggers of impairment in value since the last external valuation of the entire property portfolio in 2015. The Committee are satisfied with the methodology and agree with management's view that there are no significant impairments or fair value uplifts required to the property estate, noting that the next valuation will be undertaken in 2017/18. The Committee are also satisfied that the valuation policy remains appropriate.

Accounting for the acquisition of the Charles Wells Beer Business.

- The Committee reviewed management's valuation methods for the acquired assets and liabilities of the Charles Wells Beer Business, noting in particular the methodology applied to the brands and working capital. The Committee support the accounting approach, acknowledging that the Company has twelve months in which to finalise these numbers.

Non-underlying items.

- The Committee noted the importance of maintaining consistent and appropriate treatment of items disclosed as non-underlying to maintain comparability of performance year on year. Taking into account the quality of earnings, the Committee are satisfied that the treatment is consistent with prior periods and the Group's accounting policy. The Committee also noted the classification of certain property-related transactions and concurred with management's treatment.

Audit Committee Report continued

AUDITORS

The external Auditors attend each meeting, which allows the Committee the opportunity to review and challenge the integrity of the Group'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 noting the following:

- The external Auditors conduct an annual review of their independence identifying all services provided to the Group and assessing whether the content and scale of such work is a threat to their independence.
- The Committee accepts that some non-audit work is most appropriately undertaken by the external Auditors. The Committee's terms of reference and policy on non-audit services set out what is permissible and where such work is expected to be in excess of a specified amount, the Chairman of the Audit Committee must approve the work. Both documents are available on the corporate website. Below that amount, the CFO has authority to approve such work once he is satisfied that the Auditors are the most appropriate providers. In 2016/17 PwC were engaged to assist in a data mapping exercise undertaken by the Group. The Group has used other accounting firms for some non-audit work. In each case, consideration is given to the need for value for money, experience and objectivity required in the particular circumstances.
- The audit partner is changed at least once every five years. Mark Smith was appointed during the 2012/13 financial reporting period and will rotate off after the 2016/17 financial year and be replaced by Andrew Lyon for the period until handover to KPMG.

Fees paid to the external Auditors are disclosed in Note 3 of the Financial Statements on page 86.

AUDIT TENDER

As previously stated, the Group conducted a tender of its external audit this year. Prior to the commencement of the formal tender process, the Audit Committee Chairman and CFO met with relevant individuals from the other 'Big 4' and certain 'mid-tier' audit firms to assess the suitability of the various potential service providers. At the end of this process the Audit Committee concluded that EY, KPMG and Deloitte should be invited to formally tender. The current auditors, PwC, were excluded from the process due to the length of their tenure which prevents them continuing after 2020.

The tender process was managed by the Head of Group Tax and each of the firms receiving a formal invitation to tender were offered access to a data room, brewery and pub visits, an information gathering day with senior management, as well as sessions with the Audit Committee Chairman, the CFO and the current audit partner from PwC. The written tender submissions were considered by a panel of five before receiving a presentation from each of the three firms. The panel was comprised of the Audit Committee Chairman, the CFO, the Group Financial Reporting Manager, the Group Secretary and the Head of Group Tax.

The panel assessed the written tender document and presentations based on the key criteria that had been circulated at the start of the process to all participating parties. The criteria covered effectiveness and efficiency, business understanding, transition arrangements, independence and governance and fees. The panel considered that each of the firms demonstrated the ability to meet all of the criteria with the only distinguishable point being the panel's assessment of how effectively Marston's could work with each firm. On this point the panel and the Audit Committee were unanimous in recommending the appointment of KPMG.

The Committee then considered the timing of the appointment and for the reasons set out below, they recommended that the change to KPMG be effective after the conclusion of the 2018/19 audit.

- The new lease accounting standard, IFRS 16, applies from 2019/20 and, given the extensive nature of the changes arising from implementation of this standard, this represents an appropriate accounting break. Over the next two years the Company will be working to ensure that it is suitably prepared for the implementation of this new standard with regular reviews by KPMG;
- The external property valuation in 2018 necessitates a more extensive audit in what would otherwise be the auditor transition year;
- The Company continues to value the current relationship with PwC. The new regulations require an audit tender every ten years and a rotation of auditors at least every 20 years. Under the transitional rules Marston's is required to appoint new auditors no later than 2021.

The Board accepted the recommendation of the Audit Committee and approved the intention to appoint KPMG as the Company's new external auditor after the conclusion of the 2018/19 audit.

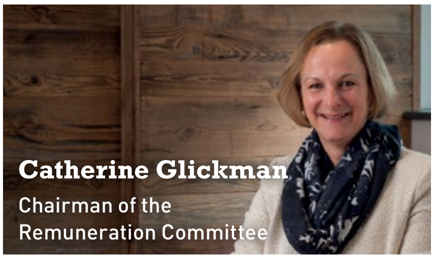
FINANCIAL REPORTING COUNCIL REVIEW OF 2015/16 ANNUAL REPORT AND ACCOUNTS

During the year, the FRC reviewed the Group's 2015/16 Annual Report and Accounts as part of their normal ongoing role in monitoring the quality of corporate reporting and compliance with reporting requirements.

Correspondence was concluded within a short timeframe and no changes in accounting were deemed necessary. However, the FRC did highlight a relatively small number of areas where they felt that the disclosures in the Annual Report and Accounts could be enhanced, and consequently these have been addressed in the current year's Annual Report and Accounts.

The FRC has requested that we advise shareholders that their review provides no assurance that the Annual Report and Accounts are correct in all material respects, as its purpose is not to verify the information provided, but to consider compliance with reporting requirements. As such, the FRC and its officers, employees and agents accept no liability for any reliance on its review by third parties, including but not limited to shareholders and investors.

Directors' Remuneration Report
Annual Statement



Catherine Glickman
Chairman of the Remuneration Committee

DEAR SHAREHOLDER

In this, my first year as the Remuneration Committee Chairman and on behalf of the Board, I am pleased to present our report for the period ended 30 September 2017.

Being a member of the Board and Remuneration Committee for two years has given me the opportunity to learn about the business and the approach to remuneration. I support the responsible approach for which Marston's is known. We aim to ensure that our Executive Directors' rewards are aligned with the interests of shareholders through the achievement of the Group's strategic objectives. We believe that variable pay should only be earned for achievement against objective stretching targets. Bonus targets and longer term performance metrics are set at challenging levels, whilst also being mindful not to encourage excessive risk taking. These were the principles underpinning our remuneration policy put to shareholders at the Annual General Meeting held on 24 January 2017: I am encouraged by the level of shareholder support, with 97.88% of votes cast in favour of the new Directors' Remuneration Policy.

The policy became effective from the close of the 2017 AGM and the following pages describe how the policy has been applied in 2016/17. Rather than reproduce the full policy, in the Annual Remuneration Report, we have provided extracts from the policy 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 2016 Annual Report on Remuneration and the resolution to approve amendments to our Long Term Incentive Plan also received very high levels of support with over 99% of votes cast in favour of both resolutions. We will continue to engage with our shareholders 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 2018.

REVIEW OF THE YEAR

Performance

Within their respective Chairman's and Chief Executive's statements earlier in the Annual Report and Accounts, both Roger and Ralph have reported on the key achievements of our business for the year, namely record underlying turnover of £992.2 million and an increase of 2.9% in our underlying profit before taxation to £100.1 million. These results were achieved against a background of Brexit, increasing cost pressures, increased competition and subdued trading, particularly over the summer months.

Pay and performance outcomes

Annual bonus 2016/17

The 2.9% increase in underlying Group profit versus 2016 is above the bonus threshold. The return on capital outturn of 10.7% is 0.2% above the CROCCE base. Based on these results, a bonus of 22.65% of salary would have been earned, although the Committee exercised discretion to reduce the bonus awarded to Ralph Findlay and Andrew Andrea to 20% of salary being mindful of continuing our careful management of costs. This also applies to employees in the Group bonus scheme who will receive 20% of their individual bonus opportunity. Peter Dalzell left the business before the year end and details of his bonus (which equated to approximately 5% of salary) are set out on page 60.

LTIP 2013/14 Award vesting

The vesting estimate for the 2013/14 LTIP Award, as reported in the 2016 Remuneration Report, was 21%.

In June 2017 the Committee confirmed this vesting outcome, consisting of a 16% contribution from the CROCCE performance measure and 5% from the relative TSR performance measure. When confirming the outturn, the Committee considered the unexpected and significant impact of the Brexit vote on the Company's share price. The Brexit vote significantly disrupted exchange rates which saw a positive benefit for those companies with significant overseas earnings and, conversely, a negative impact for those companies with predominantly domestic earnings. The Committee deemed it appropriate to exercise its discretion as regards the relative TSR element, but to limit the vesting to the threshold level (25%, resulting in a 5% award in relation to this element). This approach applied to all LTIP participants including the senior management population.

The decision to exercise discretion is not taken lightly and the Committee has previously used its discretion to lapse LTIP awards and reduce annual bonus pay-outs even when formulaic application of the performance conditions would result in vesting and/or greater payments. For example, the 2012/13 LTIP lapsed in October 2016, even though the formulaic application of the performance conditions would have resulted in vesting at 41.7%, and the 2016/17 bonus was reduced. The Committee will continue to consider the use of discretion on a case-by-case basis, being mindful of any impact on the wider workforce and general market and trading conditions.

When the 2013/14 LTIP award was granted, the base figure for the CROCCE performance measure was originally set at 10.8%, based on CROCCE for 2012/13. This figure was disclosed in the 2014 Directors' Remuneration Report and was calculated on the basis of a 53 week reporting period. This was subsequently rebased to reflect a 52 week period to enable comparisons to be made on a like-for-like basis, and the rebased figure of 10.5% was applied to the LTIP awards granted in 2013/14. This base figure also applies to the 2014/15, 2015/16, 2016/17 LTIP awards and will apply to the 2017/18 LTIP awards.

Board change

We announced on 5 September 2017 that, following a senior management reorganisation, Peter Dalzell would step down from the Board on 29 September 2017 and his employment with the Group ended as a result of redundancy.

The Remuneration Committee reviewed and approved the remuneration arrangements in connection with Peter Dalzell leaving the business, details of which are set out on page 60. In approving these arrangements, the Committee had regard to Peter's service with the Group for over 22 years, the support he provided during that period and his instrumental role in growing our pubs business. All such payments are consistent with our current Directors' Remuneration Policy.

Other key activities of the Committee during the year

- Approval of the final Directors' Remuneration Policy proposed to shareholders at the 2017 AGM, in particular the inclusion of a two year holding period, following engagement with and feedback from our major shareholders.
- Consideration of pay review proposals for the Executive Directors, as outlined above.
- 2017 bonus proposals and 2013/14 LTIP award vesting, as outlined above.
- Approval of SAYE and LTIP grants.
- Review of Executive Directors and senior management shareholdings in the Company, in the context of shareholding guidelines.

Looking forward to 2017/18

Pay award effective 1 October 2017
The Committee reviewed the salaries paid to Executive Directors and, taking into account the current economic climate, an increase in base salaries of 2% was approved, which was in line with the average salary increases across the Group.

The Chairman's fees were last reviewed in 2015. However, in consideration of the current economic climate and increasing pressure on costs, the Chairman expressed a preference for his fees not to be reviewed at this time. The Committee agreed that the Chairman's fees should remain unchanged.

No changes will be made to the Non-executive Directors' fees for 2017/18.

Incentive remuneration for 2017/18
No changes are proposed to the Directors' annual bonus and LTIP opportunities for 2017/18, and further information is given on pages 57 to 59.

To better align the performance periods, vesting dates and release dates for LTIP awards, it is proposed that with effect from the 2017/18 LTIP awards we will move to granting after the announcement of the full year results. Therefore, the 2017/18 LTIP awards are intended to be granted in December 2017.

Committee focus for 2017/18
The Committee intends to conduct a detailed and thorough review of the current performance metrics for both the annual and long-term elements of variable pay to ensure they remain relevant and appropriate in relation to achieving the Group's strategic objectives. Any changes to metrics would be carefully considered and, if material, would be the subject of a consultation with shareholders.

We are aware of the developing regulatory environment on pay in the UK and internationally – we will continue to monitor this over the coming year. Specifically, in response to the consultations on corporate governance reform, the Committee will also consider how it can support the facilitation of greater employee engagement and consultation on remuneration matters.

Catherine Glickman
Chairman of the Remuneration Committee

MEMBERSHIP

Catherine Glickman (Chairman from 24 January 2017)

Carolyn Bradley

Robin Rowland

Neil Goulden (Chairman until 24 January 2017)

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 and attend 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 £9,500 during the year in respect of advice given to the Committee, and also provided advice during the year in relation to 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 2017

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 2017	2018	2019	2020	2021	2022	Key features	Implementation in 2016/17
Basic salary and core benefits	→						Reflects scope of the role; to recruit and retain calibre required; and reviewed in context of wider Group	2.0% increase in salary in 2017 Benefits package unchanged
Annual bonus	→						Maximum 100% of salary Committee discretion Clawback provision for up to two years	20% bonus awarded Peter Dalzell received a bonus of 5%
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	2014/15 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	336% for Ralph Findlay, CEO 115% for Andrew Andrea, CFO 77% for Peter Dalzell*, MD Marston's Inns and Taverns

Outcomes

		Fixed Basic salary and core benefits	Variable Annual bonus	Long term incentives	Total
Andrew Andrea	**2017**	**£450,303**	**£72,600**	**£0**	**£522,903**
	2016	£411,732	£132,400	£73,566	£617,698
Peter Dalzell*	**2017**	**£387,694**	**£15,000**	**£1,314**	**£404,008**
	2016	£380,494	£122,000	£63,825	£566,319
Ralph Findlay	**2017**	**£694,903**	**£108,400**	**£0**	**£803,303**
	2016	£680,944	£212,400	£114,976	£1,008,320

* Peter Dalzell stepped down from the Board with effect from 29 September 2017.

