MARSTON'S

18 May 2022

MARSTON'S PLC
RESULTS FOR THE 26 WEEKS ENDED 2 APRIL 2022

CONTINUED STRATEGIC MOMENTUM, TRADING NORMALISED, SOLID BALANCE SHEET; CLEAR GROWTH PLANS

Marston's, a leading UK operator of 1,482 pubs, today announces its Interim Results for the 26 weeks ended 2 April 2022. The period under review, which commenced on 3 October 2021, included a period of disrupted trading in December due to the Omicron variant of COVID-19.

Return to more normalised trading despite COVID disruption

- H1 like-for-like sales 97% of 2019 despite restrictions over Christmas trading period
- Brains estate performing well despite longevity of restrictions in Wales
- Return to pub operating profit; £39.9 million (H1 2021: loss of £(57.2) million)
- CMBC profitability impacted in H1, anticipate improvement in H2

Strong H1 cash generation; improving balance sheet

- £30 million H1 cash inflow from operating activities; underlying net cash inflow (excluding one-offs) of £13 million. Further cash inflow anticipated in H2
- Net asset value (NAV) improved by 7 pence per share since October 2021; disposals 35% ahead of net book value
- Financial strategy on track to reduce net debt to below £1 billion by 2025

"Pubs to be proud of" underpinned by significant change management programme underway

- Revitalised leadership group; 30% new to role including 5 external recruits
- Clear plans to reposition pub estate into simplified segmental structure to generate strong returns: Community, Signature and Revere
    - 10 conversions completed in H1; 8 planned for H2
- Menu overhaul driving simplicity and efficiency without compromising guest satisfaction
- Recruit, Reward, Retain: innovative people plans in challenging labour market

Well-positioned to meet challenging market conditions

- Pubs historically resilient to challenging consumer environments
- Current trading in line and stable, with like-for-like sales in the last 6 weeks slightly higher relative to 2019
- Well-positioned, predominantly freehold pub estate with limited exposure to city centres
- Managing inflationary challenges within our control
- No compromise on guest experience: service, standards, product
- Accelerated transition away from Two for One format, complete by October 2022 to improve returns

Financial Highlights

	Underlying*			Total*	
	2022	2021		2022	2021
Total revenue	£369.7m	£55.1m		£369.7m	£55.1m
Pub operating profit/(loss)	£39.9m	(£57.2)m		£45.9m	£(59.4)m
Share of associate	£(2.0)m	£(20.6)m		£(2.0)m	£(20.6)m
Profit/(loss) before Tax	£(7.5)m	£(122.4)m		£25.6m	£(105.5)m
Net profit/(loss)	£(6.1)m	£(107.6)m		£19.4m	£(92.5)m
Earnings/(loss) per share	(1.0)p	(17.0)p		3.1p	(14.6)p
Net cash (outflow)/inflow	£(8.9)m	£109.5m			

**Results from continuing operations*

- The financial performance for the period reflects the disruption to trading from the pandemic during the key Christmas trading period and through to January 2022

- Solid balance sheet position with c. £90m of headroom (banking and cash facilities)

Commenting, Andrew Andrea, CEO said:

"We are pleased that since restrictions lifted trading has largely normalised enabling us to return to profitable trading, as well as focusing - and making considerable progress - on our strategic growth plans towards achieving £1 billion of sales. We remain on track to reduce the Group's debt by the end of FY2022.

"We continue to evolve our estate to maximise returns and will have transitioned away from the value food segment, our Two for One brand, by the end of September. Investment into our estate through conversions and refurbishments continued in H1, with a further eight projects scheduled in H2, targeting a minimum return of 30%.

"Whilst mindful of the challenges which every hospitality business currently faces, trading remains stable and we look forward to an uninterrupted summer. We are navigating our way through cost increases, mitigating these as much as we can through cost efficiencies and pricing strategies, whilst welcoming customers back without compromise to the best Marston's guest experience. The pub remains the home of affordable socialising and has continually proven its resilience in previous times of economic challenge. We are operating a "business as usual" mindset, positioning the Group's balanced and well invested pub estate for future sustainable like-for-like growth over the medium to long term."

ENQUIRIES:

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Andrew Andrea,	Chief Executive Officer	Justine Warren	
Hayleigh Lupino,	Chief Financial Officer	Matthew Smallwood	

NOTES TO EDITORS

- Marston's is a leading pub operator with a 40% holding in Carlsberg Marston's Brewing Company
- It operates an estate of 1,482 pubs situated nationally, comprising managed, franchised and leased pubs
- Marston's employs around 12,000 people
- The Group uses a number of alternative performance measures (APMs) to enable management and users of the financial statements to better understand elements of financial performance in the period. APMs referenced within this report are explained in the Performance and Financial Review section.

GROUP OVERVIEW

2022 PERFORMANCE OVERVIEW

As we entered the current financial year under review, encouraging trading momentum in October and November continued to build on the strong consumer demand we had experienced since restrictions were eased in summer 2021. Promising levels of Christmas forward bookings in line with FY2019 indicated a potentially buoyant Christmas and New Year trading period before the emergence of the Omicron variant and the subsequent introduction of renewed restrictions temporarily impacted trading momentum once again. The Group's pubs in Wales and Scotland were more significantly affected than those in England as tighter restrictions were enforced for longer in those geographies.

Whilst the first half year results illustrate the influence of the trading restrictions imposed as a consequence of the Omicron variant in December, impacting the critical Christmas trading period and through to the end of January, we remain encouraged that we have traded well either side of that period when restrictions have been lifted and consumer demand for our pubs has remained robust. With the impact of COVID hopefully now behind us and despite the well documented cost inflation which all businesses are facing currently, we are operating a "business as usual" mindset, positioning the Group's well-balanced and well-invested pub estate for future sustainable like-for-like growth over the medium to long term.

As more normalised trading has returned, there is clear evidence that demand for the pub remains strong and people are seeking to socialise. Following the launch of our "Pubs to be proud of" strategy as described below, in the last six months the business has undergone a significant programme of change management, including the external appointment of 5 key leadership roles, which will put Marston's in a robust position to take advantage of the opportunities that arise as the UK emerges from the pandemic.

Trading

Total revenue for the 26 weeks ended 2 April 2022 was £369.7 million (H1 2021: £55.1 million)[1]; this is significantly higher than the same period last year reflecting the disruption to H1 2021 trading as a consequence of the pandemic, but also includes some disruption to revenue in this period following Omicron restrictions. The Group's pubs in Wales and Scotland were more significantly impacted than those in England by the tighter restrictions that were enforced during the period.

Total like-for-like sales[2] for the period were 97% of FY2019, being the relevant pre-COVID comparator period, reflecting the impact of the Omicron variant and consumer sentiment related to this during the critical Christmas trading period. Total EPOS sales in our managed and franchise pubs were 99% of H1 2019. Drinks sales have outperformed food sales during the period.

Prior to the emergence of the Omicron variant and the introduction of renewed restrictions, like-for-like sales[2] in the first eight weeks to 27 November were +1.3%, like-for-like sales[2] declined by (8.8)% in the following eight weeks as a result of the disruption. The final ten weeks of the period to 2 April 2022 were (0.9)% below FY2019.

The underlying[3] loss before tax was £(7.5) million (H1 2021: loss of £(122.4) million)[1]. Basic underlying[3] loss per share for the period was (1.0) pence per share (H1 2021: loss of (17.0) pence per share)[1]. Underlying[3] operating profit of £37.9 million (H1 2021: loss of £(77.8) million)[1] comprises underlying[3] pub profit of £39.9 million (H1 2021: loss of £(57.2) million)[1] and loss from associates of £(2.0) million (H1 2021: loss of £(20.6) million)[1].

On a statutory basis, the Group generated a profit before tax of £25.6 million (H1 2021: loss of £(105.5) million)[1]. The difference between the statutory and underlying[3] profit principally reflects £27.4 million of interest rate swap movements, as well as £6.5 million of VAT claims; the Group has submitted claims to HM Revenue & Customs (HMRC) in respect of the VAT treatment of gaming machines from 1 January 2006 to 31 January 2013. Basic earnings per share were 3.1 pence per share (H1 2021: 31.5 pence per share). The H1 2021 basic earnings per share comparative includes the impact of the sale of the Brewing business.

Cash, Financing and Balance Sheet

During the period the Group had a net cash outflow[4] of £(8.9) million, as highlighted in note 10; the net cash outflow[4] excluding IFRS 16 lease liabilities was £(13.4) million[5]. This included a £22 million net outflow for the one-off items outlined in the Preliminary Results Presentation in November 2021 relating to £50 million deferred duty/VAT and the £28 million CMBC contingent consideration. Excluding the one-off items, there is an underlying net cash inflow[4] of £13 million.

