MARSTON'S PLC ANNUAL REPORT 2007

MARSTON'S PLC
2007

Est 1834
MARSTON'S
BEER COMPANY

Est 1834
MARSTON'S
INNS AND TAVERNS

Est 1834
MARSTON'S
PUB COMPANY

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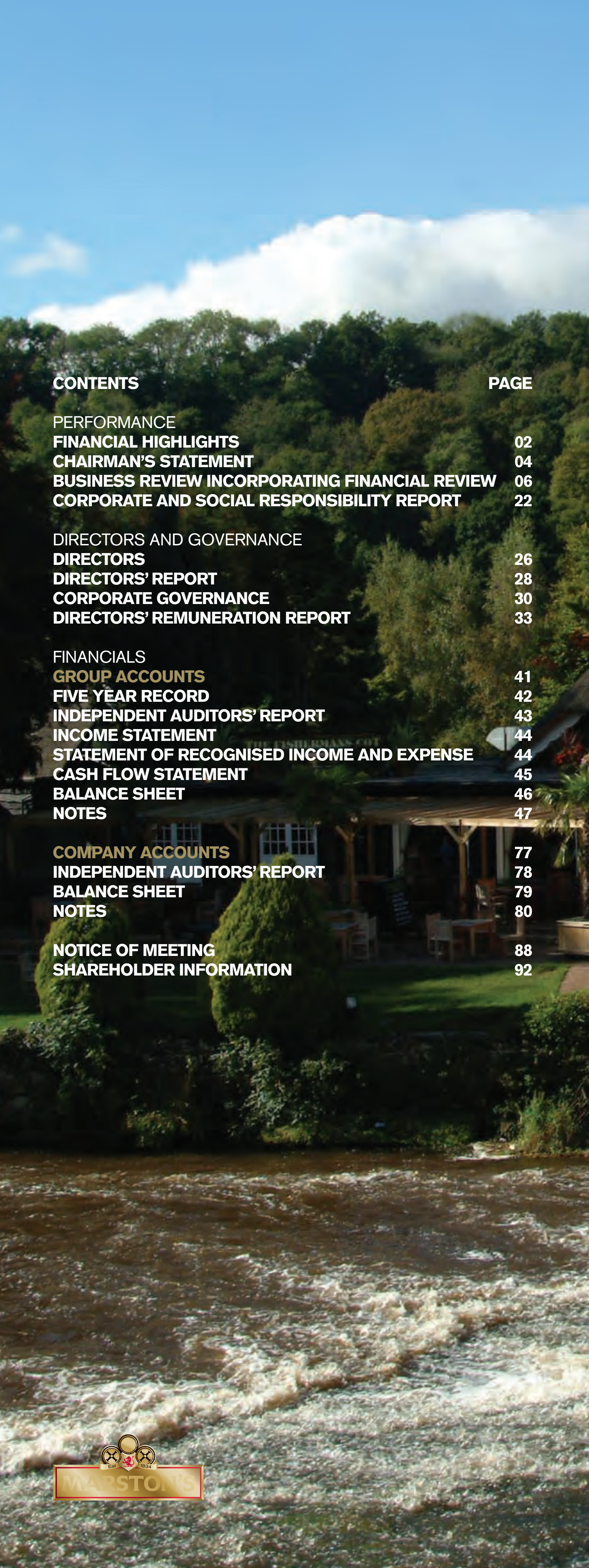
MARSTON'S
GROUP SERVICES



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THE YEAR CAPTURED.
GREAT FOOD.
FINE ALES.
GOOD TIMES.


MARSTON'S FINANCIAL HIGHLIGHTS 2006/07

652.8 ↑9.6%

Revenue (£m)

163.2 ↑7.2%

Underlying* operating profit (£m)

98.0 ↓3.4%

Underlying* profit before tax (£m)

	2007	2006
Operating profit (£m)	160.7	152.3
Profit before tax (£m)	94.7	101.5
Earnings per ordinary share (p)	27.9	23.8

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

26.2 ↑10.1%

Underlying* earnings per share (p)

12.83 ↑20.0%

Dividend per share (p)

MARSTON'S INNS & TAVERNS

- 19 new pubs opened during the year
- 48 pubs refurbished during the year
- Industry leading like-for-like food sales

	2007	2006
Revenue (£m)	367.8	330.7
Underlying operating profit (£m)	66.7	63.5
Operating profit (£m)	66.1	63.5
Net assets (£m)	943.0	680.6
Number of pubs	550	459
Average weekly sales (£'000)	13.7	13.2

MARSTON'S PUB COMPANY

- Launch of the ground breaking Marston's Partnership agreement based upon turnover growth
- 1,400 external improvements completed in the year

	2007	2006
Revenue (£m)	200.9	178.8
Underlying operating profit (£m)	90.8	80.3
Operating profit (£m)	90.4	80.3
Net assets (£m)	1,074.0	905.3
Number of pubs	1,722	1,893

MARSTON'S BEER COMPANY

- Marston's is the largest brewer of premium cask ale in the country
- 1 million pints of Marston's ales sold at cricket grounds

	2007	2006
Revenue (£m)	84.1	86.0
Underlying operating profit (£m)	17.4	18.0
Operating profit (£m)	16.9	18.0
Net assets (£m)	120.6	102.5

CHAIRMAN'S STATEMENT

These results were achieved in a year of significant change. As a consequence of detailed planning, investment and a continuing emphasis on the quality of our pub estate, we were prepared and well positioned for the introduction of smoking bans in England and Wales.

On 8 January 2007, we changed the name of the Company to Marston's PLC. This has enabled us to adopt a more cohesive, integrated approach to the management of our pubs and beer brands and reflects the fact that in recent years we have become a national business.

The development of a national, high quality pub estate is one of our key strategic objectives. Acquisitions made during the year, including the Eldridge Pope estate of 153 pubs in the south of England, were consistent with this objective. This objective is also being achieved in our managed pub estate through becoming a leading developer of new build pubs.

The increasing quality of our pub estate is demonstrated by good like-for-like sales growth in our managed pubs, with particularly strong growth in food sales, and a significant increase in average profit per pub in our tenanted and leased estate.

In brewing, our increasing focus on national distribution of a range of premium cask ale brands is reflected in the fact that we are now the UK's largest brewer of premium cask ale, with a market share in this segment of over 20% by volume. The trading performances of the Group and the individual trading divisions are contained within the Business Review.

Results

Turnover increased by 9.6% to £652.8 million (2006: £595.5 million). This includes the acquisitions of Sovereign Inns in January 2007 for £19.6 million, Eldridge Pope also in January 2007 for £156.5 million and Ringwood Brewery in July 2007 for £17.8 million. Each of these acquisitions was funded through debt.

On 10 May 2007, 279 smaller tenancies were sold to aAim Group for £82.5 million.

Underlying profit before taxation was £98.0 million (2006: £101.5 million) and profit after exceptional items and before tax was £94.7 million (2006: £101.5 million).

Earnings before interest, tax, depreciation and amortisation (EBITDA) and before exceptional items increased by 7.6% to £205.9 million.

Underlying basic earnings per share increased by 10.1% to 26.2 pence per share (2006: 23.8 pence). Basic earnings per share including exceptional items were 27.9 pence per share (2006: 23.8 pence).

Comparative figures in relation to earnings per share and dividends have been adjusted to reflect the 4-for-1 share split effected on 9 January 2007.

On 25 May 2007 we announced an increase in the share buy-back programme from £100 million to £150 million to be achieved during the calendar year through market purchases. During the financial period to 29 September 2007 we purchased 28.1 million shares at a total cost of around £120 million.

OUR SUCCESS IS DUE TO THE CONTRIBUTIONS MADE BY OUR EMPLOYEES, WHETHER THEY WORK IN OUR PUBS, BREWERIES OR IN SUPPORT FUNCTIONS

Net debt at the year-end was £1,189.1 million, resulting in interest cover of 2.5 times (2006: 3.0 times).

Dividend

The Board proposes a final dividend of 8.47 pence per share bringing the total dividend for the year to 12.83 pence per share (2006: 10.69 pence), an increase of 20.0% on the previous year. The Company has increased dividends by an average of over 12% per annum for a period of more than 30 years and continues to adopt a progressive dividend policy. The final dividend, if approved, will be paid on 31 January 2008 to those shareholders on the register at the close of business on 4 January 2008.

FTSE4Good

In September 2007 Marston's PLC was added to the FTSE4Good Index, the leading global responsible investment index. This Index reflects increasing attention to the management of environmental and social risks. The fact that we have met the corporate responsibility criteria for the Index demonstrates the development of policies and management systems to manage these risks. These policies can be viewed on our corporate website at www.marstons.co.uk.