HOW WE PERFORMED AGAINST OUR OBJECTIVES

Annual bonus for 2016/17

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 six strategic pillars	67%	£97.3m	£103.8m	£110.3m	£100.1m	14.4%
Return on capital		33%	10.5%	10.9%	11.3%	10.7%	8.25%
Potential bonus							22.65%
Actual bonus							20.0%

LTIP vesting in 2016/17 (2014/15 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%	10.7%	0%
Free cash flow		40%	£300m	Base+7.5%	Base+15.0%	Base+30.0%	£303.9m	0%
Relative TSR		20%	–	Median	–	Upper quintile	Below median	0%

See page 20 of our Strategic Report for more information on our KPIs

See pages 13 to 19 of our Strategic Report for more information on our strategy

Annual Report on Remuneration

This part of the Directors' Remuneration Report sets out how we have implemented our remuneration policy during the period ended 30 September 2017. The policy was proposed to shareholders at the 2017 AGM and has applied since the close of that meeting.

EXECUTIVE DIRECTORS

Single total figure of remuneration

Period ended 30 September 2017	Salary £	Benefits £	Bonus £	Long-term incentives[2] £	Pension £	Total £
Andrew Andrea	363,000	14,703	72,600	0	72,600	522,903
Peter Dalzell[1]	311,000	14,666	15,000	1,314	62,028	404,008
Ralph Findlay	542,000	17,403	108,400	0	135,500	803,303

1. Peter Dalzell stepped down from the Board with effect from 29 September 2017. The table above, includes his remuneration for the period ended 30 September 2017. Information in relation to other payments made to Peter Dalzell are included on page 60.
2. The long-term incentives figure for the period ended 30 September 2017, for Peter Dalzell, relates to the grant of SAYE options.

Period ended 1 October 2016	Salary £	Benefits £	Bonus £	Long-term incentives restated[1] £	Pension £	Total £
Andrew Andrea	331,000	14,494	132,400	73,566	66,238	617,698
Peter Dalzell	305,000	14,494	122,000	63,825	61,000	566,319
Ralph Findlay	531,000	17,194	212,400	114,976	132,750	1,008,320

1. Restated to reflect the price at vesting for the 2013/14 LTIP as referred to on page 58. The long-term incentives figure for the period ended 1 October 2016 also includes £1,819 for Andrew Andrea in respect of SAYE options granted in that period, as disclosed in the Directors' Remuneration Report for that period.

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 2017/18, 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:

	2017/18 base salary	2016/17 base salary	Increase
Andrew Andrea	£370,260	£363,000	2%
Ralph Findlay	£552,840	£542,000	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 and 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 represents 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 (due to changes in the pension annual allowance). For the period ended 30 September 2017, 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 30 September 2017, Ralph Findlay received a cash supplement of 25% as a salary supplement in lieu of pension contributions. In line with the Remuneration Policy, Peter Dalzell received a cash supplement of 20%, in lieu of pension contributions.
- Defined benefit scheme. Ralph Findlay accrued benefits in the defined benefit scheme which closed to future accrual in 2014. Peter Dalzell left Marston's on 29 September 2017 and became a deferred member on this date. Details are shown in the table below:

	Accrued pension at 30.09.17 £	Accrued pension at 30.09.16 £	Normal retirement age
Peter Dalzell	81,404	80,593	65
Ralph Findlay	111,030	109,862	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, for both Peter Dalzell and Ralph Findlay.

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 are based on performance against pre-set targets for both Group profit (two thirds) and return on capital (one third).

2016/17 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 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 targets and actual performance for 2016/17 are set out below:

2016/17	Threshold	Target	Maximum	Actual	% of salary	Opportunity
Underlying Group profit before taxation	£97.3m[1]	£103.8m	£110.3m	£100.1m	14.4%	67%
Return on capital	10.5%[2]	10.9%	11.3%	10.7%	8.25%	33%
Potential					22.65%	100%
Actual award					20.0%[3]	

1. The threshold Underlying Group profit before taxation is 2015/16's actual outturn, which has been restated. In the prior period the net interest on the net defined benefit asset/liability was presented within underlying items. This has now been represented within non-underlying items to better reflect the nature of this item and to be consistent with the current period presentation.
2. The threshold for return on capital is the same as the CROCCE base used for the LTIP performance metric.
3. Bonuses of 20% of salary were awarded to Ralph Findlay and Andrew Andrea. Details of the bonus awarded to Peter Dalzell are set out on page 60.

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

2017/18 opportunity
No changes are proposed to the annual bonus scheme for 2017/18 and 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 2017/18 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.

The value of long-term incentives included in the single figure table on page 56 comprises the value of LTIP awards that vest in respect of the financial period and the value of SAYE options granted in the period.

Vesting in respect of performance during 2016/17 (2014/15 LTIP Award)

LTIP awards granted in 2014/15 were subject to the achievement of the metrics in the following table. Although the formal vesting date is not until June 2018, 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%	10.7%	0%
FCF	40%	£300m	Base +7.5%	Base +15%	Base +30%	£303.9m	0%
Relative TSR	20%	–	Median	–	Upper quintile	Below median	0%

- CROCCE removes any potential distortions from subjective decision 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 believe 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.

LTIP 2013/14 Award vesting

The Committee deemed it appropriate to exercise its discretion as regards the relative TSR performance measure element, but to limit the vesting to the threshold level (25% vesting of the 20% of the awards based on relative TSR, resulting in 5% of the total award vesting in relation to the relative TSR measure).

In June 2017, the Committee confirmed the 21% estimated vesting for the 2013/14 LTIP award, as follows:

	Weighting	Base	Threshold at 25%	On-target 50% vesting	Maximum 100% vesting	Actual	Estimated vesting
CROCCE	40%	10.5%[1]	Base +0.25%	Base +0.5%	Base +1.0%	10.9%	40% of CROCCE element (16% of total award)
FCF	40%	£300m	Base +7.5%	Base +15%	Base +30%	£249.4m	0% of FCF element
Relative TSR	20%	-	Median	-	Upper quintile	See note 2 below	25% of TSR element (5% of total award)
							21% of total award

1. The base figure for the CROCCE performance measure was originally set at 10.8%, as reported when the grant of the awards was discussed in the 2014 Directors' Remuneration Report. It was based on CROCCE for 2012/13 which was calculated on the basis of a 53 week period. This was subsequently rebased to reflect a 52 week period to enable comparisons to be made on a like-for-like basis, and the rebased figure of 10.5% was applied to the LTIP awards granted in 2013/2014 and subsequent awards.
2. In June 2017, when confirming the proposed outturn, the Committee considered the unexpected and significant impact of the Brexit vote on the Company's share price. The Brexit vote significantly disrupted exchange rates which saw a positive benefit for those companies with significant overseas earnings and, conversely, a negative impact for those companies with predominantly domestic earnings. The Committee deemed it appropriate to exercise its discretion as regards the relative TSR performance measure element, but to limit the vesting to the threshold level (25% of the 20% relating to relative TSR, resulting in 5% of the total award vesting in relation to the relative TSR measure).

In the 2016 Directors' Remuneration Report, the value included in the single figure of remuneration table assumed an estimate of 21% vesting and a share price equal to the average share price over the last quarter of the financial period ended 1 October 2016. In the single figure table on page 56 of this report, the estimate has been updated to reflect a price of £1.239, being the price on 26 June 2017, the date of vesting.

Granted during 2016/17

LTIP awards granted during 2016/17 were as follows:

	Percentage of salary	Number of shares	Face value at grant[1]	% of award vesting at threshold	Performance period	Holding period
Andrew Andrea	125%	362,709	£453,749	25%	Financial periods 2016/17 – 2018/19	Financial periods 2019/20 –2020/21
Peter Dalzell	125%	310,751	£388,750	25%		
Ralph Findlay	125%	541,566	£677,499	25%		

1. Calculated using the mid-market share price at date of grant of £1.251.

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 and set out on page 58.

2017/18 awards

It is intended to make awards under the LTIP in 2017/18 based on the same performance metrics as 2016/17. Awards will be granted at the level of 125% of salary. To better align performance periods, vesting and release dates, it is proposed that these awards will be granted in December 2017, and that awards in future years will similarly be granted following the announcement of the full year results. In view of the new lease accounting standard that will be effective for accounting periods beginning on or after 1 January 2019 and the, as yet, uncertain impact of that standard on the Group, the Remuneration Committee will monitor and review the performance metrics over the 2017/18 LTIP award performance period to ensure they remain appropriate and fair.

SAYE

For the period ended 1 October 2016 for Andrew Andrea, the long-term incentive value, shown in the single figure table, includes the value of SAYE options granted based on the fair value of the options at grant.

For the period ended 30 September 2017 for Peter Dalzell, the long-term incentive value, shown in the single figure table, includes 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	2016/17 Total	2015/16 Total
Roger Devlin	187,500	–	–	187,500	187,500
Nick Backhouse	50,000	7,000	–	57,000	54,000
Carolyn Bradley[1]	50,000	–	4,136	54,136	46,500
Catherine Glickman[2]	50,000	4,136	–	54,136	46,500
Neil Goulden[3]	15,720	1,886	1,886	19,492	59,000
Matthew Roberts[4]	29,167	–	–	29,167	–
Robin Rowland	50,000	–	–	50,000	46,500

1. Carolyn Bradley became the Senior Independent Director on 24 January 2017.

2. Catherine Glickman became Chairman of the Remuneration Committee on 24 January 2017.

3. Neil Goulden stepped down from the Board on 24 January 2017.

4. Matthew Roberts was appointed as a Non-executive Director on 1 March 2017.

Fees

The Chairman's fees were last reviewed by the Committee in 2014/15 and the Committee reviewed these during 2016/17 in line with its usual review timetable. The Chairman's fee was not increased in 2016/17 and, in consideration of the current economic environment the Chairman has expressed a preference for his fee not be reviewed, so his fee will remain unchanged for 2017/18.

Non-executive Directors' fees, other than the Chairman, are determined by the Board and are reviewed every two years. These fees were last reviewed by the Board in 2015/16. The fee structure shown below has applied for Non-executive Directors since 1 October 2016 and will remain unchanged for 2017/18:

Basic fee	£50,000
Additional fee for:	
Chairmanship of the Audit Committee	£7,000
Chairmanship of the Remuneration Committee	£6,000
Senior Independent Director	£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.

Annual Report on Remuneration continued

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 30.09.17	As at 01.10.16
Roger Devlin	150,000	150,000
Nick Backhouse	25,000	25,000
Carolyn Bradley	25,000	25,000
Neil Goulden[1]	268,000	268,000
Catherine Glickman	50,000	25,000
Matthew Roberts[2]	25,000	–
Robin Rowland	52,083	52,083

1. Neil Goulden stepped down from the Board on 24 January 2017. His interests in ordinary shares are shown as at that date.

2. Matthew Roberts was appointed as a Non-executive Director on 1 March 2017.

PAYMENTS TO PAST DIRECTORS AND PAYMENT FOR LOSS OF OFFICE

No payments were made to past Directors during the period.

As announced on 5 September 2017, Peter Dalzell stepped down from the Board on 29 September 2017 and his employment with the Group ended as a result of redundancy, following a senior management re-organisation. In accordance with our current Directors' Remuneration Policy, as approved by shareholders at the 2017 AGM, Peter has been treated as a 'good leaver' by reason of redundancy. Details of Peter's remuneration throughout 2016/17 are set out in the single figure of remuneration table on page 56. A summary of the remuneration arrangements in connection with Peter leaving the business, consistent with the Directors' Remuneration Policy and authorised by the Committee, is provided below.

- £390,757 representing 12 months' contractual notice entitlement (base pay and benefits);
- £12,225 Statutory Redundancy Payment;
- £15,000 bonus payment having regard to the fact that Peter is a 'good leaver' and taking into account his contribution to the business during the bonus period in question and the performance against the relevant measures, on a cautious basis. The bonus of c.5% of salary, compared with a bonus for each of Ralph Findlay and Andrew Andrea of 20% of salary. In line with the Directors' Remuneration Policy, no deferral was applied to the bonus. The bonus earned is included in the single total figure of remuneration on page 56;
- £5,000 Outplacement Consultancy support;
- £1,000 plus VAT legal fees;
- Peter is also treated as a 'good leaver' for the purpose of his entitlement to vested and unvested LTIPs under the 2014 LTIP plan rules and SAYE. His unvested LTIP awards are subject to the normal performance conditions which will be assessed over the ordinary performance periods and awards will vest and be released (where applicable) at the ordinary dates. Any awards that vest will be pro-rated to reflect the proportion of the performance period that elapsed whilst still employed by the Group. The awards are summarised below.

Award	Date of Grant	Number of shares	Performance Period	Vesting Date	Time pro-rating percentage
2015/2016	21 June 2016	257,080	October 2015 – September 2018	June 2019	66%
2016/2017	21 June 2017	310,751	October 2016 – September 2019	June 2020 (released September 2021)	33%

As with the LTIP awards held by the other Executive Directors, Peter Dalzell's 2014/15 award will lapse.

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.