Net debt, excluding IFRS 16 lease liabilities and largely secured on our 82% freehold estate, was £1,246.5 million (FY2021: £1,232.3 million)[4], with the increase driven by the cash flows outlined above as a result of the increased investment in capital expenditure, and other non-cash movements shown in note 10. Total net debt of £1,619.7 million includes IFRS 16 lease liabilities of £373.2 million.

We have secure medium-term financing in place with banks and our private placement. At the period end we had a £280 million bank facility available until 2024, of which £230 million was drawn providing headroom of £50 million. Cash balances were £39 million. In addition, we have a £40 million private placement in place until 2024.

During the period under review we were successful in reaching agreements with our lending banks and private placement provider to make appropriate amendments in respect of certain financial covenants, with amendments in place until Q2 2023. This support underlines the importance of good, long-term relationships with all our stakeholders, and we thank them for their continued support.

Marston's has secure long-term financing in place in the form of a securitisation. We satisfied the scheduled repayment for Q1, demonstrating solid cash generation even under trading restrictions. At the period close there is £20 million of the £120 million securitisation liquidity facility utilised, with repayment expected by October 2022.

Naturally, the trading restrictions due to the pandemic have impacted performance and, due to the seasonality of the business, the Group's financial results and cash flows have therefore been disproportionately affected in the first half. Historically, the second half of the financial year sees higher revenue, profitability and cash generation.

This trend also applies to CMBC, with the pandemic and the current macro environment having an impact on CMBC's current trading results which will impact the 2022 out-turn. However, we remain confident that there will be future dividends from CMBC when there is a return to more normalised market conditions and, as previously reported, the synergy upsides are generated from the completion of the integration programme.

The financial statements continue to be prepared on a going concern basis but with a material uncertainty arising from the ongoing impact of COVID and possible future lockdowns which may require further amendments to certain financial covenants. Full details are included in note 1 to the financial statements.

Dividend

The Board confirms that given the disruption to trading and the road to recovery from COVID in the current financial year, and the current uncertainty, there is no intention to pay dividends in respect of financial year 2022. The Board is cognisant of the importance of dividends to shareholders and intend to keep potential future dividends under review.

Current Trading and Outlook

Trading since the half year end remains encouraging despite the current inflationary pressures households are facing, with increased cost of living from energy bills and food. Total like-for-like sales in our managed and franchised pubs are slightly higher relative to 2019. We have significantly reappraised the menus across the business, launching them in the first week of April with positive initial customer feedback.

Whilst our “Two for One” format which currently operates in 76 pubs has served us well over the years, it has become more challenged more recently and we have therefore taken the opportunity to reposition this part of the portfolio. During the first half year we have successfully trialed a switch from the Two for One price mechanic to a single price point which has delivered an encouraging sales outperformance relative to the control group. As a consequence, we have decided to accelerate the removal of Two for One from the portfolio with a view to completing this exercise by the end of the current financial year. These pubs will continue to follow the segmental journey outlined below in future years; however, we are confident that swift action will improve the performance of these pubs in the interim.

Cost and labour pressures continue to be prevalent and will be higher than initially anticipated at the start of the financial year. As previously highlighted the Group’s electricity contract ended at the end of March and the current situation with Russia and Ukraine has also had an impact on energy and supply of goods. We are working hard to mitigate as many of these cost pressures as possible and we expect to offset some of these higher levels of inflation through a combination of cost efficiencies and pricing strategies, however, there will inevitably be some impact on our earnings for the year despite the mitigating actions. Nevertheless, we are not prepared to compromise the quality of both product and service in our pubs; we are unrelentingly focussed upon delivering great guest experiences.

Looking forward, whilst consumer sentiment may come under some short-term pressure, we are not experiencing any material trading evidence of that currently. Irrespective, the pub, and specifically the community pub, where the majority of our estate is located, has proved its resilience time and time again over history. Both our customer insight and experience implies that people still want to socialise, with the pub historically being the place to fulfil that “affordable socialising” occasion, prioritising experience and leisure expenditure over bigger ticket spend which tends to be curtailed. Post-pandemic trading clearly demonstrated the demand for the local pub in our communities and we remain confident that it will prevail in both the short and longer term. We have injected additional investment into our pubs, our marketing and our people to ensure the prospects for the business are strong for the medium to longer term.

STRATEGIC PRIORITIES

Strategic and Operational Review

At the 2021 Preliminary Results we set out our new vision “Pubs to be proud of” with a purpose “to bring people together, to create happy, memorable, meaningful experiences”. This vision embodies our cultural DNA of being a pub operator at our core, whilst focusing on consistently delivering high levels of guest satisfaction and standards through our great pub teams.

Underpinning this vision are clear operational targets which are being measured by external customer and employee led endorsement such as Reputation, EHO and Peakon, together with the evolution of a stronger sales culture aimed at further improving both footfall into our pubs and spend per guest visit. Importantly, the targets set at pub level form part of the incentive targets across the business, including the Board and Executive team, to provide consistency of focus at all levels.

<u>Our Corporate Goals</u>

The corporate goals underpinning the vision are twofold:

"Better than the Rest": Consistent medium and long-term outperformance of the market in both food-led and wet-led pubs.

"Back to a Billion": This encompasses two financial targets, namely:

- Achieving sales of £1 billion by 2025 – this requires around £200 million of sales growth from the pre-pandemic levels, including Brains, over the next four years
- Reducing net debt to below £1 billion by 2025 – this is consistent with our previously stated financial strategy

In delivering these goals we will drive shareholder value by creating a business that is growing sales, earnings and cash generation, reducing debt levels and increasing the underlying NAV of the business through increasing returns.

<u>Delivering our Goals: Making progress on our Three Strategic Pillars</u>

<u>Guest Obsessed</u> - this pillar ensures that our guests are at the heart of all of our decisions and everything we do.

<u>Insight and data driven decisions</u>

As previously announced, we launched a new guest insight platform, Reputation, in October, which generates a Reputation score for each of our 1,500 pubs based on social media feedback, regardless of operating model. This has now embedded itself across our business with very strong engagement in our pub teams. Our score has increased by 100 since inception, but we see opportunity to improve this score further with the target for pubs being a minimum score of 800. The functionality of Reputation also enables the pub teams to understand exactly what specific elements of service need to improve on a pub by pub basis.

We continue to take advantage of the benefits of our new EPOS system, which enables us to make more targeted commercial decisions, and more detailed target setting at pub level, with daily targets now set for every lunchtime and evening session.

<u>Evolution of our estate</u>

In response to changing market dynamics, we have categorised our pubs into three core trading formats to meet changing consumer trends, thereby reducing our exposure to a pure mainstream offer synonymous with discounting and a focus on price over experience, and maximise the trading opportunity in each pub. Importantly, consistency remains key across all formats. Conversion of the estate to these categories will take place over the next four years:

- **"Community"** these are good value, local pubs at the heart of their community. We have both food-led and wet-led pubs in this category. We are unlocking growth through zoning that clearly defines the bar and dining areas of the pub. Where we have adopted this model, we have seen growth from increased drinks volume whilst continuing to deliver strong food sales.

- **"Signature"** in this format we elevate the everyday for our guests placing an emphasis on a warm, timeless country-pub atmosphere with food and drink provenance at the fore. We target a frequency of 1-2 visits per month, in suburban towns and villages where quality of food, a friendly welcome and familiarity are key drivers.

- **"Revere"** is our most aspirational offer. Guests visiting these pubs have a higher level of disposable income, are well-travelled, eat out frequently and are willing to pay for an elevated experience. In addition, a Signature guest will trade up to a Revere pub or bar for a special occasion.

As we set out in our Preliminary Results in 2021, our immediate priority was our food-led business and we have a clear journey to reposition the food-led estate over the course of the next four years. We have concluded the same exercise with our c. 900 managed and franchised wet-led pub business. The review indicates that c. 90 pubs should be converted to Signature over the next four years, and we are planning to convert our first Signature wet-led pub later this year.

Guest Driven Category Management

Quality of food and drink is the single biggest influencer of guest satisfaction and during the period we have undertaken a full review of our menus, both in terms of menu numbers and number of dishes on the menu. Consequently, we have streamlined the Group's menus across the estate, significantly reducing the number of menus and aligning them to the Community, Signature and Revere customer segmentation. In addition, we have reduced the size of the menu by at least 35%-50% without compromising customer satisfaction. The new menus were launched on 5 April and initial guest and team feedback is very positive. We plan to complete a similar exercise for our drinks range by the end of June. As part of this review we have also completed an insight driven review of our pricing architecture and strategy. This has enabled us to take pricing decisions more confidently and significantly reduced the number of price bands within the business.

This exercise has significantly simplified our business, and whilst the primary driver of the decisions is through guest and operational insight, this will drive efficiencies in operating our business going forward.