Employees

Our success is due to the contributions made by our employees, whether they work in our pubs, breweries or in support functions. In particular, our good response to the challenges presented by the smoking ban and the poor summer weather reflects the tremendous loyalty and dedication of our staff.

Directors

Peter Lipscomb has indicated his intention to retire from the Board at the Annual General Meeting on 25 January 2008. Peter was appointed as Deputy Chairman and Non-executive Director in 2000 and has made a significant contribution to the successful development of the Company. Lord Hodgson became the Senior Independent Director on 1 October 2007.

In October 2006 we were pleased to announce the appointment of Rosalind Cuschieri, Commercial Director of Warburtons Limited, as a Non-executive Director.

Outlook

Although we remain cautious about consumer confidence, regulatory cost pressures and the short term impact of the smoking ban over the winter months, we are confident that our high quality estate, strong balance sheet, conservative financing and strong cash flow will enable us to continue to exploit opportunities for further profitable growth. The Board remains confident in the future growth prospects of the Group.

David Thompson

David Thompson
Chairman

MARSTON'S BUSINESS REVIEW

The Business Review incorporates those sections of the Annual Report which, in previous years, were included in the Chief Executive's Review and the Financial Review.

OVERVIEW OF RESULTS

We have achieved these good results in a challenging environment, which included the introduction of a smoking ban in Wales on 2 April 2007 and in England on 1 July 2007. We completed, in advance of the ban, a well planned £20 million investment programme in over 90% of our pubs which have outside trading areas, contributing to the robust performance of our managed and tenanted pubs.

Additionally, around 150 pubs were significantly affected by flooding in June and July which either resulted in pub closure or prevented customers from visiting. The weather in May, June and July was unseasonably wet, particularly so in comparison to the previous year which benefited from good summer weather and the 2006 football World Cup.

Turnover increased by 9.6% to £652.8 million (2006: £595.5 million) including the acquisitions of Sovereign Inns, Eldridge Pope and Ringwood Brewery.

Underlying operating margin was 25.0% (2006: 25.6%). This good performance was achieved, despite significant cost and legislative pressures, by maximising synergies from acquisitions, transferring smaller managed pubs to tenancy and maintaining good cost control.

Profit before tax and exceptional items was £98.0 million (2006: £101.5 million) reflecting increased interest costs associated with the share buy-back programme described in the Chairman's Statement. This was slightly below our original expectations due to the impact of higher interest rates, flood related repair costs and the poor summer weather.

Underlying basic earnings per share before exceptional items increased by 10.1% to 26.2 pence per share reflecting the benefit of a lower underlying tax charge of 21.0% (2006: 27.8%) as described in the Financial Review.

BUSINESS DESCRIPTION

Marston's is a divisionalised business, with our managed pubs forming Marston's Inns and Taverns, our tenanted and leased pubs forming Marston's Pub Company and the brewing, marketing and distribution of our beers undertaken by Marston's Beer Company. Central services are provided by Marston's Group Services. Each division is independently managed and has its own board of divisional directors.

Marston's Inns and Taverns manage 550 pubs spread throughout England and Wales. 409 pubs are community or neighbourhood pubs with a strong local customer base and 141 pubs are high street outlets. Our principal retail formats in our community estate are Marston's Tavern Table (31 pubs) and Marston's Two For One (61 pubs). On the high street, our brands are Pitcher & Piano (26 bars) and Que Pasa (20 bars).

Marston's Pub Company operates 1,722 pubs across England and Wales, but with a concentration in the midlands and the north of England as a consequence of historical development. Over half of the estate is leased on longer term agreements, with the remainder let on agreements with terms of up to 5 years. Tenants and lessees pay a rent which is based upon the trading potential of the pub and which reflects the fact that they are usually required to buy at least draught and bottled beers from Marston's.

Marston's Beer Company operates breweries in Wolverhampton, Burton upon Trent, Cockermouth and Ringwood producing a range of traditional ales including Marston's Pedigree, Banks's and Mansfield beers, Jennings Cumberland Ale and Ringwood Best Bitter.

STRATEGY AND OBJECTIVES

Marston's strategy is to exploit the existing skills we have in each area of our business and the vertically integrated business model to achieve superior return on capital. Our key objective is to create shareholder value but we also recognise that we have responsibilities to a range of stakeholders including local communities, suppliers, customers and employees.

The key operational and financial elements of our strategy are as follows:

1. Target growth through the development of a national, high quality pub estate

In recent years the pub sector has seen considerable consolidation driven by a number of factors: rising costs, more burdensome legislation, low interest rates and a mature industry profile.

Marston's is an active participant in this consolidation process. Acquisitions have enabled us to increase the quality of our pub estate, reduce costs and extend our trading geography. Recent acquisitions have included:

Transferring managed pubs to tenancy or lease

As costs have risen and legislation has become more complex the turnover threshold for pubs to be economically viable as managed outlets has steadily increased. By transferring pubs to tenancy or lease it is possible to reduce costs and benefit from the operational flexibility of operating both managed and tenanted pubs. Since 1999, we have transferred around 600 smaller managed pubs to tenancy, including 19 in 2007.

Disposals

The disposal of pubs which no longer meet our criteria has also contributed to an improvement in the quality of our estate. The 13% increase in average EBITDA per pub in our tenanted estate reflects in part the impact of the disposal of 279 pubs to aAim Group in May 2007.

Year	Company	Consideration	Pubs	Geography	Business
2004	Wizard Inns	£91m	63	south-east	managed
2005	Burtonwood	£168m	460	north-west	tenanted
2005	Jennings	£73m	128	north-west	tenanted and brewing
2005	English Country Inns	£13m	14	midlands	managed
2006	Celtic Inns	£43m	63	Wales	tenanted
2006	Bluu	£6m	4	national	managed
2007	Sovereign Inns	£20m	33	midlands	tenanted
2007	Eldridge Pope	£156m	153	south-west	managed and tenanted
2007	Ringwood Brewery	£18m	7	south-west	tenanted and brewing

Growth in managed pubs

Marston's Inns & Taverns is a leading developer of new build pubs. In 2007 we opened 19 new pubs. These are mainly freehold community pubs on new housing developments and have a strong emphasis on food through operating formats such as Marston's Tavern Table, Marston's Two For One and Marston's Taverner's Carvery.

We also buy sites for the development of Pitcher & Piano bars or Bluu, a high street bar-restaurant format acquired in 2006. Openings in 2007 included Pitcher & Piano bars in Brighton, Worcester and Derby. We anticipate opening 20 new managed pubs in the financial period to September 2008.

Growth in tenanted pubs

Marston's Pub Company has grown significantly in recent years, both through acquisition and the transfer of smaller managed pubs to tenancy. During 2007, in addition to acquiring Sovereign Inns and the Eldridge Pope tenanted estate, we acquired 20 individual trading pubs at a cost of £17 million.

2. Develop greater food skills and extend our appeal to families, females and more mature customers

In recent years we have been successful in gaining market share in casual dining, demonstrated by strong like-for-like sales growth. The proportion of retail sales in Marston's Inns & Taverns represented by food sales is now 34%, compared to 27% in 2003.

The trends in this market are attractive, with growth in expenditure on eating outside the home. Our market share gains are the result of consistent investment in pubs, creation of better and more interesting menus, and the offer of outstanding value for money to customers in a traditional pub environment.

Pub usage is also increasing amongst families, females and more mature customers. We have benefited from this trend by upgrading our pubs, consistently improving our wines and spirits offers, targeting promotions and marketing and developing our menus.

3. Recruit skilled tenants and lessees better able to compete in a developing market
Recruiting good quality licensees is vital to the success of Marston's Pub Company. In order to ensure that we are able to continue to do so, our approach is one of 'Sustainable Growth and Uncompromising Standards'. In practice this means providing more support for tenants, placing more emphasis on training and investing more in pub standards.

The introduction of longer term lease agreements in 2003 has increased our ability to attract better licensees. These agreements are typically for 21 years and are assignable, enabling licensees to realise value for goodwill they have generated.

We are committed to ensuring that licensees are properly informed before they join Marston's Pub Company. This year we achieved accreditation from the British Institute of Innkeeping ('BII') for the standard of our disclosure of information to prospective licensees.

We insist on the use of 'plain English' in our agreements. We commit not to use upward-only rent clauses and have introduced a wide range of initiatives: a three month 'cooling off period' for tenants, open-book accounting, a requirement for tenants to set aside repair funds, online ordering through 'My Marston's Online' and a mandatory training programme for tenants.