	2017	2016	change
Dividend payments	£47.5m	£41.9m	13.4%
Total employee pay[1]	£215.1m	£201.0m	7.0%

1. Excluding non-underlying items.

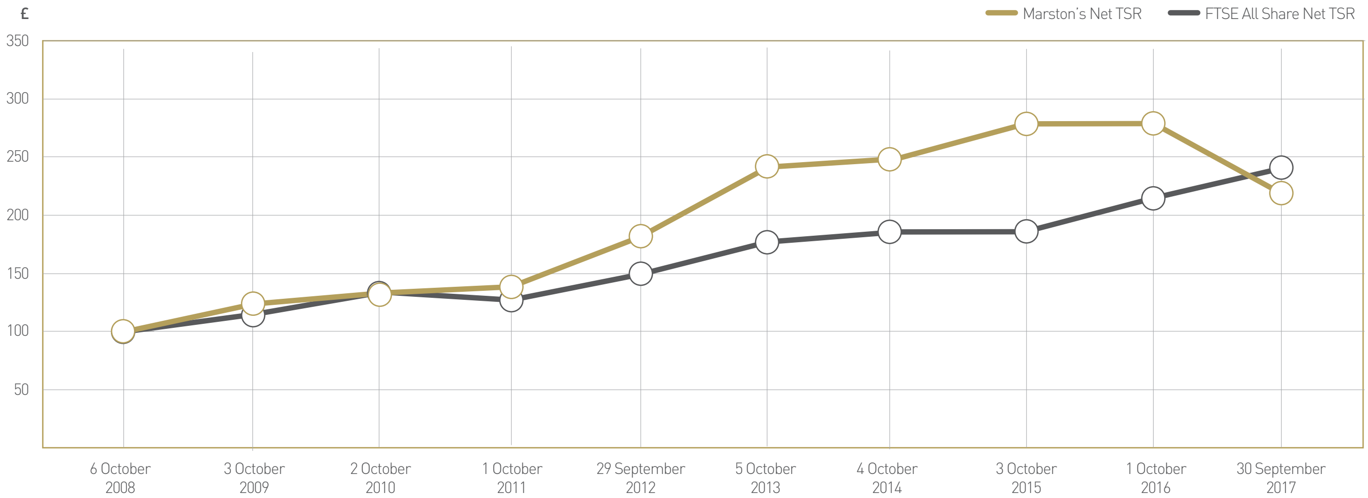
CHANGE IN CEO AND EMPLOYEE PAY

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%	21%	(50%)
Wider workforce	2%	21%	9%

Performance graph

This graph shows the value, at 30 September 2017, 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.



CEO REMUNERATION OVER THE SAME PERIOD

	Total remuneration	Annual bonus	LTIP vesting
2016/17	£803,303	20%	0%
2015/16	£1,008,320[1]	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%

1. Restated to reflect the updated single total figure of remuneration as set out on page 56.

SHAREHOLDER VOTING

The following table sets out actual voting outcomes in respect of the remuneration related resolutions at the Annual General Meeting held on 24 January 2017.

	Votes for	% of vote	Votes against	% of vote	Votes withheld
Approval of the Directors' Remuneration Policy	80,921,034	97.88%	1,753,514	2.12%	1,214,429
Approval of the Annual Report on Remuneration	82,129,038	99.26%	608,771	0.74%	1,151,170
Approval of amendments to the Long Term Incentive Plan	82,481,120	99.76%	202,573	0.24%	1,205,288

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 £56,667. Andrew Andrea was appointed as a Non-executive Director of Portmeirion Group Plc with effect from 20 June 2017 and received fees of £9,130.

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 other Executive Directors are required to hold shares with a value equal to one time's salary. To achieve these holdings Directors are required to retain any vested shares from the LTIP, net of tax, until the guidelines are satisfied. Shares subject to vested LTIP awards which are in a holding period count towards this guideline (on a net of assumed tax basis).

Directors' share interests

As at 30 September 2017, Andrew Andrea held in excess of 100% of base salary, Peter Dalzell held 77% and Ralph Findlay held in excess of 200% of base salary in shares based on the closing mid-market price of an ordinary share on the last business day of the financial period.

Executive Directors' share interests as at 30 September 2017

	Shares owned outright		Share options			
	At 30.09.17	At 01.10.16	Not subject to performance	Subject to performance	Target % holding	Actual % holding
Andrew Andrea	292,773	262,179	24,492	889,871	100%	115%
Peter Dalzell[1]	171,531	144,315	23,801	788,509	100%	77%
Ralph Findlay	1,290,475	1,104,862	7,438	1,386,969	200%	336%

1. Peter Dalzell stepped down from the Board with effect from 29 September 2017. His interests in ordinary shares are shown as at that date.

Executive Directors' interests in share options as at 30 September 2017

		Grant date	Brought Forward 01.10.16	Granted	Exercised/ Vested	Cancelled/ Lapsed	Carried Forward 30.09.17	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	2013	210,777	–	–	210,777	0		2016	–
		2014	275,748	–	57,907	217,841	0		2017	–
		2015	248,167	–	–	–	248,167		2018	–
		2016	278,995	–	–	–	278,995		2019	–
		2017	–	362,709	–	–	362,709		2020	2021
Peter Dalzell[1]	SAYE	2014	7,438	–	-	–	7,438[2]	1.21	2017	–
		2015	6,617	–	–	6,617	0	1.36	2018	–
		2017	–	16,363	–	–	16,363	1.10	2020	–
	LTIP	2013	187,585	–	–	187,585	0		2016	–
		2014	245,302	–	51,513	193,789	0		2017	–
		2015	220,678	–	–	–	220,678		2018	–
		2016	257,080	–	–	–	257,080		2019	–
		2017	–	310,751	–	–	310,751		2020	2021
Ralph Findlay	SAYE	2014	7,438	–	-	–	7,438[2]	1.21	2017	-
	LTIP	2013	337,653	–	–	337,653	0		2016	-
		2014	441,892	–	92,797	349,095	0		2017	-
		2015	397,831	–	–	–	397,831		2018	-
		2016	447,572	–	–	–	447,572		2019	-
		2017	–	541,566	–	–	541,566		2020	2021

1. Peter Dalzell stepped down from the Board with effect from 29 September 2017. His interests in share options are shown as at that date.
2. The 2014 SAYE option has matured but had not been exercised as at the date of the report.

There have been no changes to the Directors' share interests and interests in share options between 30 September 2017 and 27 November 2017 (being the latest practical date prior to the date of this report).

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.

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 10 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 105. 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 104 to 105. 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 2017 Annual General Meeting (AGM). The Company was also given authority at its 2017 AGM to make market purchases of ordinary shares up to a maximum number of 57,595,999 shares. Similar authority will again be sought from shareholders at the 2018 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 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 2018, other than Matthew Roberts who will offer himself for election following his appointment to the Board on 1 March 2017 and Nick Backhouse who will retire from the Board following the 2018 AGM.

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 4 July 2017. The Directors recommend a final dividend of 4.8 pence per ordinary share to be paid on 29 January 2018 to shareholders on the register on 15 December 2017. This would bring the total dividend for 2016/17 to 7.5 pence per ordinary share (2016: 7.3 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.

MAJOR INTEREST IN COMPANY SHARES

Notifications of the following voting interests in the Company's ordinary share capital had 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.

No further notifications have been received by the Company between 30 September 2017 and 27 November 2017 (being the latest practical date prior to the date of this report).

Ordinary shares of 7.375 pence each

Shareholder	As at 30 September 2017	% of voting rights
The Capital Group Companies, Inc	34,423,328	6.01%
Brewin Dolphin	28,448,600	4.94%
Dimensional Fund Advisors LLP	29,565,208	4.66%
Royal London Asset Management Limited	23,030,587	3.99%

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 30 September 2017 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 88.

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 within our business and also within our supply chain. However, Marston's does not currently have a separate human rights policy.

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 corporate priorities is to reduce environmental impacts. We recognise the importance of this priority to the long-term profitability of the business and operating a high quality estate. Many of the environmental initiatives we adopt reduce our impact upon the environment as well reducing expenditure on energy and utilities in the long term.

Each year Marston's produces a Corporate Responsibility Report providing information on the many aspects of our corporate values, available at **www.marstons.co.uk**. The report includes detailed information on our environmental performance by business area including energy consumption, water usage, waste volumes and recycling rates.

Water usage has been reduced by installing water management systems in our managed pubs and franchised estate. For many years we have been increasing the percentage of waste being recycled across the Group (2017: 71.8%, 2016: 69.4%). Last year we appointed a new waste collection service provider and have since increased significantly the number of sites receiving segregated food collections (2017: 529 of our managed and franchised pubs recycle food waste, 2016: 346).

Electricity and gas reported emissions have remained stable with last year, both years benefiting from relatively mild weather conditions. Increases in energy as a result of business activity, for instance more food cooked in our kitchens and more production in our breweries, have been largely offset by energy efficiencies, mild weather and an increasing proportion of our UK energy coming from non-fossil fuel energy sources.

This year we have continued to achieve considerable reductions in energy usage by replacing the lighting in the public areas of our managed and franchised pubs with LED lighting. In addition we have also been installing LED lighting in our back of house areas. Other projects this year have included using ambient air to cool our cellars rather than air conditioning, voltage optimisation, heating control systems and heat recovery systems.

Fuel Types	**2017** **CO_2e tonnes**	2016 CO_2e tonnes
Electricity and gas	**118,848**	117,171
Petrol and diesel	**11,972**	11,665
Refrigerants – breweries	**43**	65
Refrigerants – pubs	**5,109**	4,179
LPG	**2,457**	2,511

Greenhouse Gas Emissions Intensity Ratio:	**2017**	2016
CO_2e tonnes per £100,000 of turnover	**13.72**	15.09

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 2017, 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 100 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 2018 AGM. Details of the audit tender are set out on page 52.

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 28 to 34. In addition, note 25 to the financial statements on pages 100 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 75 to 108 and 109 to 119 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 12 noon on 23 January 2018. 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
30 November 2017

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 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.

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 page 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
30 November 2017

Andrew Andrea
Chief Financial and Corporate Development Officer

FINANCIAL STATEMENTS

Five Year Record

	2013 (Restated) (53 weeks) £m	2014 (52 weeks) £m	2015 (52 weeks) £m	2016 (52 weeks) £m	**2017 (52 weeks) £m**
Underlying revenue	782.9	787.6	845.5	905.8	**992.2**
Underlying profit before taxation	86.9	82.9	90.9	97.3	**100.1**
Non-underlying items	(19.4)	(142.1)	(59.6)	(16.5)	**0.2**
Profit/(loss) before taxation	67.5	(59.2)	31.3	80.8	**100.3**
Taxation*	(10.6)	8.5	(8.0)	(7.8)	**(15.6)**
Profit/(loss) after taxation	56.9	(50.7)	23.3	73.0	**84.7**
Net assets	841.9	759.0	782.9	752.1	**931.4**
Earnings/(loss) per ordinary share	10.0p	(8.9)p	4.1p	12.7p	**14.2p**
Non-underlying items	2.1p	20.6p	8.7p	1.2p	**–**
Underlying earnings per ordinary share	12.1p	11.7p	12.8p	13.9p	**14.2p**
Dividend per ordinary share	6.4p	6.7p	7.0p	7.3p	**7.5p**

* Taxation includes the tax on non-underlying items together with non-underlying credits of £2.4 million in 2016 and £3.1 million in 2013 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 30 September 2017 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 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 30 September 2017; 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.

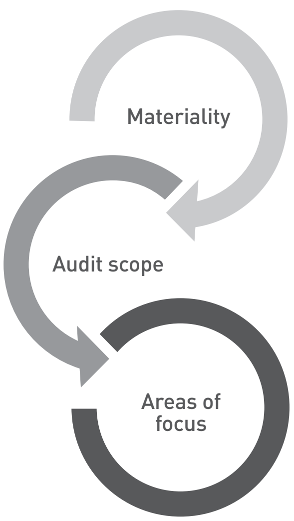
Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe 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 2 October 2016 to 30 September 2017.

Our audit approach
Overview



- Overall Group materiality: £5.0 million (2016: £4.9 million), based on 5% of profit before tax and non-underlying items.
- Overall Company materiality: £20.1 million (2016: £18.1 million), based on 1.75% of net assets.

- Audit performed at the level of the consolidated Group.

- Valuation of the estate (notes 1, 12 and 18) (Group and Company).
- Accounting for the acquisition of the beer business of Charles Wells (notes 4 and 35) (Group).
- 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 and our areas of focus
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. As in all of our audits we also addressed the risk of management override of internal controls, including 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, 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 performance of pubs and multiples applied. A full external valuation of the estate was undertaken during FY15. In FY17 management have undertaken an exercise to identify if there have been any impairment triggers or changes in market conditions, including property based transactions both within the market place and the Marston's estate, which would indicate changes in property valuation. The absence of any such triggers or changes in market conditions supports the carrying value of the Group's property portfolio as at the balance sheet date.	We reviewed the Directors' annual assessment and examined their assumptions therein, utilising internal specialists to validate the conclusions reached. We have taken into account the impact of any changes in macroeconomic conditions, individual 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.
Accounting for the acquisition of the beer business of Charles Wells (notes 4 and 35) – Group In FY17 the Group completed the acquisition of the beer business of Charles Wells, for a cash consideration of £55 million and an additional working capital adjustment of £36 million. Accounting for the acquisition involved judgements in relation to the identification and valuation of the assets and liabilities to be recognised, particularly in respect of the acquired brands. The value of the acquired brands, which was calculated by management, included estimates about future earnings and current market multiples.	We evaluated the various aspects of the accounting for the acquisition. We assessed the provisional fair value adjustments and the consequent calculation of the residual goodwill arising on the transaction. We tested the brand values calculated by management by understanding the appropriateness of the methodology used and auditing inputs such as actual revenue and margins for each respective brand. We evaluated the brand valuation in the context of the rationale for the acquisition and the objectives of the accounting framework. We found that the brand valuation was consistent with the application of industry practices and market transactions. We attended closing inventory counts at two locations, Bedford and Greenford, to confirm the existence of the inventory acquired. We evaluated the fair value ascribed to the acquired assets and liabilities by challenging management's assessment of the acquired inventory and accounts receivable by reference to Marston's experience in recovering debtors and the margins on other beer brands. We found these to be reasonable.

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 the results arising from the ongoing management of the portfolio of pubs subject to disposal in FY14, movements in the financial assumptions used in determining the onerous lease provisions, reorganisation, relocation and integration costs (principally comprising non-recurring costs incurred in relation to the acquisition of the beer business of Charles Wells), movements in the fair value of interest rate swaps, the net interest on the net defined benefit asset/liability and the write-off of unamortised finance costs. 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.