Enhancing the Guest Journey

During the pandemic we saw an increasing proportion of our business being pre-booked relative to impulse visits and our view is that this trend is likely to continue. During the period we have rolled out the Collins booking system into our managed pubs and have trialled centralised call booking services. Both initiatives enhance the booking journey by making it easy to make reservations for our customers and ensure we capture maximum sales.

Raise the Bar – this pillar focuses on ensuring we raise our standards in everything we do and are driven by continuous improvement.

Investing in people

We employ 12,000 people directly in our c. 530 managed pubs and an estimated 10,000 indirectly in our c. 950 franchise and leased pubs. Our people are at the heart of creating a "Pub to be proud of" and engaging and investing in our teams to help them improve the performance is critical to our success. In the last six months, we have overhauled our 28 strong leadership group, with 10 role changes being filled with either external hires or internal promotion.

Reward – the challenge of attracting talent into the sector has been well documented, but we believe working in hospitality either on a casual basis or as a career choice is incredibly attractive. However, we recognise that economically we need to ensure we are offering attractive rates of pay relative to other sectors in order to attract the best talent. In March we increased the minimum hourly wage rates in the business ahead of the national minimum wage rates for all age groups. The annual cost of this measure is around £3.5 million but we view this as a key investment in people that will pay for itself through improved service standards and ensure even lower rates of churn.

Resourcing – having appointed a new Director of Resourcing in the period, we have introduced several innovative initiatives to improve our recruitment programme. App-based recruitment platforms are facilitating shorter hiring timelines and have improved our digital communication strategy to ensure we tap into all relevant social media channels. Our apprenticeship programme continues to attract young talent and the stars of the future, with 62 apprentices hired in the first half of the year.

Training and development – we have introduced a more agile and dynamic training and development agenda into Marston's through our two digital platforms, Attensi and Campus, to ensure we can identify development needs quickly and offer innovative training solutions. In addition, we have launched a digital review platform to facilitate more frequent performance and development conversations.

Communication and engagement – the pandemic reinforced the paramount importance of regular and effective communication with our teams. We have introduced the Peakon engagement system this year which provides a platform for quick and regular feedback to and from our people. As described above for managed pubs, the Peakon score forms part of the bonus structure. We have appointed an agency to further enhance our employer brand to ensure Marston's is seen as the number one place to come and work in the pub sector.

Operational excellence

During the period we reorganised the senior operations team reporting into the two operations directors, which included the external recruitment of two Directors of Operations in our food-led business and an internal promotion to Director of Operations in our wet-led team. This has further raised the calibre of our operations team in addition to bringing continued fresh thinking into the team to challenge our existing ways of working and evolve.

As described above, we aspire to achieve the goals underpinning the vision in all of our pubs. In addition to providing excellent guest experiences evidenced through the satisfaction scores, we are focused on ensuring that the guest experience is delivered in pubs by operating to the appropriate standards with a clear target EHO score. We have launched a standards drive across our pubs with a new audit app, and have included health and safety scores in bonus schemes for the first time this year.

We will Grow – this pillar focuses on the actions that will drive the £1 billion sales target.

Effective Capital Expenditure – "Make Capex Great"

One of the key drivers of our organic growth plans is the capital investment programme for both maintenance and conversion purposes. We have reappraised our internal capital processes under the "Make Great" banner. The cross functional review has had input from all departments across the business to ensure we are maximising returns from our investments.

From a maintenance perspective, it is critical that the fabric of our pubs is not compromised, regardless of segment. We announced at the Preliminary Results that we had formalised the planned maintenance programme and reduced the maintenance cycle from six to four years. Our aspiration is to reduce this further to three years in the medium term at an annual cost of around £40 million per annum.

Our investment capital plans are defined by the segmentation exercise referred to above. As such, we have clear visibility of which pubs we plan to convert over the course of the next four years. This provides us with a long lead time ahead of the investment itself and permits our commercial, recruitment and training teams to comprehensively plan support for each investment. This new process is already proving successful with 10 conversions completed in the first half year and performance ahead of the capital appraisal.

Following the disruption of the Omicron variant, we have deferred some of this year's programme but still intend to convert 8 pubs in the second half year. Looking forward, as previously guided we intend to convert at least 50 pubs per annum with annual conversion spend of £20-£25 million per annum.

Continued evolution of franchise

In 2021 we introduced a unique new franchise agreement, "Pillar", which enabled leased pubs with an independent food offer to receive all of the positive elements of a franchise-style arrangement without compromising their food proposition. We have now rolled out this agreement to 51 pubs. The combination of food entrepreneurial flair from the licensee, together with Marston's drink expertise and cost efficiencies, has driven growth in both the sales and profit of these pubs, economically benefitting both parties.

In addition, we are trialling the franchise model in 4 food-led pubs with encouraging initial trading. We are reviewing the extent to which franchise could be rolled out further into the food-led estate.

Creating a stronger sales culture - Project Boost

We are seeking to engender a more entrepreneurial culture through all of our pubs irrespective of whether they are managed or partnership. Project Boost is designed to create a reward structure over and above the base salary and bonus scheme or operating partner share, to recognise and celebrate outstanding performance.

To that end we removed the cap on our operational bonuses ensuring our pub teams and operating partners are focused on maximising sales over and above the annual targets. We have recently announced the "800 Club" initiative, rewarding those pubs with a Reputation score in excess of 800 and a 5* EHO score. The scheme operates a quarterly "retain it or lose it" with the qualifying licensees receiving a cash reward at the end of each quarter. The feedback we have received on this initiative has been excellent.

For our front of house teams, we are in the process of trialling a series of footfall and trading up incentives to understand which of these drives sales uplift at key times of the year.

ESG – Roadmap to Net Zero

Marston's has always maintained a proactive approach to ESG. We view ESG as integral to our operations and of increasing relevance to all of our stakeholders: employees, suppliers, investors and most importantly, guests.

Last year we set out our commitment and plans to achieve net zero by 2030, and by then we anticipate being in a position whereby we achieve a 90% reduction of our emissions for Scope 1 and 2 through identified actions with a 10% offset required to become carbon neutral across Scope 1 and 2. This roadmap remains unchanged and is perhaps more economically relevant given the position regarding global energy supply in the medium term. We also believe there is a significant opportunity to drive down energy usage in pubs through improved working practices and we have recently launched the "Going Green" initiative in our pubs which uses weekly league tables and incentivisation to encourage our pubs to focus on day-to-day reduction in usage.

In addition, we are committed to reducing food waste and are in the process of setting out actions and targets to significantly reduce wastage in the medium term. We will set this out in more detail in the Preliminary Results.

From a social perspective, pubs are an invaluable local hub and our focus is on two areas:

Charity - the importance that local pubs play in contributions to charity is long held. We are in the process of reviewing how we more effectively channel our efforts to support both local and national charities, with a view to launching several initiatives in the second half of the year.

Local employment – the pub sector is a great place to offer opportunities to the young and disadvantaged. Our apprenticeship programme continues to grow, with 241 employees on an apprenticeship programme, of which around half are under 25. Apprenticeships offer a rich vein of talent pipeline, with retention of nearly 80% after completion. We are extending the programme further in May with the launch of the Level 2 Chef Academy. We are also focused on providing employment opportunities for disadvantaged individuals seeking a "second chance". We are excited by the launch of our "Latitude" programme which is targeting the recruitment of ex-offenders into our business. Working with partners such as Novus and Only a Pavement Away, this offers access to a rich and skilled talent pool seeking a kickstart to life after prison.

We are committed to supporting the mental health and wellbeing of every person at Marston's by continuing to build the capability of line manager's and their teams, through training, enhancing awareness and stress reduction. We have partnered with The Burnt Chef Project, who are helping us with large-scale cultural awareness through training in mental health, resilience and open conversations. Most recently we have signed the menopause pledge and are in the process of implementing a menopause policy to support line managers and colleagues to have better conversations.

A culture of strong governance is embedded through the organisation. Specifically, we strongly encourage the promotion of women in the organisation, evidenced by a Board and Executive with greater than 50% female representation, and around 40% of leadership group roles are held by female colleagues.

PERFORMANCE AND FINANCIAL REVIEW

Pubs

Total revenue increased to £369.7 million (H1 2021: £55.1 million)[1], this is significantly higher than the same period last year reflecting the disruption to H1 2021 trading as a consequence of the pandemic, but also includes disruption to revenue in the period following Omicron restrictions. Consequently, there was an underlying[3] pub profit of £39.9 million after administrative costs (H1 2021: loss of £(57.2) million)[1]. Total underlying[3] operating profit of £37.9 million (H1 2021: loss of £(77.8) million)[1] comprises underlying[3] pub profit of £39.9 million (H1 2021: loss of £(57.2) million)[1] and loss from associates of £(2.0) million (H1 2021: £(20.6) million)[1].