Tenant and lessee seminars are held across the country and are designed to provide development advice to tenants on a wide range of subjects from food development to compliance, together with the interpretation of legislation. These seminars complement other resources available including web-based information, DVD based business tools and an in-house magazine ('Bar Runner').

The role of Business Development Managers
The relationship between Business Development Managers and licensees is also important. We limit carefully the number of pubs for which each manager has responsibility to around 50 pubs in order to improve communication with licensees. Each of our Business Development Managers has been trained using the BII course 'Profitable Business Portfolio' and we have our own internal modular development course, the 'Pedigree People Programme', designed to develop all-round business skills.

4. Increase distribution of our ale brands
The beer market in the UK is mature and in recent years has declined in volume by around 2-3% each year. The lager market has consistently outperformed the ale market which has declined in volume by around 4-5% each year. The increasing focus by some of our competitors on lager brands has exacerbated this trend.

Brewing margins have also declined over time as a consequence of the growing importance of large pub companies and take-home retailers who benefit from purchasing economies of scale.

Recognising these trends, our strategy is:

- **To focus on premium cask ale brands with provenance and heritage.** Last year, Marston's Pedigree increased volume by 6% and Jennings Cumberland Ale by 30%. The acquisition of Ringwood Brewery in Hampshire in July 2007 was consistent with this strategy.

- **To focus on extending our trading geography through free trade distribution.** The acquisitions of Eldridge Pope and Ringwood Brewery included free trade sales teams and distribution in the south of England.

- **To capitalise on our strong emphasis on beer quality.** Marston's Beer Company invests in Beer Quality Technicians whose role is to advise on beer keeping and beer quality. In 2005 we introduced 'Cask Force' – an annual competition for tenants, free trade customers and tenants of other pub companies who stock our cask beers. Now in its third year, the competition attracted approximately 2,500 customers in 2007. Winners are rewarded with free cellar training and the potential to win the value of their annual rent.

THE PROPORTION OF RETAIL SALES IN MARSTON'S INNS & TAVERNS REPRESENTED BY FOOD SALES IS NOW 34%, COMPARED TO 27% IN 2003.

▪ **Consistent marketing.** Marston's Beer Company invests around £5 million per year:

a. Advertising campaigns for Marston's Pedigree emphasise our 'Uncompromising' approach to quality.

b. Marston's Pedigree is The Official Beer of England Cricket. Marston's sponsored Sky's coverage of the Cricket World Cup in the West Indies and the World Twenty20 tournament in South Africa. We have commercial arrangements with county cricket teams including Surrey ('The Official Beer of The Oval'), Middlesex ('The Official Beer of Lords'), Derbyshire, Durham, Gloucestershire, Warwickshire, Worcestershire and Somerset.

c. Banks's sponsors Walsall FC ('The Banks's Stadium'), and focuses other sponsorship activity on local radio and local music.

d. Jennings - 'The Genuine Taste of the Lake District' - sponsors the Keswick Jazz Festival, The Lowther Show and supports The Outdoor Show at the National Exhibition Centre in Birmingham.

5. Create greater value for shareholders through vertical integration

Marston's Beer Company generated approximately £25.3 million of EBITDA in 2007 from approximately £120 million of capital employed representing a cash return on capital of 21%.

In addition, we believe that vertical integration confers clear benefits to Marston's:

a. Economies of scale: we distribute a range of drinks brands to over 4,000 pubs and clubs, including our own pubs and around 2,000 free trade customers.

b. Lower costs: we brew our own ales and control our own supply chain providing greater control of costs and a more flexible service to our customers.

c. Greater potential for creating value: when considering acquisitions we take into account the benefit of increased distribution of our own beer brands.

6. Match freehold assets with long term fixed rate financing

An important feature of our pub estate is that 98% by value of our pubs are owned on a freehold or long leasehold basis, as we believe that this is the most effective way of ensuring that we have sufficient operational flexibility to maximise the trading potential of each outlet. This flexibility includes being able to invest appropriately in response to changes in customer preferences or to better utilise land and buildings to maximise trading potential. Over the long term, shareholders have also benefited from significant capital appreciation.

Our accounting policy is to revalue our properties on a regular basis so that the carrying value does not differ significantly from fair values at each balance sheet date.

Historically, the cash flow from well-invested community or neighbourhood pubs such as ours has been relatively stable. The combination of predictable cash flow and the substantially freehold nature of our estate can be used effectively to support long term secured debt at relatively low cost. Following the refinancing we announced on 19 November 2007, approximately 85% of our pubs are part of a securitisation structure.

In addition to this securitised debt we have interest rate swaps in place such that all of our debt is at effectively fixed rates of interest with a blended rate of approximately 6.1% post the recent refinancing.

In matching freehold assets with long term financing, we have set a target range for interest cover of between 2.25 to 2.75 times. Interest cover for the year just ended was 2.5 times, reflecting the return of £120 million to shareholders and acquisitions made during the year. We will continue to ensure that the balance sheet is efficiently financed having regard to the strong underlying cash flow of the business.

Recent developments in property financing such as Real Estate Investment Trusts (REITs) and structures which involve the disposal of property assets have focused attention on the underlying attractions of freehold pub estates. We do not currently believe that the potential benefits of these structures outweigh the implementation costs or their increased risk, but will nevertheless continue to review the situation as the market develops.

THE MARKET

In developing our strategy we have recognised a number of important long-term trends which will continue to influence the pub market for the foreseeable future. These trends are, in our view, likely to be accelerated by the introduction of the smoking ban and by wider social and demographic changes in the population as a whole.

1. More people are visiting pubs but usage is becoming less regular

Visiting the pub is an important element of socialising for many people, with around 40% of adults estimated to visit a pub each week*. Historically, pub visits were predominantly by men and pub offers were significantly drinks-led. However this is changing, with pubs now appealing to a broader cross-section of people. Our greater focus on making pubs more attractive to a wider consumer audience, and specifically to families, females and more mature customers, reflects these changes. Around 29% of women now visit the pub at least once a month* and around 13% of pub visits now include families*, with visits by both of these customer groups increasing.

2. Eating out is becoming the reason for more people visiting pubs

The eating out market is estimated to be in real growth with expenditure on food and drink products now greater outside the home than at home (Source: National Statistics Office). 26% of pub visits now include the consumption of a meal*. The pub sector has increased its share of this market in recent years through investment in pubs, development of more interesting menus, higher service standards and offers that are good value for money.

Food sales now represent 34% of sales in Marston's Inns and Taverns, with strong like-for-like sales growth in recent years. Our investment plans reflect the growing importance of food and we anticipate that food sales will be 40% of total sales in the next 3-5 years.

3. Wines and spirit sales are showing strong growth

Over the last 5 years Marston's sales of wines and spirits have increased by over 70%, and in the UK pub sector as a whole they increased by 20%. This increase reflects the growth of eating out in pubs and the steps taken to improve the range and choice of wines and spirits offered to pub visitors. More people are consuming wine as an alternative to other alcoholic drinks, with around 66% of ale drinkers also drinking wine.

*Source: TNS AlcoVision

THE ACQUISITIONS OF ELDRIDGE POPE AND RINGWOOD BREWERY EXTEND OUR TRADING GEOGRAPHY IN THE SOUTH OF ENGLAND

4. There is an increasing price disparity between supermarkets and pubs

The importance of offering a broader experience for pub visitors is highlighted by the increasing price differential between beer sold in pubs and beer sold in the off trade, estimated to be a difference of around £1.50 per pint for premium lager (Source: A C Nielsen July/August 2007).

Marston's Inns and Taverns has long recognised this trend and has sought to make pubs more attractive through investment and reduce its reliance on draught beer products. Marston's Pub Company has similarly reduced its reliance on drinks through a regular programme of estate churn which has resulted in the disposal of over 1,000 pubs since 2000. Marston's Beer Company has focused increasingly on premium cask ale, a product category which is unique to pubs and clubs and which offers greater scope for differentiation. In 2007, the volume of premium ale sold by Marston's Beer Company increased by 9%.

DIVISIONAL PERFORMANCE FOR THE FINANCIAL YEAR ENDED 29 SEPTEMBER 2007

1. Marston's Inns & Taverns

Total turnover increased by 11.2% to £367.8 million (2006: £330.7 million). Underlying operating profit increased by 5.0% to £66.7 million (2006: £63.5 million).

Like-for-like sales growth of 4.6% was achieved against a challenging background including the introduction of the smoking ban and poor summer weather which caused serious flooding in June and July 2007, materially affecting around 50 managed pubs.