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 four business lines being Destination and Premium, Taverns, Leased 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	£5.0 million (2016: £4.9 million).	£20.1 million (2016: £18.1 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 basis upon which to determine 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 £0.2 million and £5.0 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.2 million (Group audit) (2016: £0.2 million) and £0.9 million (Company audit) (2016: £0.9 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

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

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.

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 30 September 2017 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 22 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 24 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 50 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/auditorsresponsibilities. 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.

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

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 15 years, covering the periods ended 27 September 2003 to 30 September 2017.

Mark Smith (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
30 November 2017

Group Income Statement

For the 52 weeks ended 30 September 2017

	Note	2017 Underlying items £m	2017 Non-underlying items £m	2017 Total £m	2016 Underlying items £m	2016 Non-underlying items £m	2016 Total £m
Revenue	2, 3, 4	**992.2**	**19.1**	**1,011.3**	905.8	31.5	937.3
Operating expenses	3	**(817.7)**	**(23.2)**	**(840.9)**	(733.1)	(40.3)	(773.4)
Operating profit	2, 4	**174.5**	**(4.1)**	**170.4**	172.7	(8.8)	163.9
Finance costs	6	**(74.8)**	**(2.1)**	**(76.9)**	(75.9)	–	(75.9)
Finance income	6	**0.4**	**–**	**0.4**	0.5	0.7	1.2
Movement in fair value of interest rate swaps	4, 6	**–**	**6.4**	**6.4**	–	(8.4)	(8.4)
Net finance costs	4, 6	**(74.4)**	**4.3**	**(70.1)**	(75.4)	(7.7)	(83.1)
Profit before taxation		**100.1**	**0.2**	**100.3**	97.3	(16.5)	80.8
Taxation	4, 7	**(15.6)**	**–**	**(15.6)**	(17.4)	9.6	(7.8)
Profit for the period attributable to equity shareholders		**84.5**	**0.2**	**84.7**	79.9	(6.9)	73.0
Earnings per share:							
Basic earnings per share	9			**14.2p**			12.7p
Basic underlying earnings per share	9			**14.2p**			13.9p
Diluted earnings per share	9			**14.1p**			12.6p
Diluted underlying earnings per share	9			**14.0p**			13.8p

Group Statement of Comprehensive Income

For the 52 weeks ended 30 September 2017

	2017 £m	2016 £m
Profit for the period	**84.7**	73.0
Items of other comprehensive income that may subsequently be reclassified to profit or loss		
Gains/(losses) arising on cash flow hedges	**35.7**	(50.9)
Transfers to the income statement on cash flow hedges	**10.7**	11.3
Tax on items that may subsequently be reclassified to profit or loss	**(7.9)**	2.0
	38.5	(37.6)
Items of other comprehensive income that will not be reclassified to profit or loss		
Remeasurement of retirement benefits	**21.8**	(56.3)
Unrealised surplus on revaluation of properties	**2.3**	2.0
Reversal of past revaluation surplus	**(0.8)**	–
Tax on items that will not be reclassified to profit or loss	**0.2**	27.7
	23.5	(26.6)
Other comprehensive income/(expense) for the period	**62.0**	(64.2)
Total comprehensive income for the period	**146.7**	8.8

Group Cash Flow Statement

For the 52 weeks ended 30 September 2017

	Note	2017 £m	2016 £m
Operating activities			
Underlying operating profit		**174.5**	172.7
Depreciation and amortisation		**39.2**	40.0
Underlying EBITDA		**213.7**	212.7
Non-underlying operating items		**(4.1)**	(8.8)
EBITDA		**209.6**	203.9
Working capital movement	31	**38.8**	8.9
Non-cash movements	31	**(7.9)**	(7.9)
Decrease in provisions and other non-current liabilities		**(9.1)**	(4.7)
Difference between defined benefit pension contributions paid and amounts charged		**(8.3)**	(7.6)
Income tax paid		**(9.5)**	(9.8)
Net cash inflow from operating activities		**213.6**	182.8
Investing activities			
Interest received		**0.3**	0.7
Sale of property, plant and equipment and assets held for sale		**61.2**	45.9
Purchase of property, plant and equipment and intangible assets		**(196.3)**	(143.7)
Acquisition of subsidiary		**(90.5)**	–
Movement in other non-current assets		**0.7**	1.7
Transfer to other cash deposits		**(120.0)**	–
Net cash outflow from investing activities		**(344.6)**	(95.4)
Financing activities			
Equity dividends paid	8	**(44.1)**	(40.8)
Interest paid		**(70.2)**	(70.3)
Arrangement costs of bank facilities		**(3.3)**	–
Arrangement costs of other lease related borrowings		**(4.6)**	(2.8)
Issue of shares		**75.5**	–
Purchase of own shares		**–**	(0.1)
Proceeds from sale of own shares		**0.3**	0.9
Repayment of securitised debt		**(28.4)**	(26.7)
Repayment of bank borrowings		**(263.0)**	–
Advance of bank borrowings		**280.0**	13.0
Capital element of finance leases repaid		**(0.1)**	(0.1)
Advance of other lease related borrowings		**57.9**	40.7
Net cash outflow from financing activities		**–**	(86.2)
Net (decrease)/increase in cash and cash equivalents	30	**(131.0)**	1.2

Group Balance Sheet

As at 30 September 2017

	Note	30 September 2017 £m	1 October 2016 £m
Non-current assets			
Goodwill	10	**230.3**	227.5
Other intangible assets	11	**67.6**	37.3
Property, plant and equipment	12	**2,360.7**	2,199.4
Other non-current assets	13	**10.3**	10.4
Deferred tax assets	14	**0.6**	16.7
		2,669.5	2,491.3
Current assets			
Inventories	16	**40.2**	28.7
Trade and other receivables	17	**108.4**	85.0
Other cash deposits*		**120.0**	–
Cash and cash equivalents*		**54.6**	185.6
		323.2	299.3
Assets held for sale	18	**2.7**	6.6
Current liabilities			
Borrowings*	19	**(148.8)**	(176.9)
Derivative financial instruments	21	**(28.7)**	(38.0)
Trade and other payables	22	**(256.1)**	(194.9)
Current tax liabilities		**(3.5)**	(3.6)
Provisions for other liabilities and charges	23	**(3.3)**	(4.3)
		(440.4)	(417.7)
Non-current liabilities			
Borrowings	19	**(1,354.9)**	(1,278.1)
Derivative financial instruments	21	**(159.2)**	(202.7)
Other non-current liabilities	24	**(0.6)**	(0.6)
Provisions for other liabilities and charges	23	**(26.9)**	(34.5)
Deferred tax liabilities	14	**(76.6)**	(77.5)
Retirement benefit obligations	26	**(5.4)**	(34.0)
		(1,623.6)	(1,627.4)
Net assets		**931.4**	752.1
Shareholders' equity			
Equity share capital	28	**48.7**	44.4
Share premium account		**334.0**	334.0
Revaluation reserve		**624.2**	623.1
Merger reserve	29	**71.2**	–
Capital redemption reserve	29	**6.8**	6.8
Hedging reserve		**(127.2)**	(165.7)
Own shares	29	**(111.3)**	(113.7)
Retained earnings		**85.0**	23.2
Total equity		**931.4**	752.1

The financial statements on pages 75 to 108 were approved by the Board and authorised for issue on 30 November 2017 and are signed on its behalf by:

Ralph Findlay

Chief Executive Officer
30 November 2017

* Other cash deposits includes £120.0 million drawn down under the liquidity facility (2016: £120.0 million included within cash and cash equivalents) and borrowings includes the corresponding liability (note 30).

Group Statement of Changes in Equity

For the 52 weeks ended 30 September 2017

	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**

	Equity share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Own shares £m	Retained earnings £m	Total equity £m
At 4 October 2015	44.4	334.0	616.0	6.8	(128.1)	(118.7)	28.5	782.9
Profit for the period	–	–	–	–	–	–	73.0	73.0
Remeasurement of retirement benefits	–	–	–	–	–	–	(56.3)	(56.3)
Tax on remeasurement of retirement benefits	–	–	–	–	–	–	10.3	10.3
Losses on cash flow hedges	–	–	–	–	(50.9)	–	–	(50.9)
Transfers to the income statement on cash flow hedges	–	–	–	–	11.3	–	–	11.3
Tax on hedging reserve movements	–	–	–	–	2.0	–	–	2.0
Property revaluation	–	–	2.0	–	–	–	–	2.0
Deferred tax on properties	–	–	17.4	–	–	–	–	17.4
Total comprehensive income/(expense)	–	–	19.4	–	(37.6)	–	27.0	8.8
Share-based payments	–	–	–	–	–	–	0.4	0.4
Purchase of own shares	–	–	–	–	–	(0.1)	–	(0.1)
Sale of own shares	–	–	–	–	–	5.1	(4.2)	0.9
Disposal of properties	–	–	(14.1)	–	–	–	14.1	–
Tax on disposal of properties	–	–	2.7	–	–	–	(2.7)	–
Transfer to retained earnings	–	–	(0.9)	–	–	–	0.9	–
Dividends paid	–	–	–	–	–	–	(40.8)	(40.8)
Total transactions with owners	–	–	(12.3)	–	–	5.0	(32.3)	(39.6)
At 1 October 2016	**44.4**	**334.0**	**623.1**	**6.8**	**(165.7)**	**(113.7)**	**23.2**	**752.1**

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 30 September 2017

1 ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements for the 52 weeks ended 30 September 2017 (2016: 52 weeks ended 1 October 2016) 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.

In the prior period provisions for other liabilities and charges were originally presented wholly within non-current liabilities in the balance sheet. Amounts due within one year have now been represented within current liabilities to better reflect the timing of the amounts falling due and to be consistent with the current period presentation.

In the prior period the net interest on the net defined benefit asset/liability was presented within underlying items. This has now been represented within non-underlying items to better reflect the nature of this item and to be consistent with the current period presentation.

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.

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 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 7	Statement of Cash Flows	
	Amendments as a result of the disclosure initiative	1 January 2017
IAS 12	Income Taxes	
	Amendments regarding the recognition of deferred tax assets for unrealised losses	1 January 2017
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
	Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	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

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

The Directors are considering the impact of the adoption of the above new standards, interpretations and amendments on the Group. In particular, the adoption of IFRS 16 'Leases' is expected to have a significant impact on both the Group's balance sheet and income statement. For 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.

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.

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.

1 ACCOUNTING POLICIES (CONTINUED)

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 five distinguishable operating segments, being Destination and Premium, Taverns, Leased, 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.

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 trading 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 form part of the Group's core activities and the Group does 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.

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.

1 ACCOUNTING POLICIES (CONTINUED)

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 15 years.
- Own labour and interest costs directly attributable to capital projects are capitalised.
- Land is not depreciated.

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

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.

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'.

1 ACCOUNTING POLICIES (CONTINUED)

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.

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.

1 ACCOUNTING POLICIES (CONTINUED)

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.

In the event that contributions payable under a minimum funding requirement are not 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 arises.

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.

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.

1 ACCOUNTING POLICIES (CONTINUED)

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 property, plant and equipment, retirement benefits, lease classification, non-underlying items, 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.

Property, plant and equipment

- Valuation of properties (see accounting policy).

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

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

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 26).

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 five 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
Leased	Drink sales, rent from licensed properties and gaming machine income
Brewing	Drink sales and third party brewing, packaging and distribution
Group Services	N/A

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

Underlying revenue by segment	2017 £m	2016 £m
Destination and Premium	**438.0**	419.0
Taverns	**246.7**	238.5
Leased	**54.6**	55.0
Brewing	**252.9**	193.3
Group Services	**–**	–
Underlying revenue	**992.2**	905.8
Non-underlying items	**19.1**	31.5
Revenue	**1,011.3**	937.3

Underlying operating profit by segment	2017 £m	2016 £m
Destination and Premium	**88.9**	86.9
Taverns	**57.0**	56.6
Leased	**27.1**	26.9
Brewing	**25.5**	23.2
Group Services	**(24.0)**	(20.9)
Underlying operating profit	**174.5**	172.7
Non-underlying operating items	**(4.1)**	(8.8)
Operating profit	**170.4**	163.9
Net finance costs	**(70.1)**	(83.1)
Profit before taxation	**100.3**	80.8

	Additions to non-current assets*		Depreciation and amortisation	
Other segment information	2017 £m	2016 £m	2017 £m	2016 £m
Destination and Premium	**152.9**	101.0	**15.6**	15.1
Taverns	**25.2**	22.6	**8.1**	8.4
Leased	**4.4**	5.0	**1.5**	1.7
Brewing	**18.2**	10.5	**10.5**	10.2
Group Services	**7.4**	8.1	**3.5**	4.6
Total	**208.1**	147.2	**39.2**	40.0

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

Notes continued

For the 52 weeks ended 30 September 2017

2 SEGMENT REPORTING (CONTINUED)

During the current period the Group changed the structure of its internal organisation in a manner that caused the composition of its operating segments to change. The results for the prior period have been restated to reflect these changes.

Geographical areas
Revenue generated outside the United Kingdom during the period was £6.4 million (2016: £3.9 million).

3 REVENUE AND OPERATING EXPENSES

Revenue	2017 £m	2016 £m
Goods	**945.4**	874.2
Services	**65.9**	63.1
	1,011.3	937.3

Revenue from services includes rent receivable from licensed properties of £17.1 million (2016: £19.1 million).