Within our pub business we operated 297 pubs under the traditional tenanted and leased model generating revenues of £19.7 million and underlying[3] operating profit of £10.7 million. It is still our intention to convert the tenanted and leased estate to turnover based models in the medium term.

Share of Associate (Carlsberg Marston's Brewing Company)

The operating loss from CMBC in the period of £(2.0) million reflects Marston's PLC's share of the statutory loss after tax generated by CMBC in the period. CMBC's results also reflect the impact of the Omicron variant of COVID in the period.

Taxation

The estimated underlying[3] rate of taxation is forecast at 18.7% for FY2022 (FY2021: 12.1%), which is slightly below the statutory rate of corporation tax. This is caused mainly by the favourable impact of the super deduction in respect of qualifying capital expenditure and the share of net of tax income from associates, broadly offset by the adverse impact of deferred tax movement recognised at 25%.

Non-underlying items

There is a net non-underlying credit of £25.5 million after tax. The credit principally comprises a £27.4 million net gain in respect of interest rate swap movements and a £6.5 million credit for VAT claims to HM Revenue & Customs (HMRC) in respect of the VAT treatment of gaming machines from 1 January 2006 to 31 January 2013. An explanation of non-underlying items is included within note 4.

Capital expenditure and disposals
Capital expenditure was £29.1 million in the period (H1 2021: £19.2 million); the increase reflects £10.2 million of investment capital as set out in the strategy on segmentation of the pub estate. We expect that capital expenditure will be around £55 million in 2022.

Cash proceeds of £28.2 million were received in respect of the contingent consideration for disposal of the Brewing business and £3 million has been realised in relation to the disposal of non-core pubs and unlicensed properties, which achieved a 35% higher price than the net book value.

Property
As set out previously our plan is to move to annual external valuations and pubs will be valued on a rotational basis, with approximately one third inspected each year. The next external valuation of the property portfolio will be undertaken in July 2022, the results of which will be reflected in the full year accounts.

Financing
The Group has a range of medium and long-term financing providing an appropriate level of flexibility and liquidity for the medium term: a £280 million bank facility to March 2024; £40 million of other facilities; a long-term securitisation of approximately £660 million; and long-term lease financing of £337 million.

Net debt (excluding lease liabilities) at 2 April 2022 of £1,246.5 million is £14.2 million higher than last year (FY2021: £1,232.3 million) reflecting the net outflow of £22 million for the one-off payments outlined in the Preliminary Results Presentation in November 2021 relating to deferred duty/VAT and the CMBC contingent consideration. Lease liabilities as at 2 April 2022 were £373.2 million, an increase of £1.6 million on last year (FY2021: £371.6 million).

In the 2021 financial statements it was highlighted that the Group would require further amendments to its covenants in financial year 2022. During the period the Group was granted amendments to its financial covenants across the lending banks and other provider. The Group has secured further amendments and waivers for the financial year 2022, due to the trading restrictions imposed as a consequence of the Omicron variant in December, impacting the critical Christmas trading period and further restrictions until the end of January 2022 for pubs in Wales and Scotland.

There was an operating cash inflow of £30 million in the period, significantly ahead of last year principally reflecting higher profits in the period.

Pensions
The balance on our final salary scheme was a £4.9 million surplus at 2 April 2022 which compares favourably to the £14.4 million deficit at last year end. This improvement has been primarily driven by the increase in the discount rate assumption, from 2.0% in October 2021 to 2.7% in April 2022, reflecting the increase in corporate bond yields since the year end.

APMs

The Group uses APMs to enable management and users of the financial statements to better understand elements of financial performance in the period. APMs referenced earlier in this report are explained as follows:

[1] 2021 comparative figures include the results for continuing operations only.

[2] Like-for-like sales reflects sales for all pubs that were trading in the two periods being compared, expressed as a percentage.

[3] Non-underlying items are presented separately on the face of the income statement and are defined as those items of income and expense which, because of the materiality, nature and/or expected infrequency of the events giving rise to them, merit separate presentation to enable users of the financial statements to better understand elements of financial performance in the period, so as to facilitate comparison with future periods. An explanation of non-underlying items is included within note 4. Underlying (loss)/earnings per share are reconciled to statutory earnings/(loss) per share within note 8.

[4] Net cash flow represents the movement in cash and cash equivalents during the period less the cash movement in debt during the period. A reconciliation of net cash flow to movement in net debt is shown in note 10. Net cash flow may also be described as "change in debt resulting from cash flows".

[5] The reconciliation of net cash flow to movement in net debt in note 10 has been set out below excluding IFRS 16 lease liabilities.

	26 weeks ended 2 April 2022 £m	26 weeks ended 3 April 2021 £m
Increase/(decrease) in cash and cash equivalents in the period	3.3	(28.2)
Disposals	-	0.1
Cash (inflow)/outflow from movement in debt	(16.7)	128.4
Net cash (outflow)/inflow	(13.4)	100.3
Disposals and classified as held for sale	-	(0.1)
Non-cash movements and deferred issue costs	(0.8)	(0.8)
Movement in net debt in the period (excluding IFRS 16)	(14.2)	99.4
Net debt at beginning of the period (excluding IFRS 16)	(1,232.3)	(1,328.9)
Net debt at end of the period (excluding IFRS 16)	(1,246.5)	(1,229.5)

Responsibility Statement of the Directors in respect of the Interim Results

The Directors confirm that these condensed consolidated interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R of the United Kingdom Financial Conduct Authority, namely:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- material related party transactions in the first six months of the financial year and any material changes in the related party transactions described in the last Annual Report and Accounts.

The Directors of Marston's PLC are listed in the Marston's PLC Annual Report and Accounts for 2 October 2021. A list of current Directors is maintained on the Marston's PLC website: www.marstonspubs.co.uk.

By order of the Board:

Andrew Andrea	Hayleigh Lupino
Chief Executive Officer	Chief Financial Officer
18 May 2022	18 May 2022

GROUP INCOME STATEMENT (UNAUDITED)

For the 26 weeks ended 2 April 2022

	Note	**26 weeks to 2 April 2022** Underlying £m	Non-underlying £m	Total £m	26 weeks to 3 April 2021 Underlying £m	Non-underlying £m	Total £m	52 weeks to 2 October 2021 Total £m
Continuing operations								
Revenue	3	**369.7**	**-**	**369.7**	55.1	-	55.1	401.7
Operating expenses		**(329.8)**	**6.0**	**(323.8)**	(112.3)	(2.2)	(114.5)	(492.2)
Loss from associates		**(2.0)**	**-**	**(2.0)**	(20.6)	-	(20.6)	(14.5)
Operating profit/(loss)	4	**37.9**	**6.0**	**43.9**	(77.8)	(2.2)	(80.0)	(105.0)
Finance costs	5	**(45.8)**	**(0.1)**	**(45.9)**	(45.1)	(1.7)	(46.8)	(95.4)
Finance income	5	**0.4**	**0.5**	**0.9**	0.5	-	0.5	0.9
Interest rate swap movements	4, 5	**-**	**27.4**	**27.4**	-	5.3	5.3	8.4
Contingent consideration fair value movement	4, 5	**-**	**(0.7)**	**(0.7)**	-	15.5	15.5	20.0
Net finance costs	4, 5	**(45.4)**	**27.1**	**(18.3)**	(44.6)	19.1	(25.5)	(66.1)
(Loss)/profit before taxation		**(7.5)**	**33.1**	**25.6**	(122.4)	16.9	(105.5)	(171.1)
Taxation	4, 6	**1.4**	**(7.6)**	**(6.2)**	14.8	(1.8)	13.0	42.8
(Loss)/profit for the period from continuing operations		**(6.1)**	**25.5**	**19.4**	(107.6)	15.1	(92.5)	(128.3)
Discontinued operations								
Profit from discontinued operations	7	**-**	**-**	**-**	1.7	290.1	291.8	291.1
(Loss)/profit for the period attributable to equity shareholders		**(6.1)**	**25.5**	**19.4**	(105.9)	305.2	199.3	162.8

Earnings/(loss) per share:	Note	**26 weeks to 2 April 2022 p**	26 weeks to 3 April 2021 (Restated) p	52 weeks to 2 October 2021 p
Basic earnings/(loss) per share	8			
Total		**3.1**	31.5	25.7
Continuing		**3.1**	(14.6)	(20.3)
Discontinued		**-**	46.1	46.0
Basic underlying (loss)/earnings per share	8			
Total		**(1.0)**	(16.7)	(13.4)
Continuing		**(1.0)**	(17.0)	(13.6)
Discontinued		**-**	0.3	0.3
Diluted earnings/(loss) per share	8			
Total		**3.0**	31.5	25.7
Continuing		**3.0**	(14.6)	(20.3)
Discontinued		**-**	46.1	46.0
Diluted underlying (loss)/earnings per share	8			
Total		**(1.0)**	(16.7)	(13.4)
Continuing		**(1.0)**	(17.0)	(13.6)
Discontinued		**-**	0.3	0.3

The number of dilutive potential ordinary shares for the 26 weeks ended 3 April 2021 has been restated as nil, as in accordance with IAS 33 'Earnings per Share' the potential ordinary shares are not dilutive as their inclusion would reduce the loss per share for continuing operations. As such the diluted earnings/(loss) per share figures for the 26 weeks ended 3 April 2021 have been restated accordingly.