This was nevertheless a good performance, helped significantly by like-for-like food sales growth of 13.3%. Marston's Inns & Taverns has captured market share of the casual dining market over a 5 year period and has increased food sales from 27% of retail turnover in 2003 to 34% in 2007. Including associated drinks sales, we estimate that 65% of total sales are now made to customers for whom dining is the primary reason for visiting the pub.

This growth in food sales has been achieved through consistent investment in upgrading pubs, menu development with a greater emphasis on local sourcing, healthy eating and focused promotional activity targeted on families and a more mature customer base.

The development of a number of operating formats which are appropriate for different markets has also contributed to this strong performance. Our community food-led formats include Marston's Tavern Table and Marston's Two for One. These formats offer excellent value for money in modern, well invested pubs and in each case food sales are over 50% of total retail sales. Food sales are also important for our high street brands, Pitcher & Piano, Que Pasa and Bluu, with food sales representing between 15% and 30% of total sales in those outlets.

Like-for-like wet sales increased by 0.6% against strong comparatives which included the benefits of a good summer and the 2006 football World Cup. This growth is a consequence of the introduction of a range of initiatives including investment in glycol cooling within our managed pubs, enabling draught beers to be served consistently at a lower temperature, thus meeting increased consumer demand for colder beers. We also introduced a formal guest ale policy, helping to increase premium ale volumes by 9% and we regularly update and improve our wines and spirits offers, achieving volume growth of 9% in this category during the year.

Underlying operating margin was 18.1% (2006: 19.2%) reflecting the acquisition of Eldridge Pope and the timing of achieving associated cost savings. Price increases during the year were broadly inflationary, with cost increases from the 6% rise in the minimum wage in October 2006 and higher energy prices. These cost increases were offset by retail price increases and the removal of SkyTV from nearly 100 pubs.

The Eldridge Pope pub estate of 153 pubs, including 40 tenancies, has performed in line with expectations and the integration process is complete. Of 18 pubs earmarked for disposal at the date of acquisition, 12 have been or are in the process of being sold. Opportunities for the extension of branded high street bars were also identified. To date, four Marston's unbranded pubs have been converted to Que Pasa, with further conversions planned in 2008.

Marston's Inns & Taverns' strategy of investment in new build pubs is the principal driver of organic growth in the division. We aim to open 20 new pubs per year, having achieved 19 openings in 2007. All new community pubs have Marston's branding and are located in areas of significant residential development. The majority have a food sales mix of 50-60%, and so we anticipate that the current food sales mix of 34% will rise to around 40% by 2010 provided the current rate of development is maintained.

An important element of our emphasis on high levels of customer service in our pubs is training. Marston's Inns & Taverns runs a full range of structured induction and development programmes for staff and licensees and benefits from a dedicated in-house training centre.

2. Marston's Pub Company

Total turnover increased by 12.4% to £200.9 million (2006: £178.8 million). Underlying operating profit increased by 13.1% to £90.8 million.

These results were achieved against a challenging background including the introduction of the smoking ban and poor summer weather, with around 100 tenanted pubs seriously affected by flooding.

Operating margin increased by 0.3% to 45.2% (2006: 44.9%). Average EBITDA per pub increased by around 13% to approximately £65,000 per pub demonstrating the improving quality of the estate. This increase reflects underlying growth of around 3% and the effect of the disposal of 279 pubs to aAim Group in May 2007.

Income is made up of rent charged to tenants or lessees, the margin made on supplying a range of drinks products - principally beer, stouts, cider, wines and spirits - and our share of gaming machine income.

Of our 1,722 tenanted or leased pubs, over 50% are leased on long term agreements with five year rent review periods. The remainder are let on shorter term agreements with typically three year rent review periods. The underlying rate of rental increases, including the effect of rent reviews was approximately 3%.

During the year income from gaming machines fell by 2.4%, influenced in the second half-year by the introduction of the smoking ban. The experience of pub operators in Scotland was that the smoking ban had a disproportionate effect on gaming machine income and this decline was therefore expected. The majority of our agreements are on the basis of a 50% share of machine income after rent payable on gaming machines.

Other than the disposal of 279 pubs in May 2007 changes to the estate included the acquisition of 33 freehold pubs trading as Sovereign Inns in January 2007 and 40 tenanted pubs within the Eldridge Pope estate. Additionally, 27 pubs were acquired during the remainder of the year including seven acquired with Ringwood Brewery and four from The Rutland Pub Company. The Hourglass in Devizes was opened in August 2007 and is Marston's Pub Company's first new build tenanted pub.

In addition to the recruitment of good tenants and lessees the quality of pubs in the estate is a key factor behind our strong performance. We invested £48.5 million, including 118 major refurbishment schemes, much of that investment being targeted at providing tenants with more opportunities to develop or extend their food offers. Across Marston's Pub Company around 80% of our pubs have a meaningful food offer.

Marston's Pub Company has supported tenants in a number of ways during this challenging year. Tenants and lessees of the 100 pubs severely affected by flooding experienced significant disruption, although insurance cover for flood damage and loss of business has offset these losses substantially.

We also supported tenants by investing in pub gardens, patios and shelters ahead of the introduction of the smoking ban, with around £10 million invested in around 1,400 schemes.

3. Marston's Beer Company

Total turnover was £84.1 million (2006: £86.0 million). Underlying operating profit was £17.4 million (2006: £18.0 million).

There are two specific areas where we have lost business. Firstly, as a consequence of the acquisition of Pyramid Inns by Admiral Taverns in 2006, Marston's Beer Company is no longer the principal supplier to the former Pyramid pubs. Secondly, we have reduced the level of trade we have with third party wholesalers to protect margins and improve control over assets, principally containers. These events will continue to impact upon turnover until March 2008, although the profit impact is minimal.

Our own core brands performed strongly and ahead of the market, with volumes up by over 6% overall. The UK ale market declined by around 5% last year, consistent with long established trends which we expect to continue. Against this trend, our premium ale brands have continued to show strong growth, with Marston's Pedigree up by 6% and Jennings Cumberland Ale up by 30%. Ringwood Brewery, acquired in July 2007, also performed well. Our own brands' market share of the premium cask ale market is now over 20%.

This strong volume performance is linked not only to acquisitions made during the year, in particular Eldridge Pope, but also to our association with cricket. Becoming 'The Official Beer of England', and the subsequent sponsorship of Sky's coverage of international cricket events, has significantly raised the profile of Marston's beer brands.

We have also benefited from our continued focus on good quality regional cask ales with positive imagery, particularly the Jennings beers. The recent acquisition of Ringwood Brewery and the completion of new three year supply agreements for Fosters, Carling and Carlsberg, offers customers more choice than ever before.

Operating margin decreased by 0.2% to 20.7% reflecting increased investment in marketing, particularly in Marston's Pedigree, and higher energy costs.

Cost increases expected during 2008 include a significant increase in the price of malted barley, which will result in a cost increase of approximately £1 million per annum. This increase will be partly offset by the beneficial terms of the new lager contracts which have been renegotiated recently.

CURRENT TRADING

Trading overall in the 8 weeks to 24 November 2007 has been in line with expectations. Like-for-like sales in Marston's Inns and Taverns were 2.1% ahead of last year, including like-for-like growth in food sales of 9.1%. This growth was achieved against strong comparatives last year with reported like-for-like sales growth of 9.1% for the same period last year. Trading in Marston's Pub Company and Marston's Beer Company has been satisfactory.

Since the introduction of the smoking ban, trends which were previously in evidence before the ban have continued. Investments made in external trading areas, ahead of the introduction of the smoking ban and the continuing development of our food offers have contributed to our performance in the new financial year.

We remain cautious about consumer confidence, regulatory cost pressures and the short term impact of the smoking ban. We are, however, well positioned to continue to exploit current trends, including the continuing growth in casual dining. We regard our value for money offers and mid-market position as appropriate for the current economic climate.

In summary, each trading division has made good progress and is adapting well to the changing market.

GROUP TURNOVER INCREASED BY 9.6% TO £652.8 MILLION, AS A RESULT OF STRONG LIKE-FOR-LIKE SALES AND THE BENEFIT OF ACQUISITIONS.

FINANCIAL REVIEW

	Turnover		Underlying operating profit (note 2)		Margin	
	2007 £m	2006 £m	**2007 £m**	2006 £m	**2007 £m**	2006 £m
Marston's Inns and Taverns	**367.8**	330.7	**66.7**	63.5	**18.1**	19.2
Marston's Pub Company	**200.9**	178.8	**90.8**	80.3	**45.2**	44.9
Marston's Beer Company	**84.1**	86.0	**17.4**	18.0	**20.7**	20.9
Marston's Group Services	**-**	-	**(11.7)**	(9.5)	**(1.8)**	(1.6)
Group	**652.8**	595.5	**163.2**	152.3	**25.0**	25.6

Group turnover increased by 9.6% to £652.8 million, as a result of strong like-for-like sales and the benefit of acquisitions. Underlying operating profit increased by 7.2% to £163.2 million and underlying earnings per share increased by 10.1% to 26.2 pence per share.