Operating expenses	2017 £m	2016 £m
Change in stocks of finished goods and work in progress	**(1.8)**	(0.3)
Own work capitalised	**(5.8)**	(4.9)
Other operating income	**(8.7)**	(8.0)
Raw materials, consumables and excise duties	**370.9**	324.9
Depreciation of property, plant and equipment	**38.1**	38.3
Amortisation of intangible assets	**1.1**	1.7
Employee costs	**219.1**	203.5
Hire of plant and machinery	**0.8**	0.8
Other operating lease rentals	**20.6**	22.4
Income from other non-current assets	**(0.2)**	(0.2)
Impairment of freehold and leasehold properties	**3.9**	–
Other net operating charges	**202.9**	195.2
	840.9	773.4

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

	2017 £m	2016 £m
Change in stocks of finished goods and work in progress	**0.3**	–
Other operating income	**–**	(0.1)
Raw materials, consumables and excise duties	**5.3**	9.9
Employee costs	**4.0**	2.5
Other operating lease rentals	**5.0**	9.2
Other net operating charges	**8.6**	18.8
	23.2	40.3

PricewaterhouseCoopers LLP fees:	2017 £m	2016 £m
Fees payable to the Company's Auditors for the audit of the Company's annual accounts	**0.2**	0.1
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
Other non-audit services	**–**	0.1
	0.4	0.4

4 NON-UNDERLYING ITEMS

	2017 £m	2016 £m
Exceptional operating items		
Impact of change in rate assumptions used for onerous lease provisions	**(1.6)**	4.4
Reorganisation, relocation and integration costs	**5.5**	3.8
Non-core estate disposal and reorganisation costs	**–**	1.7
Profit on sale of surplus land for residential development	**–**	(1.5)
Tax advisory fees	**–**	0.5
	3.9	8.9
Other adjusting operating items		
Results in respect of the ongoing management of pubs in the portfolio disposal	**0.2**	(0.1)
	0.2	(0.1)
Non-underlying operating items	**4.1**	8.8
Exceptional non-operating items		
Net interest on net defined benefit asset/liability	**0.7**	(0.7)
Write-off of unamortised finance costs	**1.4**	–
Movement in fair value of interest rate swaps	**(6.4)**	8.4
	(4.3)	7.7
Total non-underlying items	**(0.2)**	16.5

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 at the current period end resulted in a decrease of £1.6 million (2016: increase of £4.4 million) in the total provision.

Reorganisation, relocation and integration costs

During the current period the Group incurred reorganisation and integration costs of £4.6 million as a result of the acquisition of the beer business of Charles Wells.

A head office restructuring exercise was also undertaken in the current period incurring costs of £0.9 million.

During the prior period the redevelopment of the Group's head office building in Wolverhampton was completed along with a reorganisation of certain head office functions. Costs of £0.5 million were incurred in the prior period in respect of temporarily relocating to alternative premises nearby during the period of redevelopment and in undertaking the reorganisation.

The Group also incurred reorganisation and integration costs of £3.3 million in the prior period as a result of the acquisition of the trading operations of Daniel Thwaites PLC's beer division in the period ended 3 October 2015.

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. A number of the pubs have since been removed from these arrangements by the purchaser. During the current period the Group has entered into new 15 year leases in respect of 22 of the properties and these have also been removed from the management agreement. The Group no longer has strategic control of the pubs still subject to the management agreement and they do not form part of its core activities. As such the results in respect of the ongoing operation and management of these pubs post disposal have been classified as a non-underlying item, comprised as follows:

	2017 £m	2016 £m
Revenue	**19.1**	31.5
Operating expenses	**(19.3)**	(31.4)
	(0.2)	0.1

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 £0.7 million (2016: credit of £0.7 million) (note 26).

Write-off of unamortised finance costs

During the current period the Group entered into a new bank facility. As such the unamortised finance costs relating to the previous facility have been written off.

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 gain of £6.4 million (2016: loss of £8.4 million) is shown as an exceptional item.

4 NON-UNDERLYING ITEMS (CONTINUED)

Impact of taxation

The current tax credit relating to the above non-underlying items amounts to £0.9 million (2016: £1.7 million). The deferred tax charge relating to the above non-underlying items amounts to £0.9 million (2016: credit of £1.4 million). In addition, there is a non-underlying deferred tax credit of £nil (2016: £2.4 million) in relation to the change in corporation tax rate (note 7).

During the prior period the Group agreed the tax treatment of certain items with HM Revenue & Customs. The tax credit of £4.1 million in respect of the additional tax relief claimed for previous periods was classified as a non-underlying item along with the associated advisory fees of £0.5 million.

Prior period non-underlying items

During the period ended 5 October 2013 the Group commenced a restructuring of its pub estate and operating segments. Costs in respect of this restructuring were incurred in the prior period.

During the prior period the Group sold a parcel of surplus land for residential development for £9.5 million realising a profit of £1.5 million on disposal.

5 EMPLOYEES

Employee costs	2017 £m	2016 £m
Wages and salaries	**194.0**	181.8
Social security costs	**15.2**	13.6
Pension costs	**7.4**	6.8
Share-based payments	**0.9**	0.4
Termination costs	**1.6**	0.9
	219.1	203.5

A non-underlying charge of £4.0 million (2016: £2.5 million) is included in employee costs.

Average monthly number of employees	2017 Number	2016 Number
Bar staff	**11,572**	11,125
Management, administration and production	**2,547**	2,376

Key management personnel compensation	2017 £m	2016 £m
Short-term employee benefits	**2.2**	2.4
Termination benefits	**0.4**	–
Share-based payments	**0.2**	–
	2.8	2.4

6 FINANCE COSTS AND INCOME

Finance costs	2017 £m	2016 £m
Unsecured bank borrowings	**11.1**	12.2
Securitised debt	**46.1**	47.8
Finance leases	**1.2**	1.1
Other lease related borrowings	**15.0**	12.6
Other interest payable and similar charges	**1.4**	2.2
	74.8	75.9
Exceptional finance costs		
Net interest on net defined benefit asset/liability	**0.7**	–
Write-off of unamortised finance costs	**1.4**	–
	2.1	–
Total finance costs	**76.9**	75.9
Finance income		
Deposit and other interest receivable	**(0.4)**	(0.5)
	(0.4)	(0.5)
Exceptional finance income		
Net interest on net defined benefit asset/liability	**–**	(0.7)
	–	(0.7)
Total finance income	**(0.4)**	(1.2)
Movement in fair value of interest rate swaps		
Gain on movement in fair value of interest rate swaps	**(9.3)**	(3.9)
Loss on movement in fair value of interest rate swaps	**2.9**	12.3
	(6.4)	8.4
Net finance costs	**70.1**	83.1

7 TAXATION

Income statement	2017 £m	2016 £m
Current tax		
Current period	**10.7**	13.9
Adjustments in respect of prior periods	**(0.3)**	(0.6)
Credit in respect of tax on non-underlying items	**(0.9)**	(1.7)
Non-underlying credit in relation to additional relief for prior periods	**–**	(3.7)
	9.5	7.9
Deferred tax		
Current period	**6.1**	4.2
Adjustments in respect of prior periods	**(0.9)**	(0.1)
Charge/(credit) in respect of tax on non-underlying items	**0.9**	(1.4)
Non-underlying credit in relation to the change in tax rate	**–**	(2.4)
Non-underlying credit in relation to additional relief for prior periods	**–**	(0.4)
	6.1	(0.1)
Taxation charge reported in the income statement	**15.6**	7.8

Statement of comprehensive income	2017 £m	2016 £m
Remeasurement of retirement benefits	**3.7**	(10.3)
Impairment and revaluation of properties	**(3.9)**	(17.4)
Hedging reserve movements	**7.9**	(2.0)
Taxation charge/(credit) reported in the statement of comprehensive income	**7.7**	(29.7)

A deferred tax credit of £nil (2016: £8.4 million) relating to the change in corporation tax rate has been recognised in the statement of comprehensive income and is included in the above amounts.

Notes continued

For the 52 weeks ended 30 September 2017

7 TAXATION (CONTINUED)

The actual tax rate for the period is lower (2016: lower) than the standard rate of corporation tax of 19.5% (2016: 20%). The differences are explained below:

Tax reconciliation	2017 £m	2016 £m
Profit before tax	**100.3**	80.8
Profit before tax multiplied by the corporation tax rate of 19.5% (2016: 20%)	**19.6**	16.2
Effect of:		
Adjustments in respect of prior periods	**(1.2)**	(0.7)
Non-underlying credit in relation to additional relief for prior periods	**–**	(4.1)
Net deferred tax credit in respect of land and buildings	**(1.4)**	(1.1)
Costs not deductible for tax purposes	**0.7**	0.4
Other amounts upon which tax relief is available	**(0.9)**	(0.5)
Impact of difference between deferred and current tax rates	**(1.2)**	–
Impact of change in tax rate	**–**	(2.4)
Current period taxation charge	**15.6**	7.8

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 current period have been 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. As such a non-underlying deferred tax credit of £2.4 million was recognised in the income statement in the prior period.

Finance Bill 2017-19 includes draft legislation to restrict the deductibility of net interest costs from 1 April 2017. As the proposed changes had not been substantively enacted at the balance sheet date, their effects are not included in these financial statements. If the legislation had been substantively enacted by the balance sheet date, it is likely that the overall effect on these financial statements would not have been material.

8 ORDINARY DIVIDENDS ON EQUITY SHARES

Paid in the period	2017 £m	2016 £m
Final dividend for 2016 of 4.7p per share (2015: 4.5p)	**27.0**	25.9
Interim dividend for 2017 of 2.7p per share (2016: 2.6p)	**17.1**	14.9
	44.1	40.8

A final dividend for 2017 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 29 January 2018 to those shareholders on the register at close of business on 15 December 2017.

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.

	2017		2016	
	Earnings £m	**Per share amount p**	Earnings £m	Per share amount p
Basic earnings per share	**84.7**	**14.2**	73.0	12.7
Diluted earnings per share	**84.7**	**14.1**	73.0	12.6
Underlying earnings per share figures				
Basic underlying earnings per share	**84.5**	**14.2**	79.9	13.9
Diluted underlying earnings per share	**84.5**	**14.0**	79.9	13.8

	2017 m	2016 m
Basic weighted average number of shares	**596.9**	574.6
Dilutive options	**4.8**	6.0
Diluted weighted average number of shares	**601.7**	580.6

10 GOODWILL

	£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 period relate to the acquisition of the beer business of Charles Wells (note 35).

	£m
Cost	
At 4 October 2015 and 1 October 2016	**228.6**
Aggregate impairment	
At 4 October 2015 and 1 October 2016	**1.1**
Net book amount at 3 October 2015	227.5
Net book amount at 1 October 2016	**227.5**

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:

	2017 £m	2016 £m
Destination and Premium	**87.5**	87.5
Taverns	**86.6**	86.6
Leased	**26.5**	26.5
Brewing	**29.7**	26.9
	230.3	227.5

The key assumptions used in determining value in use are the pre-tax discount rate applied to the cash flow projections of 6% (2016: 6%) and the growth rate used to extrapolate the projected cash flows beyond the one year budgets of 2% (2016: 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.

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11 OTHER INTANGIBLE ASSETS

	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 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.

During the current period the Group acquired the Eagle portfolio of brands (note 35).

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

	Acquired brands £m	Lease premiums £m	Computer software £m	Development costs £m	Total £m
Cost					
At 4 October 2015	32.1	1.7	10.3	0.1	44.2
Additions	–	–	1.4	–	1.4
Net transfers to assets held for sale and disposals	–	(0.2)	(0.6)	–	(0.8)
At 1 October 2016	**32.1**	**1.5**	**11.1**	**0.1**	**44.8**
Amortisation					
At 4 October 2015	–	1.1	5.5	–	6.6
Charge for the period	–	–	1.6	0.1	1.7
Net transfers to assets held for sale and disposals	–	(0.2)	(0.6)	–	(0.8)
At 1 October 2016	**–**	**0.9**	**6.5**	**0.1**	**7.5**
Net book amount at 3 October 2015	32.1	0.6	4.8	0.1	37.6
Net book amount at 1 October 2016	**32.1**	**0.6**	**4.6**	**–**	**37.3**

Acquired brands relate to Brewing. The carrying value of acquired brands is split as follows:

	2017 £m	2016 £m
Wychwood	**13.6**	13.6
Jennings	**2.8**	2.8
Ringwood	**2.9**	2.9
Thwaites	**12.8**	12.8
Eagle	**30.0**	–
	62.1	32.1

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 a pre-tax discount rate of 6% (2016: 6%) and a long-term growth rate used to extrapolate cash flows beyond the cash flow projection period of one year of 2% (2016: 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 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**

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation				
At 4 October 2015	1,948.5	60.0	302.0	2,310.5
Additions	98.2	5.5	42.1	145.8
Net transfers to assets held for sale and disposals	(29.9)	(3.6)	(23.8)	(57.3)
Revaluation	2.0	–	–	2.0
At 1 October 2016	**2,018.8**	**61.9**	**320.3**	**2,401.0**
Depreciation				
At 4 October 2015	1.5	27.2	159.2	187.9
Charge for the period	3.0	5.3	30.0	38.3
Net transfers to assets held for sale and disposals	–	(3.2)	(21.4)	(24.6)
At 1 October 2016	**4.5**	**29.3**	**167.8**	**201.6**
Net book amount at 3 October 2015	1,947.0	32.8	142.8	2,122.6
Net book amount at 1 October 2016	**2,014.3**	**32.6**	**152.5**	**2,199.4**

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

	2017 £m	2016 £m
Freehold properties	**1,830.2**	1,715.9
Leasehold properties over 50 years unexpired	**253.2**	244.6
Leasehold properties under 50 years unexpired	**62.7**	53.8
	2,146.1	2,014.3

Cost or valuation of land and buildings comprises:

	2017 £m	2016 £m
Valuation	**1,977.3**	1,937.0
At cost	**176.4**	81.8
	2,153.7	2,018.8

If the freehold and leasehold properties had not been revalued, the historical cost net book amount would be £1,578.9 million (2016: £1,442.7 million).

Cost at 30 September 2017 includes £43.4 million (2016: £17.3 million) of assets in the course of construction.