GROUP STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the 26 weeks ended 2 April 2022

	26 weeks to 2 April 2022 £m	26 weeks to 3 April 2021 £m	52 weeks to 2 October 2021 £m
Profit for the period	**19.4**	199.3	162.8
Items of other comprehensive income that may subsequently be reclassified to profit or loss			
Gains arising on cash flow hedges	**6.7**	4.6	5.9
Transfers to the income statement on cash flow hedges	**9.1**	10.2	19.7
Other comprehensive income of associates	**1.5**	-	-
Tax on items that may subsequently be reclassified to profit or loss	**(4.0)**	(2.8)	1.7
	13.3	12.0	27.3
Items of other comprehensive income that will not be reclassified to profit or loss			
Remeasurement of retirement benefits	**16.1**	13.6	17.5
Unrealised surplus on revaluation of properties	**-**	-	59.1
Reversal of past revaluation surplus	**-**	-	(105.0)
Tax on items that will not be reclassified to profit or loss	**(4.0)**	(2.6)	(12.3)
	12.1	11.0	(40.7)
Other comprehensive income/(expense) for the period	**25.4**	23.0	(13.4)
Total comprehensive income for the period	**44.8**	222.3	149.4

Other comprehensive income/(expense) for the current and prior period relates wholly to continuing operations.

GROUP CASH FLOW STATEMENT (UNAUDITED)

For the 26 weeks ended 2 April 2022

	Note	**26 weeks to 2 April 2022 £m**	26 weeks to 3 April 2021 (Restated) £m	52 weeks to 2 October 2021 £m
Operating activities				
Profit for the period		**19.4**	199.3	162.8
Taxation		**6.2**	(13.7)	(43.5)
Net finance costs		**18.3**	25.6	66.2
Depreciation and amortisation		**22.1**	20.8	42.7
Gain on disposal of subsidiary		**-**	(290.9)	(290.5)
Working capital movement		**(33.7)**	(15.3)	(6.4)
Non-cash movements		**1.5**	22.8	100.6
(Decrease)/increase in provisions and other non-current liabilities		**(0.4)**	0.3	2.3
Difference between defined benefit pension contributions paid and amounts charged		**(3.8)**	(3.2)	(7.0)
Income tax received		**0.6**	7.5	7.5
Net cash inflow/(outflow) from operating activities		**30.2**	(46.8)	34.7
Investing activities				
Interest received		**0.4**	0.3	0.5
Sale of property, plant and equipment and assets held for sale		**3.0**	12.8	16.2
Purchase of property, plant and equipment and intangible assets		**(29.1)**	(19.2)	(46.6)
Disposal of subsidiary		**28.2**	228.4	228.0
Movement in trade loans		**-**	0.1	0.1
Finance lease capital repayments received		**1.4**	0.4	1.2
Net transfer to other cash deposits		**-**	-	(1.2)
Net cash inflow from investing activities		**3.9**	222.8	198.2
Financing activities				
Interest paid		**(43.0)**	(46.7)	(96.3)
Swap termination costs		**-**	(19.9)	(19.9)
Proceeds from sale of own shares		**-**	-	0.1
Repayment of securitised debt		**(18.3)**	(17.3)	(35.4)
Advance/(repayment) of bank borrowings		**40.0**	(106.1)	(80.1)
Capital element of lease liabilities repaid		**(4.5)**	(9.2)	(19.8)
(Repayment)/advance of other borrowings		**(5.0)**	(5.0)	10.0
Net cash outflow from financing activities		**(30.8)**	(204.2)	(241.4)
Net increase/(decrease) in cash and cash equivalents	10	**3.3**	(28.2)	(8.5)

The cash flow statement for the 26 weeks ended 3 April 2021 has been restated such that it starts with the profit for the period rather than the underlying operating loss. This restatement has had no impact on the net cash flows from operating, investing or financing activities or on the net decrease in cash and cash equivalents in the period.

GROUP BALANCE SHEET (UNAUDITED)

As at 2 April 2022

	Note	**2 April 2022 £m**	3 April 2021 £m	2 October 2021 £m
Non-current assets				
Goodwill		**-**	-	-
Other intangible assets		**35.4**	36.6	36.1
Property, plant and equipment	9	**1,997.8**	2,105.5	1,984.2
Interests in associates		**276.8**	274.0	277.4
Other non-current assets		**14.9**	16.2	15.9
Deferred tax assets		**36.1**	23.5	47.6
Retirement benefit surplus		**4.9**	-	-
		2,365.9	2,455.8	2,361.2
Current assets				
Inventories		**12.8**	8.4	12.9
Trade and other receivables		**31.0**	45.4	52.3
Current tax assets		**-**	0.5	1.0
Other cash deposits	10	**3.2**	2.0	3.2
Cash and cash equivalents	10	**35.5**	12.5	32.2
		82.5	68.8	101.6
Assets held for sale		**4.7**	6.8	5.1
		87.2	75.6	106.7
Current liabilities				
Borrowings	10	**(64.1)**	(61.5)	(67.5)
Trade and other payables		**(197.0)**	(204.6)	(220.7)
Current tax liabilities		**(1.7)**	-	-
Provisions for other liabilities and charges		**(1.1)**	(1.7)	(1.5)
		(263.9)	(267.8)	(289.7)
Non-current liabilities				
Borrowings	10	**(1,594.3)**	(1,565.2)	(1,571.8)
Derivative financial instruments		**(127.3)**	(184.4)	(170.5)
Other non-current liabilities		**(6.0)**	(4.7)	(5.5)
Provisions for other liabilities and charges		**(9.8)**	(7.4)	(9.6)
Retirement benefit obligations		**-**	(21.2)	(14.4)
		(1,737.4)	(1,782.9)	(1,771.8)
Net assets		**451.8**	480.7	406.4
Shareholders' equity				
Equity share capital		**48.7**	48.7	48.7
Share premium account		**334.0**	334.0	334.0
Revaluation reserve		**360.5**	417.8	360.5
Capital redemption reserve		**6.8**	6.8	6.8
Hedging reserve		**(69.6)**	(96.7)	(81.4)
Own shares		**(111.0)**	(111.9)	(111.1)
Retained earnings		**(117.6)**	(118.0)	(151.1)
Total equity		**451.8**	480.7	406.4

GROUP STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the 26 weeks ended 2 April 2022

	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 3 October 2021	48.7	334.0	360.5	6.8	(81.4)	(111.1)	(151.1)	406.4
Profit for the period	-	-	-	-	-	-	19.4	19.4
Remeasurement of retirement benefits	-	-	-	-	-	-	16.1	16.1
Tax on remeasurement of retirement benefits	-	-	-	-	-	-	(4.0)	(4.0)
Gains on cash flow hedges	-	-	-	-	6.7	-	-	6.7
Transfers to the income statement on cash flow hedges	-	-	-	-	9.1	-	-	9.1
Tax on hedging reserve movements	-	-	-	-	(4.0)	-	-	(4.0)
Other comprehensive income of associates	-	-	-	-	-	-	1.5	1.5
Total comprehensive income	-	-	-	-	11.8	-	33.0	44.8
Share-based payments	-	-	-	-	-	-	0.7	0.7
Sale of own shares	-	-	-	-	-	0.1	(0.1)	-
Changes in equity of associates	-	-	-	-	-	-	(0.1)	(0.1)
Total transactions with owners	-	-	-	-	-	0.1	0.5	0.6
At 2 April 2022	**48.7**	**334.0**	**360.5**	**6.8**	**(69.6)**	**(111.0)**	**(117.6)**	**451.8**

For the 26 weeks ended 3 April 2021

	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 4 October 2020	48.7	334.0	430.6	23.7	6.8	(108.7)	(111.9)	(374.3)	248.9
Profit for the period	-	-	-	-	-	-	-	199.3	199.3
Remeasurement of retirement benefits	-	-	-	-	-	-	-	13.6	13.6
Tax on remeasurement of retirement benefits	-	-	-	-	-	-	-	(2.6)	(2.6)
Gains on cash flow hedges	-	-	-	-	-	4.6	-	-	4.6
Transfers to the income statement on cash flow hedges	-	-	-	-	-	10.2	-	-	10.2
Tax on hedging reserve movements	-	-	-	-	-	(2.8)	-	-	(2.8)
Total comprehensive income	-	-	-	-	-	12.0	-	210.3	222.3
Transfer disposals to retained earnings	-	-	(15.0)	(23.7)	-	-	-	38.7	-
Transfer tax to retained earnings	-	-	2.2	-	-	-	-	(2.2)	-
Changes in equity of associates	-	-	-	-	-	-	-	9.5	9.5
Total transactions with owners	-	-	(12.8)	(23.7)	-	-	-	46.0	9.5
At 3 April 2021	**48.7**	**334.0**	**417.8**	**-**	**6.8**	**(96.7)**	**(111.9)**	**(118.0)**	**480.7**

NOTES

1 BASIS OF PREPARATION OF INTERIM FINANCIAL INFORMATION

Marston's PLC is a company domiciled in the UK. The consolidated interim financial information for the 26 weeks ended 2 April 2022 incorporates the financial statements of Marston's PLC and all of its subsidiary undertakings (the 'Group'). The Group is primarily an operator of pubs and bars across the UK.