Operating profit after exceptional items was £160.7 million, up 5.5% on the prior year, and underlying basic earnings per share (after exceptional items) was 27.9 pence per share, up 17.2% on the prior year.

Key Performance Indicators

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

	2007	2006
Group		
1. Underlying earnings per share	26.2p	23.8p
Marston's Inns & Taverns		
2. Like-for-like sales growth	+4.6%	+2.4%
3. New site openings	19	12
Average profit per pub		
4. Marston's Inns & Taverns	£206k	£202k
5. Marston's Pub Company	£65k	£57k

Definitions

1. Underlying earnings per share is basic earnings per share before exceptional items.
2. Like-for-like sales growth is the percentage change in turnover from all managed pubs owned by Marston's for the whole of the current period under review and the prior comparative period.
3. New site openings are the number of managed pubs opened either as 'new build' pubs, or acquired and refurbished managed pubs in the period under review.

4/5. Average profit per pub is average earnings per pub before interest and depreciation (EBITDA) for those pubs which have traded for 12 months in the period under review.

Dividend

The proposed final dividend of 8.47 pence per share gives a total dividend for the year of 12.83 pence per share, an increase of 20% on the prior year. Dividend cover at the year end is 2.0 times (2006: 2.2 times).

Acquisitions

Eldridge Pope was acquired on 25 January 2007 for £156.5 million, comprising consideration of £84.5 million for the equity and net debt acquired of £72.0 million. The Eldridge Pope properties were valued independently at £129.6 million. Goodwill arising on the acquisition was £58.3 million (note 32).

In the current financial year the Eldridge Pope acquisition has been broadly profit neutral and we forecast that it will be earnings enhancing thereafter. The integration has been completed successfully and the Group is currently realising synergies of £4.6 million per annum, as anticipated.

Sovereign Inns was acquired on 16 January 2007 for £19.6 million, comprising consideration of £14.3 million for the equity and net debt acquired of £5.3 million. The Sovereign Inns properties were independently valued at £19.1 million. Goodwill arising on the acquisition was £4.8 million (note 33).

The Ringwood Brewery, including seven freehold pubs, was acquired on 12 July 2007 for £17.8 million, comprising consideration of £19.9 million for the equity and net cash acquired of £2.1 million. The acquired properties were independently valued at £9.9 million. Goodwill arising on the acquisition was £6.3 million (note 34).

Disposals

As part of our overall strategy to continually improve the quality of our estate, on 10 May 2007 we sold 279 tenanted pubs to Piccadilly Licensed Properties Limited, a company owned and controlled by aAim Group, for a cash consideration of £82.5 million. The pubs had an asset value of £81.1 million and generated annual EBITDA of £7.5 million.

Capital expenditure

As well as improving the overall quality of our estate through the aggressive churning of our portfolio, we continue to invest significant amounts of capital expenditure to ensure we maintain a pub estate of the highest quality. Total capital expenditure for the Group was £146.3 million and included £48.5 million spent in Marston's Pub Company and £37.4 million spent in Marston's Inns and Taverns, in addition to £46.0 million spent on purchasing new pubs and new site developments.

Share buy-backs

During the year the Group purchased 28.1 million Marston's shares at a total cost of around £120 million. As planned, we expect to complete the remainder of the previously announced commitment to £150 million of share buy-backs in this calendar year.

Financing

Net debt increased to £1,189.1 million at 29 September 2007, compared to £893.7 million at 30 September 2006. This increase is principally as a result of the three acquisitions and the ongoing share buy-backs referred to above.

For the year ended 29 September 2007 the ratio of net debt to EBITDA was 5.8 times and interest cover 2.5 times. Net finance costs before exceptional items have increased by £14.4 million compared to the prior year, primarily as a result of the increased net debt but also as a consequence of higher short term interest rates during the year.

Since the year end we have taken advantage of more attractive long term interest rates to fix the cost of all of our bank debt using interest rate swaps.

Post balance sheet event – debt refinancing

We announced on 19 November 2007 the terms of a £330 million tap of our securitisation backed by the transfer of 437 freehold and long leasehold tenanted pubs from the non-securitised estate to the securitised estate. The transaction completed on 22 November 2007. The net funds raised were used to repay existing bank facilities. Our strong credit profile and the high quality of our pub estate ensured we achieved a very competitive cost of financing and also increased the financial and operational flexibility of the Group. At the same time, we maintained £400 million of the existing bank facilities, resulting in available bank facility headroom of £250 million at 22 November 2007.

Following this refinancing, all of our borrowings are at effectively fixed rates of interest with a blended cost of debt of approximately 6.1%.

Treasury, risk and internal controls

The Group regularly reviews its forecast short term and medium term cash flows, and excess cash is either placed on short term deposit or invested in deposits which are refundable on demand.

All of the Group's borrowings are now fixed through a combination of fixed rate securitised debt and interest rate swaps. The financial risks faced by the Group are managed in accordance with Board approved policies and are subject to regular internal review.

The banking and securitisation covenants are reviewed throughout the year as part of the internal reporting process with a focus on ensuring appropriate headroom is available. Every six months the financial position of the Group in respect of the securitisation covenants is reported externally to financial institutions and made available on the Group's website (www.marstons.co.uk). Operational compliance with all securitised covenants is managed and regularly reviewed by the treasury, risk and internal audit function.

We have an ongoing programme to identify key operational and financial risks across the Group and, where possible, to mitigate the potential impact of those risks. This programme is managed by the treasury, risk and internal audit function.

Pensions

The Eldridge Pope Pension Scheme was merged with the Marston's PLC Pension and Life Assurance Scheme on 7 September 2007. An additional contribution of £11.3 million has been made to the Marston's PLC Scheme since the year end as a consequence of the different funding levels of the schemes at the time of merger. The previously disclosed schedule of top-up contributions of £7.2 million per annum, intended to eliminate the Marston's PLC Scheme funding deficit by 2014, will increase to £10 million per annum as a result of an agreement with the pension trustees in relation to the refinancing announced on 19 November 2007 and the merger of The Eldridge Pope Pension Scheme.

The deficit on our final salary pension scheme reduced to £38.6 million before tax (2006: £53.1 million), and £27.8 million after tax (2006: £37.2 million).

Estate revaluation

During this financial year around 2,000 pubs have been revalued principally as a consequence of the refinancing referred to above. This has resulted in a net gain of £162 million (an after tax gain of £117 million after accounting for the associated deferred tax) which is equivalent to an average increase of approximately 12% compared to book values. The majority of these pubs were last revalued in 2005. This uplift in valuations demonstrates the continued benefit we accrue from the ownership of a predominantly freehold estate.

Share split

The Group completed a 4-for-1 share split on 9 January 2007. Historic earnings per share have been restated to reflect the split (note 9).

Taxation

The underlying rate of taxation (before exceptional items) has reduced to 21.0% from 27.8% in 2006. This is due principally to a deferred tax credit in respect of properties, mainly due to indexation allowances, and the favourable agreement of certain prior year tax issues.

The benefit of the basic rate of corporation tax falling from 30% to 28% and changes to the capital allowances regime have resulted in a reduction in the deferred tax provision of £7.2 million. This has been accounted for as a one-off exceptional item which, together with £1.0 million of tax relief on exceptional costs, has resulted in an exceptional tax credit of £8.2 million.

Exceptional items

There is a net exceptional credit of £4.9 million after tax, comprising the £8.2 million tax credit referred to above, offset by £3.3 million of costs in relation to the acquisition of Eldridge Pope.

PRINCIPAL RISKS AND UNCERTAINTIES

Marston's employs a range of controls to manage risks to within an acceptable level of tolerance. It is recognised that a detailed understanding of the principal risks faced at a strategic business unit level is essential for the Group's sustainable development. The thorough approach to risk management is valued by Marston's as an additional means of developing competitive advantage. The Board and the Audit Committee have a shared understanding of the principal risks while our risk management programme, described in the Corporate Governance Report, ensures that the awareness of risk is constantly promoted within the Group.

The following is a list of the **principal** risks and uncertainties faced by Marston's. This is not a comprehensive list of all significant risks and uncertainties faced by the Group. Furthermore, by their very nature, the key risks associated with our strategic objectives can change over time.