Interest costs of £1.5 million (2016: £0.8 million) were capitalised in the period in respect of the financing of major projects. The capitalisation rates used ranged from 5% to 6% (2016: 5% to 6%).

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The net profit on disposal of property, plant and equipment, intangible assets and assets held for sale was £12.5 million (2016: £8.1 million). A net profit on disposal of £12.5 million (2016: £7.6 million) has been included within the Group's underlying results. The net profit on disposal net of disposal related impairments was £10.5 million (2016: £8.1 million).

Capital expenditure authorised and committed at the period end but not provided for in the financial statements was £14.4 million (2016: £6.5 million).

The net book amount of land and buildings held under finance leases at 30 September 2017 was £36.3 million (2016: £28.4 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 £337.9 million (2016: £291.2 million).

Revaluation/impairment

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:

	2017 £m	2016 £m
Income statement:		
Impairment	**(3.8)**	–
	(3.8)	–
Revaluation reserve:		
Unrealised revaluation surplus	**2.3**	2.0
Reversal of past revaluation surplus	**(0.8)**	–
	1.5	2.0
Net (decrease)/increase in shareholders' equity/property, plant and equipment	**(2.3)**	2.0

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:

	2017				2016			
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	**–**	**–**	**45.5**	**45.5**	–	–	25.3	25.3
Other land and buildings	**–**	**2,100.6**	**–**	**2,100.6**	–	1,989.0	–	1,989.0
	–	**2,100.6**	**45.5**	**2,146.1**	–	1,989.0	25.3	2,014.3

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 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	**2017 £m**	2016 £m
At beginning of the period	**25.3**	25.0
Additions	**0.8**	0.6
Acquisitions	**19.6**	–
Depreciation charge for the period	**(0.2)**	(0.3)
At end of the period	**45.5**	25.3

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 1 February 2015. 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	**2017 £m**	2016 £m
At beginning of the period	**10.4**	12.1
Additions	**2.5**	2.0
Acquisitions	**0.6**	–
Disposals, repayments and impairments	**(3.2)**	(3.7)
At end of the period	**10.3**	10.4

Other non-current assets are shown net of a provision of £2.4 million (2016: £2.3 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% (2016: 17%). The movement on the deferred tax accounts is shown below:

Net deferred tax liability	**2017 £m**	2016 £m
At beginning of the period	**60.8**	89.0
Acquisitions	**1.4**	–
Charged/(credited) to the income statement	**6.1**	(0.1)
(Credited)/charged to equity:		
Impairment and revaluation of properties	**(3.9)**	(17.4)
Hedging reserve	**7.9**	(2.0)
Retirement benefits	**3.7**	(8.9)
Share-based payments	**–**	0.2
At end of the period	**76.0**	60.8

Recognised in the balance sheet	**2017 £m**	2016 £m
Deferred tax liabilities (after offsetting)	**76.6**	77.5
Deferred tax assets (after offsetting)	**(0.6)**	(16.7)
	76.0	60.8

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	**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**

Notes continued

For the 52 weeks ended 30 September 2017

14 DEFERRED TAX (CONTINUED)

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**

Deferred tax liabilities	Pensions £m	Accelerated capital allowances £m	Revaluation of properties £m	Rolled over capital gains £m	Other £m	Total £m
At 4 October 2015	3.0	30.3	115.4	3.3	4.8	156.8
Charged/(credited) to the income statement	0.2	(2.4)	(0.9)	1.1	(1.1)	(3.1)
Credited to equity	(3.2)	–	(17.4)	–	–	(20.6)
At 1 October 2016	**–**	**27.9**	**97.1**	**4.4**	**3.7**	**133.1**

Deferred tax assets	Pensions £m	Tax losses £m	Hedging reserve £m	Other £m	Total £m
At 4 October 2015	–	(30.4)	(32.0)	(5.4)	(67.8)
Charged to the income statement	–	3.0	–	–	3.0
(Credited)/charged to equity	(5.7)	–	(2.0)	0.2	(7.5)
At 1 October 2016	**(5.7)**	**(27.4)**	**(34.0)**	**(5.2)**	**(72.3)**

Net deferred tax liability	
At 3 October 2015	89.0
At 1 October 2016	**60.8**

15 SUBSIDIARY UNDERTAKINGS

Details of the Group's subsidiary undertakings are provided in note 6 to the Company financial statements.

16 INVENTORIES

	2017 £m	2016 £m
Raw materials and consumables	**10.2**	7.0
Work in progress	**1.4**	0.6
Finished goods	**28.6**	21.1
	40.2	28.7

17 TRADE AND OTHER RECEIVABLES

	2017 £m	2016 £m
Trade receivables	**68.8**	41.1
Prepayments and accrued income	**30.7**	25.7
Other receivables	**8.9**	18.2
	108.4	85.0

Trade receivables are shown net of a provision of £1.4 million (2016: £1.3 million). Other receivables are shown net of a provision of £3.3 million (2016: £2.5 million). The ageing analysis of trade receivables is as follows:

	2017 £m	2016 £m
Neither past due nor impaired	**44.9**	31.4
30 days or less	**9.6**	5.1
31 to 60 days	**10.0**	1.7
Greater than 60 days	**4.3**	2.9
	68.8	41.1

17 TRADE AND OTHER RECEIVABLES (CONTINUED)

Included within other receivables is an amount of £5.6 million (2016: £6.1 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 30 September 2017 the value of collateral held in the form of cash deposits was £7.7 million (2016: £7.8 million).

18 ASSETS HELD FOR SALE

	2017 £m	2016 £m
Properties	**2.7**	6.6

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 £0.1 million (2016: £nil) which has been recognised in the income statement.

19 BORROWINGS

Current	**2017 £m**	2016 £m
Unsecured bank borrowings	**(0.7)**	29.2
Securitised debt	**29.5**	27.8
Finance leases	**0.2**	0.1
Other lease related borrowings	**(0.2)**	(0.2)
Other borrowings	**120.0**	120.0
	148.8	176.9

Non-current	**2017 £m**	2016 £m
Unsecured bank borrowings	**277.7**	232.0
Securitised debt	**776.3**	805.8
Finance leases	**27.6**	20.5
Other lease related borrowings	**273.2**	219.7
Preference shares	**0.1**	0.1
	1,354.9	1,278.1

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 represent amounts 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 held in the relevant bank account is included within other cash deposits (2016: £120.0 million in cash and cash equivalents).

The Group has 75,000 (2016: 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.

19 BORROWINGS (CONTINUED)

Maturity of borrowings

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

	2017			2016		
Due:	Gross borrowings £m	Unamortised issue costs £m	Net borrowings £m	Gross borrowings £m	Unamortised issue costs £m	Net borrowings £m
Within one year	**150.2**	**(1.4)**	**148.8**	178.5	(1.6)	176.9
In more than one year but less than two years	**39.1**	**(1.5)**	**37.6**	30.2	(1.5)	28.7
In more than two years but less than five years	**386.8**	**(3.9)**	**382.9**	334.0	(2.3)	331.7
In more than five years	**956.6**	**(22.2)**	**934.4**	936.3	(18.6)	917.7
	1,532.7	**(29.0)**	**1,503.7**	1,479.0	(24.0)	1,455.0

Fair value of borrowings

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

	Carrying amount		Fair value	
	2017 £m	2016 £m	2017 £m	2016 £m
Unsecured bank borrowings	**280.0**	263.0	**280.0**	263.0
Securitised debt	**811.1**	839.5	**808.4**	845.9
Finance leases	**27.8**	20.6	**27.8**	20.6
Other lease related borrowings	**293.7**	235.8	**293.7**	235.8
Other borrowings	**120.0**	120.0	**120.0**	120.0
Preference shares	**0.1**	0.1	**0.1**	0.1
	1,532.7	1,479.0	**1,530.0**	1,485.4

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.

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 30 September 2017, 32 (2016: 49) of the securitised pubs were sold to third parties, one pub (2016: none) was sold to other members of the Group and no pubs (2016: 4) were acquired from third parties. The carrying amount of the securitised pubs at 30 September 2017 was £1,269.8 million (2016: £1,251.8 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	2017 £m	2016 £m	Interest	Principal repayment period – by instalments	Expected average life	Expected maturity date
A1	**60.3**	79.5	Floating	2017 to 2020	3 years	2020
A2	**214.0**	214.0	Fixed/floating	2020 to 2027	10 years	2027
A3	**200.0**	200.0	Fixed/floating	2027 to 2032	15 years	2032
A4	**181.8**	191.0	Floating	2017 to 2031	14 years	2031
B	**155.0**	155.0	Fixed/floating	2032 to 2035	18 years	2035
	811.1	839.5				

20 SECURITISED DEBT (CONTINUED)

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 30 September 2017 Marston's Pubs Limited held cash of £39.2 million (2016: £48.1 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 (2016: £120.1 million) and other cash deposits of £120.0 million (2016: £nil) principally in respect of the amounts drawn down under the liquidity facility.

21 DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate swaps	**2017 £m**	2016 £m
Current liabilities	**(28.7)**	(38.0)
Non-current liabilities	**(159.2)**	(202.7)
	(187.9)	(240.7)

Details of the Group's interest rate swaps are provided in note 25.

22 TRADE AND OTHER PAYABLES

	2017 £m	2016 £m
Trade payables	**113.6**	88.2
Other taxes and social security	**30.1**	28.1
Accruals and deferred income	**98.3**	63.2
Other payables	**14.1**	15.4
	256.1	194.9

23 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Property leases	**2017 £m**	2016 £m
At beginning of the period	**38.8**	41.5
Released in the period	**(6.9)**	(3.4)
Provided in the period	**3.5**	5.5
Unwinding of discount	**0.5**	0.9
Utilised in the period	**(5.7)**	(5.7)
At end of the period	**30.2**	38.8

Recognised in the balance sheet	**2017 £m**	2016 £m
Current liabilities	**3.3**	4.3
Non-current liabilities	**26.9**	34.5
	30.2	38.8

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 52 years (2016: 1 to 76 years).

The £1.6 million decrease (2016: £4.4 million increase) 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

	2017 £m	2016 £m
Other liabilities	**0.6**	0.6

25 FINANCIAL INSTRUMENTS

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

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**

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**

At 1 October 2016	Loans and receivables £m	Total £m
Assets as per the balance sheet		
Trade receivables (before provision)	42.4	42.4
Other receivables (before provision)	20.7	20.7
Trade loans (before provision)	12.7	12.7
Cash and cash equivalents	185.6	185.6
	261.4	**261.4**

At 1 October 2016	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	202.7	38.0	–	240.7
Borrowings	–	–	1,455.0	1,455.0
Trade payables	–	–	88.2	88.2
Other payables	–	–	15.4	15.4
	202.7	**38.0**	**1,558.6**	**1,799.3**

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:

	2017				2016			
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	**–**	**187.9**	**–**	**187.9**	–	240.7	–	240.7

25 FINANCIAL INSTRUMENTS (CONTINUED)

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 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 30 September 2017, with all other variables held constant, post-tax profit for the period would have been £0.7 million (2016: £0.6 million) lower/higher as a result of higher/lower interest expense.

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 30 September 2017 totalled £242.1 million (2016: £270.5 million). These interest rate swaps, including borrowing margins, fix interest at 6.2% and 6.1%. The movement in fair value recognised in other comprehensive income in the period was a gain of £46.4 million (2016: loss of £39.6 million). The movement in fair value recognised in the income statement in the period was a loss of £2.9 million (2016: gain of £3.9 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 unsecured bank borrowings. These interest rate swaps previously fixed interest at 3.0% until 28 April 2016 and at 4.5% thereafter and were due to terminate on 28 April 2023. In the prior period the termination date of the swaps was extended to 30 April 2025 and the terms were amended to fix interest at 3.0% until 30 April 2018 and 4.5% and 4.6% 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 gain of £9.3 million (2016: loss of £12.3 million).

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

	2017			2016		
	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	**601.5**	**931.2**	**1,532.7**	519.4	959.6	1,479.0

The weighted average interest rate of the fixed rate borrowings was 5.2% (2016: 5.3%) and the weighted average period for which the rate is fixed was 12 years (2016: 13 years).

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

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.

25 FINANCIAL INSTRUMENTS (CONTINUED)

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.

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 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**

At 1 October 2016	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
Borrowings	240.2	89.0	480.8	1,601.4	2,411.4
Derivative financial instruments	14.2	15.3	74.7	172.0	276.2
Trade payables	88.2	–	–	–	88.2
Other payables	15.4	–	–	–	15.4
	358.0	**104.3**	**555.5**	**1,773.4**	**2,791.2**

26 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:

	2017 £m	2016 £m
Defined contribution plans	**7.4**	6.8

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

26 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 (deficit)/ surplus	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
At beginning of the period	**543.4**	482.7	**(577.4)**	(467.7)	**(34.0)**	15.0
Interest income/(expense)	**12.3**	17.5	**(13.0)**	(16.8)	**(0.7)**	0.7
Remeasurements:						
Return on plan assets (excluding interest income)	**(5.2)**	59.3	**–**	–	**(5.2)**	59.3
Effect of changes in financial assumptions	**–**	–	**27.0**	(115.7)	**27.0**	(115.7)
Cash flows:						
Employer contributions	**8.3**	7.6	**–**	–	**8.3**	7.6
Administrative expenses paid from plan assets	**(0.8)**	(0.9)	**–**	–	**(0.8)**	(0.9)
Benefits paid	**(25.6)**	(22.8)	**25.6**	22.8	**–**	–
At end of the period	**532.4**	543.4	**(537.8)**	(577.4)	**(5.4)**	(34.0)

Pension costs recognised in the income statement

A charge of £0.7 million (2016: credit of £0.7 million) comprising the net interest on the net defined benefit asset/liability is included within exceptional finance costs/income and a charge of £0.8 million (2016: £0.9 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 30 September 2017 for the purposes of IAS 19 'Employee Benefits'. The principal assumptions made by the actuaries were:

	2017	2016
Discount rate	**2.7%**	2.3%
Rate of increase in pensions – 5% LPI	**3.1%**	2.9%
Rate of increase in pensions – 2.5% LPI	**2.2%**	2.1%
Inflation assumption (RPI)	**3.1%**	2.9%
Inflation assumption (CPI)	**2.1%**	1.9%
Employed deferred revaluation	**2.1%**	1.9%
Life expectancy for deferred members from age 65 (years)		
Male	**23.5**	23.4
Female	**26.0**	25.9
Life expectancy for current pensioners from age 65 (years)		
Male	**21.7**	21.7
Female	**24.1**	24.0

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 4.2%	Increase by 4.5%
Inflation assumption	0.25%	Increase by 2.3%	Decrease by 2.3%
Life expectancy	One year	Increase by 3.8%	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 are comprised as follows:

	2017 £m	2016 £m
Equities/Properties	**131.8**	149.5
Bonds/Gilts	**189.8**	201.8
Cash/Other	**6.4**	13.0
Buy-in policy (matching annuities)	**204.4**	179.1
	532.4	543.4

26 RETIREMENT BENEFITS (CONTINUED)

The actual return on plan assets was a gain of £7.1 million (2016: £76.8 million).