This interim financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting' in conformity with the requirements of the Companies Act 2006. The same accounting policies, presentation and methods of computation are followed in the interim financial information as applied in the Group's audited financial statements for the 52 weeks ended 2 October 2021.

The financial information for the 52 weeks ended 2 October 2021 is extracted from the audited accounts for that period, which have been delivered to the Registrar of Companies. The Auditor's report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. However the Auditor's report contained an emphasis of matter relating to a material uncertainty that may cast significant doubt on the Group's and Company's ability to continue as a going concern.

The interim financial information does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The interim financial information for the 26 weeks ended 2 April 2022 and the comparatives to 3 April 2021 are unaudited.

The Group does not consider that any standards or interpretations issued by the International Accounting Standards Board, but not yet applicable, will have a significant impact on the financial statements for the 52 weeks ending 1 October 2022.

Going concern
The impact of COVID-19 on the economy and the hospitality industry has resulted in lower revenue, profit and operating cash flow since March 2020 and has heightened uncertainty about the future financial performance of the Group, which could cast significant doubt over the Group's ability to trade as a going concern. The COVID-19 pandemic has resulted in a variety of temporary operating restrictions and, although the hospitality industry has now reopened in full, there is still uncertainty as to whether any restrictions, such as social distancing measures, will be reintroduced or whether any further local or national lockdowns will be required.

The Group's sources of funding include its securitised debt, a £280.0 million bank facility available until 2024, of which £230.0 million was drawn at 2 April 2022, and a £40.0 million private placement available until 2024.

There are two covenants associated with the Group's securitised debt. The FCF DSCR is a measure of free cash flow to debt service for the group headed by Marston's Pubs Parent Limited, and is required to be a minimum of 1.1 over both a two-quarter and four-quarter period, and the Net Worth is derived from the net assets of that group of companies. There was headroom of £354.9 million on the Net Worth Covenant, headroom of 0.1 on the two-quarter FCF DSCR Covenant and headroom of 0.2 on the four-quarter FCF DSCR Covenant at 2 April 2022.

There are two covenants associated with the Group's bank and private placement borrowings. The Debt Cover covenant is a measure of net borrowings to EBITDA (a maximum of 5.5 times from 2 July 2022, reducing on a stepped basis to 3.5 times from 1 April 2023) for the non-securitised group of companies and the Interest Cover covenant is a measure of EBITDA to finance charges (a minimum of 1 times from 2 April 2022, rising on a stepped basis to 2 times from 1 July 2023 with the Group's bank and 3 times from 1 April 2023 with private placement borrowings) for that group of companies. The Group has agreed with its bank and private placement lenders to replace the Debt Cover covenant with an absolute covenant in respect of net borrowings for the quarter to 2 April 2022. There was headroom of £47.0 million on the net borrowings covenant and headroom of 0.4 on the Interest Cover covenant at 2 April 2022.

The Directors have performed an assessment of going concern over the period of 12 months from the date of signing these financial statements, to assess the adequacy of the Group's financial resources. In performing their assessment, the Directors considered the Group's financial position and exposure to principal risks, including the ongoing impact of COVID-19. The Group's forecasts assume that sales and costs will continue at levels experienced in recent months.

The Directors have also considered a severe but plausible downside scenario, incorporating further lockdowns at a national level for a total of two months in the coming winter, which would have the effect of substantially reducing sales, profit and operating cash flow. It has been assumed that there is no access to government support measures such as furlough payments in this scenario, and certain mitigating actions within management's control have been assumed, such as the deferral of uncommitted capital expenditure. The conclusion of this assessment was that the Directors are satisfied that the Group has sufficient liquidity to withstand such a severe but plausible downside scenario. However, under this severe but plausible downside scenario, further covenant waivers/amendments would be required.

There is a material uncertainty as to whether the financial covenants will be met or whether the Group's lenders will agree to further waivers if required. The Group will continue to have regular communication with its lenders throughout this period and on the basis of the previous waivers secured and the return to pre-pandemic levels of trading in recent months the Directors expect to be able to secure any future waivers required.

Considering the above, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future, being at least 12 months from the date of signing these financial statements. For this reason, the Directors continue to adopt the going concern basis of accounting in preparing these financial statements. However, a material uncertainty exists, in particular with respect to the ability to achieve further covenant waivers or amendments if required, which may cast significant doubt on the Group's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

2 SEGMENT REPORTING

The Group is considered to have one operating segment under IFRS 8 'Operating Segments' and no disclosures are presented. This is in line with the reporting to the chief operating decision maker and the operational structure of the business. The measure of profit or loss reviewed by the chief operating decision maker is underlying profit/loss before tax for the total of continuing and discontinued operations.

NOTES

3 REVENUE

Revenue	2 April 2022 £m	3 April 2021 £m
Retail sales	**348.9**	51.5
Wholesale sales	**15.3**	2.2
Revenue from contracts with customers	**364.2**	53.7
Rental income	**5.5**	1.4
Total revenue	**369.7**	55.1

4 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.

Non-underlying items are presented separately on the face of the income statement and are defined as those items of income and expense which, because of the materiality, nature and/or expected infrequency of the events giving rise to them, merit separate presentation to enable users of the financial statements to better understand elements of financial performance in the period, so as to facilitate comparison with future periods. 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 non-underlying is higher than other items.

	2 April 2022 £m	3 April 2021 £m
Non-underlying operating items		
VAT claims	**(6.0)**	-
Impact of COVID-19	**-**	1.0
Past service cost in respect of Guaranteed Minimum Pension equalisation	**-**	0.5
Reorganisation and restructuring costs	**-**	0.7
	(6.0)	2.2
Non-underlying non-operating items		
Net interest on net defined benefit asset/liability	**0.1**	0.3
Interest on VAT claims	**(0.5)**	-
COVID-19 financing costs	**-**	1.4
Interest rate swap movements	**(27.4)**	(5.3)
Contingent consideration fair value movement	**0.7**	(15.5)
	(27.1)	(19.1)
Total non-underlying items	**(33.1)**	(16.9)

VAT claims
The Group has submitted claims to HM Revenue & Customs (HMRC) in respect of the VAT treatment of gaming machines from 1 January 2006 to 31 January 2013. Following detailed information gathering to support the claims made the Group has recognised the estimated amounts receivable, including interest, in the current period.

Net interest on net defined benefit asset/liability
The net interest on the net defined benefit asset/liability in respect of the Group's defined benefit pension plan was a charge of £0.1 million (2021: £0.3 million).

Interest rate swap movements
The Group's interest rate swaps are revalued to fair value at each balance sheet date. For interest rate swaps which were designated as part of a hedging relationship a gain of £6.7 million (2021: £4.6 million) has been recognised in the hedging reserve in respect of the effective portion of the fair value movement and £3.5 million (2021: £3.7 million) has been reclassified from the hedging reserve to underlying finance costs in the income statement in respect of the cash paid in the period.

The ineffective portion of the fair value movement has been recognised within the income statement. The cash paid of £0.8 million (2021: £0.8 million) has been recognised within underlying finance costs to ensure that underlying finance costs reflect the resulting fixed rate paid on the associated debt. The remainder of the ineffective portion of the fair value movement, a gain of £0.5 million (2021: loss of £1.4 million), has been recognised within non-underlying items. In addition £5.6 million (2021: £6.5 million) of the balance remaining in the hedging reserve in respect of discontinued cash flow hedges has been reclassified to the income statement within non-underlying items.