The potential threats posed by risks are mitigated where possible to reduce the likelihood and impact of occurrence. The effectiveness of the internal control environment in mitigating these risks is regularly reviewed by management with the assistance of Internal Audit and reported to the Audit Committee. The Audit Committee reviews the risks to gain assurance that the Group has adopted the most appropriate response and that the assessment of the risk is within a range that the Board deems acceptable.

1. Risk of misunderstanding consumer behaviour in a highly competitive market

Marston's operates in a very competitive environment that evolves as a result of social and demographic changes and changes in consumer tastes.

The risk is that Marston's does not detect or react quickly to these changes or misinterprets them, thus losing competitive advantage. Marston's seeks to manage this risk by understanding current trends in consumer behaviour and by anticipating future trends, thus ensuring that our brands and offers meet consumer expectations. An example of this is the scale and style of investment in pubs to meet increasing demand for food and to attract a greater proportion of families, females and more mature customers.

Marston's follows a thorough information gathering process to gain a good understanding of sales trends both at a macro level and in individual outlets, comprising managed or tenanted pubs and free trade accounts. This information is regularly monitored to support the development of our pubs and beer brands.

In particular, Marston's Inns and Taverns uses electronic point of sale (EPOS) systems to provide detailed information which is used to understand trading patterns and manage margins.

We also review trade market research and work with suppliers to identify new opportunities.

The quality, organisation and training of our staff are critical in understanding and responding to market changes. By engaging with our customers, a ground level awareness of consumer preference is communicated throughout the Group from pub staff and managers, through the network of area managers, to divisional management.

2. Economic risk

The leisure sector in which Marston's operates is sensitive to economic conditions within the UK. The health of the economy is important to the Group's success. A significant downturn in consumer spending would present a risk to the Group's financial performance.

Marston's has focused upon providing value for money for the consumer, which in turn provides a level of defence against a downturn in consumer confidence or expenditure. In addition, as previously explained, Marston's has a robust information gathering process aimed at detecting changes in consumer behaviour, including those influenced by economic factors. This allows Marston's to react quickly to changing circumstances in order to provide the most appropriate and competitive consumer offers. Additionally, the wide geographical spread of Marston's business reduces the effect of local economic conditions on trade.

3. Risks due to seasonal factors and adverse weather

Trade in pubs is sensitive to seasonal factors and the weather. Trade is generally higher during traditional holiday periods and in particular during Christmas, New Year, Easter and Bank Holidays. Trade is also higher over the summer months than at other times of the year.

In summer, prolonged periods of good weather generally have a positive impact on trade and in particular the use of pub gardens, whereas unseasonably wet or cold weather will have a negative impact. In winter, prolonged periods of snow or ice have a similar negative effect.

Weather conditions can also influence the demand for certain drinks categories, for example, demand for cold draught products increases in hot weather.

Certain sporting events, particularly those relating to football such as the World Cup or European Championships,

MARSTON'S HAS FOCUSED UPON PROVIDING VALUE FOR MONEY FOR THE CONSUMER.

are generally good for those pubs offering televised coverage. The success (or otherwise) of national teams can also have an impact.

Marston's investment in pubs is designed to reduce the worst effects of the weather and achieve maximum benefit from good weather, for example, by developing attractive outside drinking areas and gardens.

4. Acquisition risks

As explained on page 7 Marston's has an objective to develop the business both organically and by acquisition. Growth by acquisition presents a number of risks, including the risk that expected returns are overestimated, together with the risks associated with integration. Integration risks include the following: expected cost savings are not achieved, key employees are lost to the business, systems integrations are not effectively managed and focus on the acquired business is not maintained during the integration period. There is a careful balance to be struck between taking advantage of opportunities in the market as they appear, and ensuring that such acquisitions are an appropriate fit within the existing business, acquired at the right price and effectively integrated.

To mitigate these risks all significant purchases of property require Board approval. The Board considers acquisitions in terms of their contribution to strategic objectives and against agreed financial criteria. Marston's has a rigorous due diligence process to gather information on potential purchases and identify any incompatibility. Marston's also has an experienced management team with a proven record in integrating acquisitions of breweries, managed and tenanted pubs. These factors significantly improve the ability to achieve the targeted rates of return from acquisitions.

5. Risk to brand reputation

In addition to the "Marston's" brand name the beer brands owned by the Group include some of the country's best known names in premium and standard ales, such as Marston's Pedigree, Banks's and Jennings Cumberland Ale. Branding is also important to Marston's Inns and Taverns, particularly for Pitcher and Piano and the more recently acquired development brands such as Bluu and Que Pasa. The Group therefore has many interfaces with the public where its reputation is potentially at risk. The increasing importance of food within our pubs also increases risk and requires a greater focus on health awareness and compliance with food related legislation.

Reputation is central to our business and essential to long term success and Marston's strives constantly to strengthen controls to reduce the impact of potential threats.

A strong control environment designed to protect and enhance reputation and build on brand values requires a consistent focus on maintaining the high quality of our products and services. Quality within our breweries is carefully monitored and audited by specially trained staff. Our major retail customers also carry out quality tests at our brewing sites to provide additional assurance on product standards. Our pub managers, tenants and free trade accounts are all supported by a team of Beer Quality Technicians, who provide them with on-site beer quality advice.

In all areas of our business the training of our staff is essential in protecting reputation. In our managed pubs the training of staff is of the highest priority and Marston's Inns and Taverns constantly seeks to increase the depth of experience and responsibility of its staff. An example of this is our Keyholder Programme which has been introduced in many of our managed pubs in order to safeguard the work/life balance of our managers and increase the level of responsibility amongst the other members of staff within their pubs.

6. Risk from the ban on smoking in public places

The ban on smoking in enclosed and substantially enclosed public places and working environments became law in Wales on 2 April 2007 and in England on 1 July 2007.

Following the ban there is a risk to turnover if smokers are not sufficiently accommodated at our pubs. This risk is believed to be greatest in the first 12 months of the ban as Marston's and our customers adapt. At the same time the ban also represents an opportunity to attract new customers to the pub, to improve sales of food and coffee and to capitalise on improved outside areas.

To mitigate the risk of the smoking ban Marston's has been making preparations since 2005. Experience in other countries where the ban has been brought in earlier was researched and a cross-divisional management group was set up in order to co-ordinate a Group-wide response. As a consequence, substantial investment in our managed and tenanted pubs was achieved in advance of the ban. Marston's Inns and Taverns has invested significantly in outside trading areas mainly patios, all weather shelters, awnings and gardens. Marston's Pub Company has assisted tenants and lessees with investments in similar improvements.

Support, guidance and financial assistance are also provided to our free trade customers. This area of our trade is more exposed as Marston's has no direct control over these businesses.

The increasing importance of food in recent years, particularly in Marston's Inns and Taverns, also helps to mitigate this risk. Marston's strategy in respect of food development is described on page 7.

7. Risk from increased regulation

Marston's operates within a framework of licensing legislation which in the main is conducive to business. The risk is that the Government, local authorities or other government agencies could introduce measures which may adversely affect trade in response to political pressures, social or health concerns.

Marston's seeks to demonstrate a highly responsible approach to the consumption of alcohol to all its stakeholders including licensing authorities. This approach is set out in the Corporate and Social Responsibility Report on page 22 of this Annual Report.

Marston's is a signatory to The Portman Group's Code of Practice (www.portman-group.org.uk). The Code seeks to ensure that drinks are marketed in a socially responsible manner. Our beers are produced in accordance with the Code which covers the naming of drinks, packaging, point of sale advertising, brand websites, sponsorship, branded merchandise, advertisements and sampling. The Group also helps to fund The Drinkaware Trust, an independent UK-wide, public-facing body with the objective of changing public behaviour to help reduce alcohol misuse and minimise alcohol-related harm.

Similarly all of our managed pubs seek to comply with industry initiatives such as 'Challenge 21' which extend the Group's responsible approach beyond its strict legal obligations. We also encourage licensees in our tenanted and leased estate to support this initiative and have a network of Business Development Managers assisting them on a range of compliance matters. We recently introduced a free 24 hour legal helpline for licensees to call for expert advice.

We have a dedicated compliance team that checks regularly for licensing issues with local authorities and other interested parties to help maintain good working relationships within the community.

8. Information technology ('IT') risks

The quantity of information and the high number of transactions carried out by Marston's means that the efficiency of operations has become increasingly reliant on IT. This is particularly true for our managed pubs where our EPOS and online ordering systems play a central role with regard to price control, transaction recording, stock management and purchasing. For our commercial activities any protracted periods of downtime could significantly affect performance.

The advanced nature of our IT systems means Marston's benefits from rapid communications, high processing speeds, clear accountability, authorisation and data security. The integrity and smooth operation of Marston's communication systems is critical to the overall efficient management of our business. There is a risk that serious disruption could result if the system failed for an extended period of time, backed up information was lost or could not be recovered swiftly.