A proportion of the defined benefit obligation has been secured by a buy-in policy and as such this proportion of liabilities is matched by annuities.

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. To this end changes to the allocation of assets have occurred during the current period.

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 2014 triennial valuation and contributions of £0.5 million per month are payable until 30 September 2018 as well as contributions in respect of the plan's expenses. These contributions may continue until 2030 depending on the plan's funding position. The Group has also agreed to pledge additional security for six years from 2015. The next triennial valuation will be performed as at 30 September 2017.

The employer contributions expected to be paid during the financial period ending 29 September 2018 amount to £7.8 million.

The weighted average duration of the defined benefit obligation is 17 years.

Post-retirement medical benefits

A gain of £nil (2016: £0.1 million) in respect of the remeasurement of post-retirement medical benefits has been included in the statement of comprehensive income.

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 of 20% to the market price of the shares at the time of the invitation and are not subject to performance conditions. Exercise of options is subject to continued employment.

(b) 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 earnings per share, return on capital, free cash flow and relative total shareholder return, as set out in the Directors' Remuneration Report on pages 58 to 59 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:	**2017 m**	2016 m	**2017 p**	2016 p
Outstanding at beginning of the period	**6.8**	6.4	**123.3**	120.9
Granted	**4.1**	2.2	**110.0**	124.0
Exercised	**(0.4)**	(0.9)	**84.9**	105.1
Expired	**(2.1)**	(0.9)	**126.4**	125.8
Outstanding at end of the period	**8.4**	6.8	**117.8**	123.3
Exercisable at end of the period	**1.4**	0.1	**120.1**	109.2
Range of exercise prices	**76.1p to 136.0p**	76.1p to 136.0p		
Weighted average remaining contractual life (years)	**2.7**	2.8		

	Number of shares		Weighted average exercise price	
Deferred bonus:	**2017 m**	2016 m	**2017 p**	2016 p
Outstanding at beginning of the period	**0.1**	–	**–**	–
Granted	**0.1**	0.1	**–**	–
Outstanding at end of the period	**0.2**	0.1	**–**	–
Exercisable at end of the period	**–**	–		
Exercise price	**–**	–		

27 SHARE-BASED PAYMENTS (CONTINUED)

LTIP:	Number of shares 2017 m	Number of shares 2016 m	Weighted average exercise price 2017 p	Weighted average exercise price 2016 p
Outstanding at beginning of the period	**6.3**	6.0	**–**	–
Granted	**2.4**	2.0	**–**	–
Exercised	**(0.3)**	(0.7)	**–**	–
Expired	**(2.4)**	(1.0)	**–**	–
Outstanding at end of the period	**6.0**	6.3	**–**	–
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:

	2017	2016
Dividend yield %	**5.5 to 5.6**	4.4 to 4.7
Expected volatility %	**19.7 to 20.5**	19.4 to 20.2
Risk-free interest rate %	**0.2 to 0.4**	0.6 to 0.8
Expected life of rights		
SAYE	**3 to 5 years**	3 to 5 years
Deferred bonus	**1 year**	1 year
LTIP	**3 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 9.5p (2016: 15.6p). The fair value of options granted during the period in relation to the deferred bonus scheme was 113.0p (2016: 143.3p). The fair value of options granted during the period in relation to the LTIP was 105.7p (2016: 128.9p).

The weighted average share price for options exercised over the period was 120.5p (2016: 158.7p). The total charge for the period relating to employee share-based payment plans was £0.9 million (2016: £0.4 million), all of which related to equity-settled share-based payment transactions. After tax, the total charge was £0.9 million (2016: £0.3 million).

28 EQUITY SHARE CAPITAL

Allotted, called up and fully paid	2017 Number m	2017 Value £m	2016 Number m	2016 Value £m
Ordinary shares of 7.375p each:				
At beginning of the period	**602.8**	**44.4**	602.8	44.4
Allotted	**57.6**	**4.3**	–	–
At end of the period	**660.4**	**48.7**	602.8	44.4

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 has been credited to a merger reserve rather than the share premium account (note 29).

29 OTHER COMPONENTS OF EQUITY

The merger reserve of £71.2 million (2016: £nil) arose on the issue of ordinary shares in the current period and represents the difference between the nominal value of the shares issued and the net proceeds received (note 28).

The capital redemption reserve of £6.8 million (2016: £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.

	2017 Number m	2017 Value £m	2016 Number m	2016 Value £m
Shares held on trust for employee share schemes	**0.3**	**0.5**	0.6	1.2
Treasury shares	**26.4**	**110.8**	26.8	112.5
	26.7	**111.3**	27.4	113.7

29 OTHER COMPONENTS OF EQUITY (CONTINUED)

The market value of own shares held is £29.0 million (2016: £40.2 million). Shares held on trust for employee share schemes represent nil% (2016: 0.1%) of issued share capital. Treasury shares held represent 4.0% (2016: 4.4%) of issued share capital.

Dividends on own shares have been waived.

Capital management

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	2017 £m	Cash flow £m	Non-cash movements and deferred issue costs £m	2016 £m
Cash and cash equivalents				
Cash at bank and in hand	**54.6**	(131.0)	–	185.6
	54.6	(131.0)	–	185.6
Financial assets				
Other cash deposits	**120.0**	120.0	–	–
	120.0	120.0	–	–
Debt due within one year				
Unsecured bank borrowings	**0.7**	30.0	(0.1)	(29.2)
Securitised debt	**(29.5)**	28.4	(30.1)	(27.8)
Finance leases	**(0.2)**	0.1	(0.2)	(0.1)
Other lease related borrowings	**0.2**	–	–	0.2
Other borrowings	**(120.0)**	–	–	(120.0)
	(148.8)	58.5	(30.4)	(176.9)
Debt due after one year				
Unsecured bank borrowings	**(277.7)**	(47.0)	1.3	(232.0)
Securitised debt	**(776.3)**	–	29.5	(805.8)
Finance leases	**(27.6)**	–	(7.1)	(20.5)
Other lease related borrowings	**(273.2)**	(57.9)	4.4	(219.7)
Preference shares	**(0.1)**	–	–	(0.1)
	(1,354.9)	(104.9)	28.1	(1,278.1)
Net debt	**(1,329.1)**	(57.4)	(2.3)	(1,269.4)

Other borrowings represent amounts 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 held in the relevant bank account is included within other cash deposits (2016: £120.0 million in cash and cash equivalents). 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 £0.5 million (2016: £0.6 million) relating to a letter of credit with Royal Sun Alliance Insurance, an amount of £1.4 million (2016: £1.5 million) relating to a letter of credit with Aviva, and an amount of £7.7 million (2016: £7.8 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	2017 £m	2016 £m
(Decrease)/increase in cash and cash equivalents in the period	**(131.0)**	1.2
Increase in other cash deposits	**120.0**	–
Cash inflow from movement in debt	**(46.4)**	(26.9)
Change in debt resulting from cash flows	**(57.4)**	(25.7)
Non-cash movements and deferred issue costs	**(2.3)**	1.3
Movement in net debt in the period	**(59.7)**	(24.4)
Net debt at beginning of the period	**(1,269.4)**	(1,245.0)
Net debt at end of the period	**(1,329.1)**	(1,269.4)

30 NET DEBT (CONTINUED)

Reconciliation of net debt before lease financing to net debt	2017 £m	2016 £m
Cash and cash equivalents	**54.6**	185.6
Other cash deposits	**120.0**	–
Unsecured bank borrowings	**(277.0)**	(261.2)
Securitised debt	**(805.8)**	(833.6)
Other borrowings	**(120.0)**	(120.0)
Preference shares	**(0.1)**	(0.1)
Net debt before lease financing	**(1,028.3)**	(1,029.3)
Finance leases	**(27.8)**	(20.6)
Other lease related borrowings	**(273.0)**	(219.5)
Net debt	**(1,329.1)**	(1,269.4)

31 WORKING CAPITAL AND NON-CASH MOVEMENTS

Working capital movement	2017 £m	2016 £m
Increase in inventories	**(3.0)**	(0.5)
(Increase)/decrease in trade and other receivables	**(4.9)**	4.4
Increase in trade and other payables	**46.7**	5.0
	38.8	8.9

Non-cash movements	2017 £m	2016 £m
Income from other non-current assets	**(0.2)**	(0.2)
Movements in respect of property, plant and equipment, assets held for sale and intangible assets	**(8.6)**	(8.1)
Share-based payments	**0.9**	0.4
	(7.9)	(7.9)

Further details of movements in respect of property, plant and equipment, assets held for sale and intangible assets are given in notes 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:

	2017		2016	
Due:	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	**19.2**	**0.6**	25.3	0.4
In more than one year but less than five years	**70.6**	**0.6**	64.4	0.3
In more than five years	**331.0**	**–**	273.9	–
	420.8	**1.2**	363.6	0.7

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:

	2017		2016	
Due:	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Within one year	**18.5**	**–**	21.1	–
In more than one year but less than five years	**58.9**	**–**	67.7	–
In more than five years	**77.8**	**–**	92.7	–
	155.2	**–**	181.5	–

Notes continued

For the 52 weeks ended 30 September 2017

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:	2017 £m	2016 £m
Within one year	**1.6**	1.2
In more than one year but less than five years	**12.5**	5.1
In more than five years	**36.4**	37.6
	50.5	43.9
Future finance charges	**(22.7)**	(23.3)
Present value of finance lease obligations	**27.8**	20.6

The present value of finance lease obligations is as follows:

Due:	2017 £m	2016 £m
Within one year	**0.2**	0.1
In more than one year but less than five years	**8.0**	0.7
In more than five years	**19.6**	19.8
Present value of finance lease obligations	**27.8**	20.6

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 £2.3 million (2016: £3.6 million), of which £2.3 million (2016: £3.1 million) relates to CGT and £nil (2016: £0.5 million) relates to SDLT.

The Group has issued a letter of credit in favour of Royal Sun Alliance Insurance totalling £0.5 million (2016: £0.6 million) and a letter of credit in favour of Aviva totalling £1.4 million (2016: £1.5 million) to secure reinsurance contracts. The letters of credit are secured on fixed deposits for the same amount.

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

35 CHARLES WELLS ACQUISITION

On 2 June 2017, the Group acquired Bedford Canning Company Limited, containing the beer business of Charles Wells. The business incorporates a portfolio of well-known brands including Bombardier, Young's and McEwan's. The acquisition is consistent with the Group's strategy of focussing on premium beer brands with local provenance, and provides further opportunities for growth in the developing free trade market. Additionally, the acquisition further strengthens the Group's presence in London and the South East and presents a platform to expand into Scotland.

The table below summarises the consideration paid, the provisional fair values of the assets acquired and liabilities assumed and the resulting goodwill.

	2017 £m
Brands	**30.0**
Property, plant and equipment	**25.5**
Trade loans	**0.6**
Inventories	**8.5**
Trade and other receivables	**27.3**
Trade and other payables	**(2.8)**
Deferred tax	**(1.4)**
Goodwill	**2.8**
Cash consideration	**90.5**

None of the goodwill arising is expected to be deductible for tax purposes.

Acquisition related costs of £0.6 million have been recognised within other net operating charges.

If the acquisition date had been the beginning of the current period then the underlying revenue and profit of the Group for the current period would have been £1,070.9 million and £87.3 million respectively.

Since acquisition the Group has integrated the operations of the acquired business into the Group's existing operations. As a result it is impractical to isolate the revenue and profit of the acquired business that has been included in the Group statement of comprehensive income since the acquisition date.

Company Balance Sheet

As at 30 September 2017

	Note	30 September 2017 £m	1 October 2016 £m
Fixed assets			
Tangible assets	5	**382.9**	349.3
Investments	6	**260.9**	260.9
		643.8	610.2
Current assets			
Debtors			
Amounts falling due within one year	7	**549.4**	566.3
Amounts falling due after more than one year	7	**864.1**	818.7
Cash at bank		**10.7**	12.9
		1,424.2	1,397.9
Creditors Amounts falling due within one year	8	**(769.5)**	(819.8)
Net current assets		**654.7**	578.1
Total assets less current liabilities		**1,298.5**	1,188.3
Creditors Amounts falling due after more than one year	8	**(121.5)**	(122.8)
Provisions for liabilities and charges	9	**(27.2)**	(29.9)
Net assets		**1,149.8**	1,035.6
Capital and reserves			
Equity share capital	13	**48.7**	44.4
Share premium account	14	**334.0**	334.0
Revaluation reserve	14	**77.3**	77.7
Merger reserve	14	**71.2**	–
Capital redemption reserve	14	**6.8**	6.8
Own shares	14	**(111.3)**	(113.7)
Profit and loss reserves		**723.1**	686.4
Total equity		**1,149.8**	1,035.6

The profit of the Company for the 52 weeks ended 30 September 2017 was £81.1 million (2016: £72.8 million).