For interest rate swaps which were not designated as part of a hedging relationship the fair value movement has been recognised within the income statement. The cash paid of £5.2 million (2021: £6.0 million) has been recognised within underlying finance costs to ensure that underlying finance costs reflect the resulting fixed rate paid on the associated debt. The remainder of the fair value movement, a gain of £32.5 million (2021: £15.5 million), equal to the change in the carrying value of the interest rate swaps in the period, has been recognised within non-underlying items.

The Group terminated one of its interest rate swaps in the prior period resulting in a loss of £2.3 million which was recognised within non-underlying items.

Contingent consideration fair value movement
The contingent consideration on the disposal of Marston's Beer Company Limited was initially recognised at its fair value at the date of disposal and was subsequently remeasured at its fair value at 3 April 2021, 2 October 2021 and the date of settlement. The movement in fair value has been recognised within non-underlying items.

NOTES

4 NON-UNDERLYING ITEMS (CONTINUED)

Impact of taxation
The current tax charge relating to the above non-underlying items amounts to £2.0 million (2021: £nil). The deferred tax charge relating to the above non-underlying items amounts to £5.6 million (2021: £1.8 million).

Prior period non-underlying items
In order to mitigate the spread of COVID-19 the UK government implemented various operating restrictions in the hospitality industry, such as pub closures, reduced opening times and social distancing measures. These had a significant impact on the Group's business and its customers. Certain associated costs/charges, which primarily comprised bad debt provisions and stock write-offs, were classified as a non-underlying item in the prior period.

On 26 October 2018 a High Court ruling indicated that Guaranteed Minimum Pensions must be equalised for men and women. On 20 November 2020 a further High Court ruling indicated that historic cash equivalent transfer values that were calculated on an unequalised basis should be topped up if an affected member makes a successful claim. This additional requirement was reflected in the calculation of the Group's net defined benefit asset/liability in the prior period and the resulting additional past service cost of £0.5 million was classified as a non-underlying item.

Following the disposal of the Group's brewing business, and in light of the ongoing impact of the COVID-19 outbreak, the Group undertook a central restructuring exercise in the prior period as part of a full review of its overhead costs.

As a result of the COVID-19 outbreak and the consequential impact on its trading ability, the Group obtained certain waivers from its lenders, primarily in respect of covenants. The costs related to this were classified as a non-underlying item in the prior period.

5 FINANCE COSTS AND INCOME

	2 April 2022 £m	3 April 2021 £m
Finance costs		
Bank borrowings	**5.9**	5.4
Securitised debt	**17.9**	19.0
Lease liabilities	**9.4**	8.3
Other lease related borrowings	**10.6**	10.6
Other interest payable and similar charges	**2.0**	1.8
	45.8	45.1
Non-underlying finance costs		
Net interest on net defined benefit asset/liability	**0.1**	0.3
COVID-19 financing costs	**-**	1.4
	0.1	1.7
Total finance costs	**45.9**	46.8
Finance income		
Finance lease and other interest receivable	**(0.4)**	(0.5)
	(0.4)	(0.5)
Non-underlying finance income		
Interest on VAT claims	**(0.5)**	-
	(0.5)	-
Total finance income	**(0.9)**	(0.5)
Interest rate swap movements		
Hedge ineffectiveness on cash flow hedges (net of cash paid)	**(0.5)**	1.4
Change in carrying value of interest rate swaps	**(32.5)**	(15.5)
Transfer of hedging reserve balance in respect of discontinued hedges	**5.6**	6.5
Loss on termination of interest rate swaps	**-**	2.3
	(27.4)	(5.3)
Contingent consideration fair value movement		
Contingent consideration fair value movement	**0.7**	(15.5)
	0.7	(15.5)
Net finance costs	**18.3**	25.5

NOTES

6 TAXATION

The underlying taxation credit for the 26 weeks ended 2 April 2022 has been calculated by applying an estimate of the underlying effective tax rate for the 52 weeks ending 1 October 2022 of 18.7% (26 weeks ended 3 April 2021: 12.1%).

	2 April 2022 £m	3 April 2021 £m
Current tax	**2.7**	-
Deferred tax	**3.5**	(13.0)
	6.2	(13.0)

The taxation charge/(credit) includes a current tax charge of £2.0 million (2021: £nil) and a deferred tax charge of £5.6 million (2021: £1.8 million) relating to the tax on non-underlying items.

The March 2021 Budget announced that the main rate of corporation tax would change from 19% to 25% with effect from 1 April 2023. This change was substantively enacted on 24 May 2021. This will increase the Group's future current tax charge accordingly.

7 DISCONTINUED OPERATIONS

On 4 October 2020 the Group transferred its brewing operations into a wholly-owned subsidiary, Marston's Beer Company Limited. On 30 October 2020 the Group sold Marston's Beer Company Limited to Carlsberg Marston's Limited (formerly Carlsberg Marston's Brewing Company Limited) in exchange for a cash receipt of £232.4 million, contingent consideration of up to £34.0 million and a 40% shareholding in Carlsberg Marston's Limited.

Results of discontinued operations

	3 April 2021		
	Underlying £m	Non-underlying £m	Total £m
Revenue	22.1	-	22.1
Operating expenses	(20.7)	(1.1)	(21.8)
Operating profit	1.4	(1.1)	0.3
Net finance costs	(0.1)	-	(0.1)
Profit before taxation	1.3	(1.1)	0.2
Taxation	0.4	0.3	0.7
Profit after taxation	1.7	(0.8)	0.9
Gain on disposal of discontinued operations	-	290.9	290.9
Profit for the period attributable to equity shareholders	1.7	290.1	291.8

Non-underlying operating items related to the impact of COVID-19 and business separation costs.

8 EARNINGS PER ORDINARY SHARE

Basic earnings/(loss) per share are calculated by dividing the profit/(loss) 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 (loss)/earnings per share figures are presented to exclude the effect of non-underlying items. The Directors consider that the supplementary figures are a useful indicator of performance.

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8 EARNINGS PER ORDINARY SHARE (CONTINUED)

	2 April 2022		3 April 2021 (Restated)	
	Earnings £m	**Per share amount p**	Earnings £m	Per share amount p
Basic earnings/(loss) per share				
Total	**19.4**	**3.1**	199.3	31.5
Continuing	**19.4**	**3.1**	(92.5)	(14.6)
Discontinued	**-**	**-**	291.8	46.1
Diluted earnings/(loss) per share				
Total	**19.4**	**3.0**	199.3	31.5
Continuing	**19.4**	**3.0**	(92.5)	(14.6)
Discontinued	**-**	**-**	291.8	46.1
Underlying (loss)/earnings per share figures				
Basic underlying (loss)/earnings per share				
Total	**(6.1)**	**(1.0)**	(105.9)	(16.7)
Continuing	**(6.1)**	**(1.0)**	(107.6)	(17.0)
Discontinued	**-**	**-**	1.7	0.3
Diluted underlying (loss)/earnings per share				
Total	**(6.1)**	**(1.0)**	(105.9)	(16.7)
Continuing	**(6.1)**	**(1.0)**	(107.6)	(17.0)
Discontinued	**-**	**-**	1.7	0.3

	2 April 2022 m	3 April 2021 (Restated) m
Basic weighted average number of shares	**633.1**	632.7
Dilutive potential ordinary shares	**8.1**	-
Diluted weighted average number of shares	**641.2**	632.7

The number of dilutive potential ordinary shares for the 26 weeks ended 3 April 2021 has been restated as nil, as in accordance with IAS 33 'Earnings per Share' the potential ordinary shares are not dilutive as their inclusion would reduce the loss per share for continuing operations.

9 PROPERTY, PLANT AND EQUIPMENT

	£m
Net book amount at 3 October 2021	1,984.2
Additions	35.0
Net transfers to assets held for sale and disposals	(1.4)
Depreciation, revaluation and other movements	(20.0)
Net book amount at 2 April 2022	**1,997.8**

	£m
Net book amount at 4 October 2020	2,038.3
Additions	99.6
Net transfers to assets held for sale and disposals	(13.4)
Depreciation, revaluation and other movements	(19.0)
Net book amount at 3 April 2021	**2,105.5**

The net profit on disposal of property, plant and equipment, intangible assets and assets held for sale was £0.7 million (2021: loss of £2.1 million).

Additions in the prior period included £90.5 million of right-of-use assets recognised as part of a transaction with S.A.Brain & Company,Limited.