In order to protect against these risks comprehensive controls are in place to ensure that information is routinely backed up. The arrangements for data recovery and the physical protection of our data servers are regularly reviewed and adapted to take advantage of new advances in technology. Marston's has internal targets for recovery times and invests in new server hardware to ensure that these targets remain realistic. The risk of disruption is reduced by investing in further data capacity as demand dictates and by developing a technologically high level of protection. To guard against outside interference, penetration testing is regularly performed to monitor the strength of protection provided by the Group's firewall and anti-virus systems.

ENVIRONMENTAL IMPACT AND USE OF NATURAL RESOURCES

Marston's produces an annual Environmental Report which explains the Group's impact in terms of energy and resource consumption, emissions and waste. The 2007 Environmental Report is available on the corporate website (www.marstons.co.uk) together with the Group's Environmental Policy Statement.

Our business, both pubs and breweries, impacts on the environment and local communities in a number of ways by:

- Using raw materials and agricultural products
- Using energy (gas and electricity) and water
- Emitting greenhouse gases, odours and noise
- Transportation, delivery and distribution of our products and employees
- Generating packaging which requires disposal
- Production, disposal, collection and processing of our waste solids and effluents

Of these six areas we have identified that our largest environmental impacts are in the areas of energy consumption, water use and waste production and we have prioritised the management of these accordingly.

Environmental data

	Unit	2007[3]
Consumption/usage		
Gas	GWH	214.8
Electricity	GWH	96.3
Water (breweries)[1]	'000 M^3	672.4
Fossil fuel[2] **(diesel)**	'000 gallons	511.3
Emissions		
CO_2[2]	'000 tonnes	87.4

Notes
1. Excluding Ringwood Brewery acquired in July 2007.
2. Company car fuel usage is not currently measured and is excluded from the calculation of carbon dioxide emissions and fuel usage. The fuel figures shown are for the distribution fleet.

3. The environmental data shown above for 2007 is not available in a comparable form for 2006.

In the 2007 Environmental Report, Marston's explains its environmental impact in depth and publishes figures for energy consumption for the Group as well as emission volumes of carbon dioxide from fossil fuel consumption – electricity, gas and transport fuel (distribution fleet). The only greenhouse gas directly produced by the brewing process in significant volume is carbon dioxide. The report also sets out the efficiency ratios achieved by our operations at each brewing site in terms of carbon dioxide emitted per tonne of product and water consumption per barrel of product.

Our largest production sites at Wolverhampton and Burton upon Trent comply with the Integrated Pollution Prevention and Control (IPPC) standards as regulated by the Environment Agency. The IPPC permit is issued by the Environment Agency once a year and allows the site to process, ferment and package beer and associated products. The permit sets out the authorised emissions to the air and sewers and the controls expected to reduce any environmental impact. The permit specifies the standards of management expected for:

- training
- maintenance of plant and equipment
- incidents and complaints
- efficient use of raw materials
- waste storage, handling, recovery and disposal
- energy efficiency
- noise and vibration levels
- monitoring, recording and reporting
- closure and decommissioning of plant and equipment

The Environment Agency conducts an annual audit of the Wolverhampton and Burton breweries and will, if necessary, raise points of improvement which must be confirmed as completed by agreed dates.

As part of the brewing industry's climate change agreement Marston's is committed to reducing our emissions by increasing the efficiency of operations. Our 2010 efficiency targets compared to 1999 levels are split between the breweries as follows: Wolverhampton brewery aims to increase its efficiency by 32%, Burton upon Trent by 51% and Cockermouth by 2%. We have negotiated these targets with various stakeholders including the British Beer and Pub Association and DEFRA. The targets should produce an overall saving of around 12,000 tonnes of CO_2 based on 1999 production volumes. We are determined to meet these targets and, as a result, we expect to benefit from an 80% reduction in our obligation under the Climate Change Levy. Currently Wolverhampton is on target to meet the required efficiency, with our breweries at Burton upon Trent and Cockermouth making progress towards the targets and they have plans in place to ensure they are met. In addition to energy efficiency targets within Marston's brewing operations the Group has a range of other targets in order to reduce environmental impacts. These targets relate to water efficiency within the brewing process and energy consumption within our pubs.

The operation of Marston's breweries has been covered by an Energy Management System (EMS) for several years. In 2007 an EMS was introduced which will eventually cover the whole of the managed pub estate. More detail is given in the 2007 Environmental Report however, in summary, the aim is for Environmental Champions to be appointed and trained for all our managed pubs to promote energy monitoring, conservation of resources and waste recycling. In over a third of our managed pubs the EMS is backed up by individual Smart Metering on site (188 installations as at September 2007). Smart Metering of energy consumption at a pub level provides quantitative data for management to track and target future performance.

The levels of waste produced by Marston's are described in the 2007 Environmental Report. The majority of waste produced by the brewing process is recycled. Some of the waste from brewing such as malt and hops is recycled as animal feed whilst other waste such as glass, metal, cardboard, paper and polythene is recycled through contractors.

At present we recycle only a small proportion of the waste produced in our pubs because of the practical difficulties involved in co-ordinating the collection of relatively small amounts of waste for recycling from a large number of sites. However, we aim to decrease the amount of waste going to landfill over time and in 2008 we intend to review our contractual arrangements, allowing us to identify options to increase recycling from pubs and to develop quantitative targets.

Marston's has appointed a dedicated Energy Manager in order to roll out EMS across our managed estate, to increase the level of energy monitoring in the pubs, and set reduction targets and promote initiatives for energy reduction and efficiency in the head office.

Marston's has an Environmental and Social Responsibility Committee chaired by the Managing Director of Marston's Pub Company which reviews Marston's approach to a range of corporate responsibility issues including the environment. The implementation of the Group's Environmental Policy Statement is reviewed by the Committee regularly during the year.

Marston's was admitted into the FTSE4Good Index in September 2007. Inclusion within the Index is dependent upon achieving an expected standard in corporate responsibility including our policy towards monitoring and targeting reductions in our environmental impact. This is challenging, not least because the criteria continues to evolve to take into account responsible business practices from around the world. Marston's admission this year reflects the contribution of the Environmental and Corporate Social Responsibility Committee, the new initiatives in active energy management systems operated in our breweries and the EMS coverage over the managed pub estate.

KEY RELATIONSHIPS

Customers

As described earlier in this report and particularly in the section on the market on page 10, it is essential that customers' changing demands are understood and accommodated.
In all the Group's commercial activities the importance of excellent customer service is recognised as being of the highest priority.

Employees and employee development

The Corporate and Social Responsibility Report on pages 22 to 25 includes a detailed explanation of Marston's approach to employees and employee development.

Investment in the training and development of our employees underpins the successful implementation of our strategy. Working closely with a central development team, each trading division has developed training and development programmes relevant to their own employees using a combination of internal and external resources.
In Marston's Inns and Taverns there are a series of training modules designed to offer development opportunities for bar staff through to pub management, with specific programmes for chefs and trainee chefs. Development at Pitcher & Piano is specific to the needs of a prominent branded high street business and includes personal development coaching at the 'Pitcher & Piano Academy'.

In Marston's Pub Company and Marston's Beer Company, we have developed our own 'Pedigree People Programme' incorporating structured coaching for topics such as commercial awareness, organisation, negotiation skills and financial and legal matters.

Management development is monitored in-house but with the use of external organisations such as The Leadership Trust and London Business School where appropriate.

In addition to these structured initiatives, we offer regular 'Life-Long Learning' seminars on a wide range of work related and recreational subjects which are open to all employees. Last year, 50 seminars were attended by 551 employees.

Society and the local community

Marston's is aware of the importance of adopting a responsible attitude to the production and sale of alcohol. As previously explained in this report, threats to reputation are viewed as key risks for the business. As an operator of pubs the Group has an additional responsibility to the local communities in which its pubs operate. The Corporate and Social Responsibility Report on pages 22 to 25 explains Marston's approach to these issues.

Regulatory bodies

Marston's has important relationships with regulatory bodies, particularly the Licensing Authorities for the operation of our pubs, and the Environment Agency with regard to the IPPC permit.

With effect from 24 November 2005, the Licensing Act 2003 replaced the previous licensing system (1964 Licensing Act), thus abolishing magistrates' liquor licences, public entertainment licences and special hours certificates. The present licensing system is controlled by Local Authorities and is governed by strict guidelines laid down by the Government to ensure consistency. Anyone who authorises the sale of alcohol must have a personal licence and any premises used for the sale of alcohol must have a premises licence. Licensing objectives include prevention of crime and disorder, protection of public safety, prevention of public nuisance and protection of children from harm.