The financial statements on pages 109 to 119 were approved by the Board and authorised for issue on 30 November 2017 and are signed on its behalf by:

Ralph Findlay
Chief Executive Officer
30 November 2017

Company registration number: 31461

Company Statement of Changes in Equity

For the 52 weeks ended 30 September 2017

	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**

	Equity share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Own shares £m	Profit and loss reserves £m	Total equity £m
At 4 October 2015	44.4	334.0	81.7	6.8	(118.7)	651.3	999.5
Profit for the period	–	–	–	–	–	72.8	72.8
Deferred tax on properties	–	–	2.9	–	–	–	2.9
Total comprehensive income	–	–	2.9	–	–	72.8	75.7
Share-based payments	–	–	–	–	–	0.4	0.4
Purchase of own shares	–	–	–	–	(0.1)	–	(0.1)
Sale of own shares	–	–	–	–	5.1	(4.2)	0.9
Disposal of properties	–	–	(7.7)	–	–	7.7	–
Tax on disposal of properties	–	–	1.6	–	–	(1.6)	–
Transfer to profit and loss reserves	–	–	(0.8)	–	–	0.8	–
Dividends paid	–	–	–	–	–	(40.8)	(40.8)
Total transactions with owners	–	–	(6.9)	–	5.0	(37.7)	(39.6)
At 1 October 2016	**44.4**	**334.0**	**77.7**	**6.8**	**(113.7)**	**686.4**	**1,035.6**

Notes

For the 52 weeks ended 30 September 2017

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 stated at valuation or at cost. Fixtures, fittings, plant and equipment are stated at cost.
- Depreciation is charged to the profit and loss account on a straight-line basis to provide for the cost of the assets less 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 15 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 30 September 2017

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 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 a deep discount bond 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 bond, 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 amount 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 30 September 2017

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, future trading income, 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 (2016: nil).

5 TANGIBLE FIXED ASSETS

	Land and buildings £m	Fixtures, fittings, plant and equipment £m	Total £m
Cost or valuation			
At 2 October 2016	336.1	29.0	365.1
Additions	10.6	3.8	14.4
Transfers from Group undertakings	19.6	4.6	24.2
Disposals	(0.7)	(0.8)	(1.5)
At 30 September 2017	**365.6**	**36.6**	**402.2**
Depreciation			
At 2 October 2016	3.0	12.8	15.8
Charge for the period	1.8	2.5	4.3
Disposals	–	(0.8)	(0.8)
At 30 September 2017	**4.8**	**14.5**	**19.3**
Net book amount at 1 October 2016	333.1	16.2	349.3
Net book amount at 30 September 2017	**360.8**	**22.1**	**382.9**

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

	2017 £m	2016 £m
Freehold properties	**261.6**	235.0
Leasehold properties over 50 years unexpired	**76.7**	75.8
Leasehold properties under 50 years unexpired	**22.5**	22.3
	360.8	333.1

If the land and buildings had not been revalued, the historical cost net book amount would be £270.7 million (2016: £242.1 million).

Interest costs of £nil (2016: £0.1 million) 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 £0.5 million (2016: £0.4 million).

5 TANGIBLE FIXED ASSETS (CONTINUED)

The net book amount of land and buildings held under finance leases at 30 September 2017 was £28.7 million (2016: £28.4 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 £136.4 million (2016: £135.5 million).

The Company has charged properties with a value of £4.7 million (2016: £nil) 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.

6 FIXED ASSET INVESTMENTS

	Subsidiary undertakings £m
Cost	
At 2 October 2016	317.7
Additions	78.9
Disposals	(78.9)
Capital contribution in respect of equity-settled share-based payments	0.9
At 30 September 2017	**318.6**
Impairments	
At 2 October 2016	56.8
Charged in the period	0.9
At 30 September 2017	**57.7**
Net book amount at 1 October 2016	260.9
Net book amount at 30 September 2017	**260.9**

Notes continued

For the 52 weeks ended 30 September 2017

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 30 September 2017:

	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%	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%	100%
Marston's Telecoms Limited	Telecommunications	Ordinary £1	100%	100%
Marston's Trading Limited	Pub retailer and brewer	Ordinary £5	100%	100%
Banks's Brewery Insurance Limited	Insurance	Ordinary £1	100%	100%
Bedford Canning Company Limited	Brewer	Ordinary £1	–	100%
Marston's Acquisitions Limited	Acquisition company	Ordinary 25p	100%	100%
		Preference £1	100%	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%	100%
Celtic Inns Limited	Dormant	Ordinary £1	–	100%
Eldridge, Pope & Co., Limited	Dormant	Ordinary 50p	–	100%
English Country Inns Limited	Dormant	Ordinary 50p	100%	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 Limited	Dormant	Ordinary 25p	–	100%
Mansfield Brewery Properties Limited	Dormant	Ordinary £1	100%	100%
Mansfield Brewery Trading Limited	Dormant	Ordinary £1	–	100%
Marston, Thompson & Evershed Limited	Dormant	Ordinary 25p	–	100%
Marston's Property Developments Limited	Dormant	Ordinary £1	100%	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) PLC	Dormant	Ordinary £1	100%	100%
W. & D. plc	Dormant	Ordinary £1	100%	100%
Wizard Inns Limited	Dormant	'A' Ordinary 1p	100%	100%
		Deferred 1p	100%	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 PO Box 33, 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	2017 £m	2016 £m
Amounts owed by Group undertakings	**520.5**	520.6
Derivative financial instruments	**28.7**	38.0
Prepayments and accrued income	**0.1**	–
Other debtors	**0.1**	7.7
	549.4	566.3

Amounts falling due after more than one year	2017 £m	2016 £m
12.5% subordinated loan owed by Group undertaking	**864.1**	818.7

8 CREDITORS

Amounts falling due within one year	2017 £m	2016 £m
Amounts owed to Group undertakings	**725.9**	738.2
Finance leases	**0.2**	0.1
Other lease related borrowings	**(0.1)**	(0.1)
Corporation tax	**7.4**	36.2
Derivative financial instruments	**28.7**	38.0
Accruals and deferred income	**7.4**	6.5
Other creditors	**–**	0.9
	769.5	819.8

Amounts falling due after more than one year	2017 £m	2016 £m
Finance leases	**20.3**	20.5
Other lease related borrowings	**88.0**	87.9
Preference shares	**0.1**	0.1
Accruals and deferred income	**12.8**	14.1
Other creditors	**0.3**	0.2
	121.5	122.8

The preference shares carry a 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 £107.9 million (2016: £108.0 million). Debts of £0.1 million (2016: £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 2 October 2016	23.5	6.4	29.9
Released in the period	–	(0.6)	(0.6)
Unwinding of discount	–	0.1	0.1
Utilised in the period	–	(2.1)	(2.1)
Adjustment for change in discount rate	–	(0.2)	(0.2)
Transfers from Group undertakings	2.0	–	2.0
Credited to profit and loss	(1.4)	–	(1.4)
Credited to other comprehensive income	(0.5)	–	(0.5)
At 30 September 2017	**23.6**	**3.6**	**27.2**

Payments are expected to continue in respect of these property leases for periods of 1 to 27 years (2016: 1 to 28 years).

9 PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Deferred tax

The amount provided in respect of deferred tax is as follows:

	2017 £m	2016 £m
Excess of capital allowances over accumulated depreciation	**5.4**	5.3
Property related items	**18.2**	18.2
	23.6	23.5

10 FINANCIAL INSTRUMENTS

Carrying amount of financial assets	2017 £m	2016 £m
Measured at fair value through profit or loss	**28.7**	38.0

Carrying amount of financial liabilities	2017 £m	2016 £m
Measured at fair value through profit or loss	**28.7**	38.0

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 30 September 2017 the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases as follows:

Due:	2017 £m	2016 £m
Within one year	**7.0**	14.9
In more than one year and less than five years	**22.8**	23.7
In more than five years	**60.7**	59.4
	90.5	98.0

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:	2017 £m	2016 £m
Within one year	**1.3**	1.2
In more than one year and less than five years	**5.0**	5.1
In more than five years	**36.4**	37.6
	42.7	43.9
Future finance charges	**(22.2)**	(23.3)
Present value of finance lease obligations	**20.5**	20.6

13 EQUITY SHARE CAPITAL

	2017		2016	
Allotted, called up and fully paid	Number m	Value £m	Number m	Value £m
Ordinary shares of 7.375p each	**660.4**	**48.7**	602.8	44.4

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.

14 RESERVES (CONTINUED)

The merger reserve arose on the issue of ordinary shares in the current period and represents the difference between the nominal value of the shares issued and the net proceeds received.

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 2018 at 12 noon at Wolverhampton Wanderers Football Club, Molineux Stadium, Waterloo Road, Wolverhampton WV1 4QR.

Financial calendar

Ex-dividend date for final dividend	14 December 2017
Record date for final dividend	15 December 2017
AGM and Interim Management Statement	23 January 2018
Final dividend payment date	29 January 2018
Half-year results	16 May 2018
Ex-dividend date for interim dividend	May 2018
Interim dividend payment date	July 2018
Full-year results	21 November 2018

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 corporate 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 Equiniti's share 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

	Number of Holdings	% of Holdings	Number of Shares	% of Shares
1–1,000	3,705	39.3	1,524,435	0.2
1,001–10,000	4,336	45.9	16,589,320	2.5
10,001–100,000	1,082	11.5	29,812,288	4.5
100,001–1,000,000	210	2.2	71,811,464	10.9
1,000,001+	107	1.1	540,624,687	81.9
Total	9,440	100.0	660,362,194	100.0

An analysis of the register by shareholder type can be found in the Governance section on page 49.

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

NM Rothschild & Sons Limited, New Court, St Swithin's Lane, London EC4N 8AL

Solicitors
Freshfield Bruckhaus Deringer LLP, 65 Fleet Street London EC4Y 1HS

Pinsent Masons LLP, 55 Colmore Row, Birmingham B3 2FF

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

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 the opportunity to buy 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.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

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

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

CROCCE Cash Return on Cash Capital Employed – calculated by dividing EBITDA by the total capital invested

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

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

Give Back Week Internal annual charity activities across head office and pubs

LPG (emissions) Liquefied petroleum gas, used as a fuel in heating appliances, cooking equipment and vehicles

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

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

POS Point of sale eg: back bar runners, pump clips

Relative TSR Total Shareholder Return, compared to the FTSE 250, excluding investment trusts

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)

The Pubs Code Statutory regulation effective 21 July 2016

TSR Total Shareholder Return – a combination of share price appreciation and dividends paid

UKWSL UK Waste, business waste management services

Ways of Working Marston's values – principles that guide our expected behaviours and actions

Pub-restaurants and lodges completed during the period

Scotland

The Chain Runner and Lodge, Almondvale, Livingston EH54 6GA

The Spiral Weave, Kirkcaldy KY2 6QL

The Harbour Spring, Peterhead AB42 3JL

The Old Gatehouse, Lenzie G66 3UG

The Jenny Burn, Oatlands G73 1SZ

Highland Gate Lodge, Kildean Lodge, Stirling FK9 4TW

Midlands

Pointing Dog & Duck, Bakewell DE45 1AQ

Tuck & Tanner, Nottingham NG5 9DD

Oldmoor Lodge, Nottingham NG16 1QE

Butlers Leap, Rugby CV21 3TX

The White Rabbit, Bilston WV14 0DZ

Blue Jay Derby Lodge, Derby DE21 7BH

Spread Eagle Lodge, Gailey, Wolverhampton ST19 5PN

North

The Sacred Orchard, Nantwich CW5 6PF

The Ten Lock Flight, Runcorn WA7 5AQ

Foundry Project, Harrogate HG1 2BU

The Original Pointing Dog, Cheadle Hulme SK8 7NE

Pointing Dog Clubhouse,Sheffield S11 8PY

The Dancing Betty, Dalton Park, Murton SR7 9HZ

Eighteen Ten, Sheffield S9 2LF

The Twelve Oars, Skegness PE25 2RJ

The Mad Duke, Southport PR8 5HW

The Eight-Foot Way, Sheffield S6 1AB

Lobster Pot Lodge, Bridlington YO15 3NG

Willows Lodge, Blackburn BB1 2NG

Lockkeeper Lodge, Worksop S80 1TJ

South

The Sarsen Stones, Farnborough GU14 0NA

White Hart, Godstone RH9 8DU

Sidcup Place, Sidcup DA14 6BF

The Mitre, Oxford OX1 4AG

Gunpowder Mill, Faversham ME13 8XE

The Spring River, Ebbsfleet DA10 0DF

The Mast & Rigging, Chatham Waters ME7 1RZ

The Charlie Purley, Bognor PO22 9SA

The Station Garden, Didcot OX11 7TF

The Spindle & Thread, High Wycombe HP13 5XX

Wales

Talardy Lodge, Talardy LL17 0HY

Picture Reference

Front Cover: The Dancing Betty, Murton

Page 3: The Mad Duke, Southport
Calder & Hops, Wakefield
Lord Collingwood, York

Page 4: The Spiral Weave, Kirkcaldy
The Red Lion, Brackley

Page 8: Spread Eagle lodge, Gailey

Page 13: Calder & Hops, Wakefield

Page 14: Green Dragon, Hull

Page 15: Green Dragon, Hull (bedroom)

Page:29: Blue Jay, Derby
The Original Pointing Dog, Cheadle Hulme

Page31: Old Beams, Stourport-on-Severn
Cricketers Inn, Winchester

Page 39: The Spring River, Ebbsfleet

Back Cover: Spread Eagle lodge, Gailey
The Original Pointing Dog, Cheadle Hulme

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MARSTON'S

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