NOTES

10 NET DEBT

Analysis of net debt	2 April 2022 £m	2 October 2021 £m
Cash and cash equivalents		
Cash at bank and in hand	**35.5**	32.2
	35.5	32.2
Financial assets		
Other cash deposits	**3.2**	3.2
	3.2	3.2
Debt due within one year		
Bank borrowings	**0.7**	0.7
Securitised debt	**(37.9)**	(36.9)
Lease liabilities	**(7.3)**	(6.7)
Other lease related borrowings	**0.4**	0.4
Other borrowings	**(20.0)**	(25.0)
	(64.1)	(67.5)
Debt due after one year		
Bank borrowings	**(229.3)**	(188.9)
Securitised debt	**(621.2)**	(640.3)
Lease liabilities	**(365.9)**	(364.9)
Other lease related borrowings	**(337.8)**	(337.6)
Other borrowings	**(40.0)**	(40.0)
Preference shares	**(0.1)**	(0.1)
	(1,594.3)	(1,571.8)
Net debt	**(1,619.7)**	(1,603.9)

	2 April 2022 £m	2 October 2021 £m
Net debt excluding lease liabilities	**(1,246.5)**	(1,232.3)
Lease liabilities	**(373.2)**	(371.6)
Net debt	**(1,619.7)**	(1,603.9)

Other cash deposits comprises deposits securing letters of credit for reinsurance contracts. Included within cash and cash equivalents is an amount of £5.5 million (at 2 October 2021: £5.6 million), which relates to collateral held in the form of cash deposits. These amounts are considered to be restricted cash. In addition, any cash held in connection with the securitised business is governed by certain restrictions under the covenants associated with the securitisation.

Reconciliation of net cash flow to movement in net debt	2 April 2022 £m	3 April 2021 £m
Increase/(decrease) in cash and cash equivalents in the period	**3.3**	(28.2)
Disposals	**-**	0.1
Cash (inflow)/outflow from movement in debt	**(12.2)**	137.6
Net cash (outflow)/inflow	**(8.9)**	109.5
Non-cash movements and deferred issue costs	**(6.9)**	(88.6)
Disposals and classified as held for sale	**-**	(0.1)
Movement in net debt in the period	**(15.8)**	20.8
Net debt at beginning of the period	**(1,603.9)**	(1,633.0)
Net debt at end of the period	**(1,619.7)**	(1,612.2)

11 FINANCIAL INSTRUMENTS

The only financial instruments which the Group holds at fair value are contingent consideration and derivative financial instruments, which are classified as at fair value through profit or loss or derivatives used for hedging.

Fair value hierarchy
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 tables below show the levels in the fair value hierarchy within which fair value measurements have been categorised:

	2 April 2022				2 October 2021			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets as per the balance sheet	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m
Contingent consideration	**-**	**-**	**-**	**-**	-	28.9	-	28.9

	2 April 2022				2 October 2021			
	Level 1	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Liabilities as per the balance sheet	**£m**	**£m**	**£m**	**£m**	£m	£m	£m	£m
Derivative financial instruments	**-**	**127.3**	**-**	**127.3**	-	170.5	-	170.5

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, adjusted for the Group's own credit risk. 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 are highly sensitive to the inputs to the valuations, such as discount rates, analysis of credit risk and yield curves.

The Level 2 fair value of contingent consideration was obtained using a market approach and reflected the estimated amount the Group expected to receive. There was an agreed formula for the amount of contingent consideration to be received which referenced the recovery of the share price performance as at 30 October 2021 of a pre-agreed basket of companies to pre-COVID-19 levels. The final agreed consideration value calculated at 30 October 2021 was £28.2 million.

The fair values of all the Group's other financial instruments are equal to their book values, with the exception of borrowings. The carrying amount less impairment provision of finance lease receivables, trade receivables and other receivables, and the carrying amount of other cash deposits, cash and cash equivalents, trade payables and other payables, are assumed to approximate their fair values. The carrying amount (excluding unamortised issue costs) and the fair value of the Group's borrowings are as follows:

	Carrying amount		**Fair value**	
	2 April 2022 £m	2 October 2021 £m	**2 April 2022 £m**	2 October 2021 £m
Bank borrowings	**230.0**	190.0	**230.0**	190.0
Securitised debt	**662.3**	680.6	**599.9**	614.7
Lease liabilities	**373.2**	371.6	**373.2**	371.6
Other lease related borrowings	**361.7**	361.7	**361.7**	361.7
Other borrowings	**60.0**	65.0	**60.0**	65.0
Preference shares	**0.1**	0.1	**0.1**	0.1
	1,687.3	1,669.0	**1,624.9**	1,603.1

12 SIGNIFICANT EVENTS AND TRANSACTIONS

Additional contributions of £3.8 million (26 weeks ended 3 April 2021: £3.7 million) were made in the period to the Marston's PLC Pension and Life Assurance Scheme.

Further detail regarding significant events and transactions that have taken place since 2 October 2021 is provided outside of the interim financial statements in the Group Overview and the Performance and Financial Review.

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13 RELATED PARTY TRANSACTIONS

Details of related party transactions with the Group's associate, Carlsberg Marston's Limited (formerly Carlsberg Marston's Brewing Company Limited), are as follows:

	Transaction amount		**Balance outstanding**	
	2 April 2022 £m	3 April 2021 £m	**2 April 2022 £m**	2 October 2021 £m
Purchase of goods	**(80.6)**	(3.0)	**(72.3)**	(42.4)
Rendering of services	**1.7**	1.8	**0.7**	0.5
Settlement of liabilities on behalf on associate	**120.9**	66.5	**58.4**	78.3
Receipt of cash on behalf of associate	**(234.9)**	(158.7)	**(28.9)**	(62.7)

14 CAPITAL COMMITMENTS

Capital expenditure authorised and committed at the period end but not provided for in this interim financial information was £3.6 million (at 2 October 2021: £2.7 million).

15 SEASONALITY OF INTERIM OPERATIONS

The Group's financial results and cash flows have, historically, been subject to seasonal trends between the first and second half of the financial year. Traditionally, the second half of the financial year sees higher revenue and profitability, as a result of better weather conditions.

There is no assurance that this trend will continue in the future.

16 EVENTS AFTER THE BALANCE SHEET DATE

An interim dividend has not been proposed for the current period. No interim dividend was paid for the prior period.

17 PRINCIPAL RISKS AND UNCERTAINTIES

The Group set out on pages 24 to 29 of its 2021 Annual Report and Accounts the principal risks and uncertainties that could impact its performance. These risks and uncertainties were as follows:

Pandemic
There is a risk that COVID-19 infection rates increase leading to further restrictions on the public and further trading regulations for pubs and lodges.

Liquidity
While the UK recovers from the pandemic there is still a risk of regional lockdowns or national measures which could impact upon the ability of pubs to trade and therefore put the liquidity of the business under strain.

Health and safety
Breaches of health and safety regulations attract media attention and high penalties.

There is also the risk of further COVID-19 trading restrictions.

Food safety
Breaches of food standards regulations attract adverse media attention and high penalties.

There is a risk that information is collected incorrectly from suppliers and/or misinterpreted for the Group's menu items. There is also a risk if a team member mis-advises a guest on ingredients or serves the wrong meal. Increased regulation directly affecting the Group, or the Group's suppliers, could increase the complexity of the information to be provided and the cost of compliance.

Financial
There is the risk of a breach of the covenants with the Group's lenders, incorrect reporting of financial results and unauthorised transactions.

Market and operational
Failure to attract or retain the best people could negatively impact pub performance. Recruitment could be more of a challenge due to the high number of vacancies currently within the sector.

There is the risk of disruption to key suppliers, particularly those closely involved with day-to-day activities (logistics, food, drink), or a shortage of commodities.

There is also the risk of disruption to food supplies from the EU due to administration, or customs checks, impacting upon the Group's offering to guests and its cost base.

There is the risk that the Group's pubs, brands or services fail to attract guests, do not reflect changing preferences or offer poor service or quality. Equally there is the risk that the Group's prices become uncompetitive.

Inflationary pressure on costs might be difficult to pass on, resulting in reduced margin.

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17 PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Political and economic
Supply chain disruption could reduce the ability of the UK to recover and grow the economy. It could also fuel further inflation resulting in less disposable income for consumers.

The import of goods from the EU could be disrupted by the government's plan to start customs checks in early 2022. Fresh food is reliant upon fast delivery. In the event of disruption, it could be difficult to source alternative supplies of food and drink for the same cost.

Information technology
Threats to IT are both external and internal and could result in a network outage, denial of service or loss, theft or corruption of data.

The Group has so far not experienced significant disruption in food and drink supplies from the new EU customs checks introduced on 1 January 2022 however the risk of future disruption is still present as stricter checks are still to come into force. The risks from supply chain disruption and further inflation have increased in recent months as a result of the conflict in Ukraine. All of the other risks and uncertainties above have not changed significantly since the Annual Report and Accounts was published and are expected to remain present for the second half of the financial year.

18 INTERIM RESULTS

The Interim Results were approved by the Board on 18 May 2022.

19 COPIES

Copies of these results are available on the Marston's PLC website (www.marstonspubs.co.uk) and on request from the Group Secretary, Marston's PLC, Marston's House, Brewery Road, Wolverhampton, WV1 4JT.