For our managed houses the achievement of the licensing objectives is of key importance for the management of the pubs and for the staff working in our premises. This is done by monitoring the operation of our pubs, internally testing compliance with the law, insisting upon a high level of training and conduct amongst our staff, and being attentive to concerns from local residents and the police.

The responsibility for licensing in our tenanted and leased properties is divided between the premises licence holder and the personal licence holder which is the licensee. Marston's has an interest in supporting its tenants and lessees in operating their pubs in accordance with the objectives of their licences. The Group does this by providing advice and support to tenants through the experience and training of our Business Development Managers and by providing expert legal advice on technical and everyday issues.

Our suppliers

The Group is able to achieve its current level of efficiency and profitability through the successful relationship it has with its suppliers. Marston's closely engages with its suppliers in order to gain a mutual understanding of each others businesses and dependencies. While Marston's is not dependent upon any one supplier, the relationship it has with its principal suppliers is important in order to maximise the benefits from operating on a large scale. In particular the concentration of large volumes of food and drink supplied by a relatively small number of companies brings significant cost advantages. The Group operates an ethical purchasing policy to ensure that purchasing is conducted in a transparent, confidential and fair manner and that Marston's commitment to environmental and social responsibility is shared by its supply chain.

Going concern

The Directors are confident, having reviewed the Group's budget for the 52 weeks to 27 September 2008 and relevant plans beyond that date, that the Group and the Company have adequate resources to continue in operation for the foreseeable future. This review included an analysis of business operating plans, proposed capital expenditure and associated cash flow projections. It also included a comparison of results and ratios within the Group's committed borrowing facilities. It is therefore considered appropriate to adopt the going concern basis in preparing the financial statements of the Company and the Group.

The Business Review was approved on 30 November 2007 on behalf of the Board by:

Ralph Findlay
Chief Executive

Paul Inglett
Finance Director

CORPORATE AND SOCIAL RESPONSIBILITY REPORT

The Marston's team

The Marston's Group (the Group) directly employs around 14,000 people offering opportunities in every county of England and Wales. In addition our 1,722 lessees and tenants within Marston's Pub Company also employ a significant number of people within a similar geographical spread.

No matter what you do, if you work for the Group you are helping to contribute to our success and as such the Group aims to offer every employee a competitive salary and benefits package.

As a reflection of the importance placed upon people within the Group, the Chief Executive takes responsibility for all people related matters, which are then delegated through the other Executive Board Directors and the Group's Director of Human Resources. The Group operates a full Equal Opportunities policy and a "Whistleblowing" policy, both of which are available on the Group's website: www.marstons.co.uk.

FIT

For a number of years the Group has operated a policy of "FIT" as the mantra by which we would choose to be judged. "FIT" applies equally to our employees, customers, suppliers and the Group's relationships with the wider community within which we operate.

"FIT" is a summary of three fundamental behaviours that apply throughout the Group.

Fairness - Any action, decision or policy adopted within the Group should be both equitable and reasonable. It should not result in one particular group of stakeholders gaining an unjustified advantage or benefit at the expense of another.

Integrity - If a commitment is made it should be kept. If it cannot be delivered, or circumstances change so that an alternative course of action is appropriate, this should be clearly explained.

Transparency - Wherever there is the freedom to do so, the Group should act in a manner that is open to the scrutiny of our employees and the wider community.

Talking to the team

Ensuring our people understand what we are doing and why we are doing it is crucial to our policy of operating in a "FIT" manner and fostering employee engagement. Even more importantly we try to listen to and act upon the feedback we receive in return.

Our confidential employee attitude survey is an important part of our employee feedback process. The next survey is due to be run in 2008 and we are confident that we will maintain and build upon the excellent scores we have achieved in previous years.

"The Word", the Group's employee magazine, is sent to all our employees and our pensioners, keeping them updated on Group events and providing an opportunity to record and celebrate employee achievements. This is supported by regular fortnightly or monthly briefing sessions held throughout the Group.

The Group has a long history of excellent consultative and collective bargaining relationships with its trade unions, at its breweries, distribution centres, head office and pub sites. Employee representatives, both Trade Union officials and lay members, have a significant and recognised role to play in developing our business and we intend to continue to encourage such participation.

Looking after our team

The Group operates a free Employee Assistance Programme providing confidential support for employees, either directly or through their manager, 24 hours a day, 365 days a year.

We also operate an outsourced Occupational Heath service which provides health support and advice to both employees and managers, together with more general work associated with promoting healthy living.

All employees have access to a pension arrangement and can participate in our hospital pay plan, providing financial assistance for a range of medical expenses.

More than 40 percent of employees within our head office and supply chain teams have been with us for more than 10 years and around 25 percent of our pub based staff have more than two years service. We recognise this loyalty and commitment with long service awards for both groups of employees.

A diverse team

Over 55 percent of our people work on a part time basis to suit their personal circumstances offering excellent opportunities for students, people returning to the work environment and those who find vocational rather than academic training the best way to maximise their potential. As a Group, with pubs and breweries that operate at the heart of local communities, we are proud that the people we employ are drawn from these communities.

CORPORATE AND SOCIAL RESPONSIBILITY REPORT

55 percent of our total workforce is female and of those undertaking management responsibilities 35 percent are woman.

We offer a Childcare Voucher Scheme providing employees with significant tax savings when paying for a whole range of childcare initiatives. Those employees whose tax arrangements mean that this scheme offers them no advantage have access to a specialised helpline designed to give them advice on how to take advantage of other kinds of childcare support which may be better suited to their needs.

The Group runs a development programme for our people that focuses specifically on issues relating to diversity and in addition, this topic also features in other development and training programmes such as recruitment and selection.

Marston's Inns and Taverns continues to be a member of the Employers' Forum on Disability. During the year we have an ongoing programme of accessibility audits of our outlets, often resulting in changes that make our pubs more accessible to customers and employees with a disability.

Developing employees

The Group has been continually accredited with the prestigious Investor in People standard since 1995 and has won a number of National Training Awards over the same period.

We support a wide and very varied range of professional and personal development opportunities from masters degrees to salsa dancing and everything in between so that everyone has access to the development they need to truly maximise their potential.

Bar and kitchen staff working in Marston's Inns and Taverns receive comprehensive induction, skills and health and safety training and can then opt to go on to undertake specialist courses in areas such as catering or cellar management before moving on to our Keyholder Programme. The Keyholder Programme is designed to encourage staff within Marston's Inns and Taverns' pubs to obtain the skills they need to ultimately manage their own outlet and potentially move into area management. Over 600 employees have successfully completed one of the stages of the Keyholder Programme and some have already moved into pub management roles.

We offer similar induction, job skills and health and safety training to all our industrial staff together with specialist courses such as fork lift truck and HGV driving. Ultimately they can graduate onto courses accredited by the Chartered Institute of Management (CIM) that prepare them for supervisory, technical or management roles.

For head office and management staff we run a large range of development programmes, some accredited by the CIM or other external training/education bodies. Our people are encouraged to apply for these in order to develop themselves and their teams. As well as internal programmes the Group supports many of its employees through further and higher education. This year has seen the introduction of the ground breaking "Pedigree People Programme" in Marston's Pub Company where all of our Business Development Managers have had an individual development programme constructed for them and they have also completed the nationally recognised British Institute of Innkeeping (BII) Advanced Certificate in Hospitality with a 100% pass rate.

We also run a Life-long Learning programme comprising short courses and seminars, often run by fellow employees, covering general interests and hobbies to encourage people who may not have undertaken training and development for a number of years to think about development in a positive way and to try some of our more business-focussed programmes. This year we ran 50 such programmes with 551 employees attending.

Development opportunities extend beyond our employees and we run an extensive range of courses for our tenants and lessees. In 2006-7 over 2,200 training days were delivered covering a wide range of topics from merchandising and cellar management to finance and legal compliance.

Health and safety

The Group has a health and safety policy, endorsed by the Board and used throughout the Group. The Board receives an annual presentation from the Group Health and Safety Manager giving detailed statistics on health and safety issues and the progress made in improving our performance where required. These reports also outline planned health and safety initiatives and comment on potential future developments and challenges.

Relevant health and safety information and guidance forms part of our induction process, and many managers have been trained in risk assessment techniques. All of our production, distribution and head office locations, together with Marston's Inns and Taverns, have active health and safety committees, involving both managers and employees, which meet regularly and are co-ordinated by the Group Health and Safety Manager.

Within Marston's Inns and Taverns, all pubs undergo health and safety audits by an external contractor and the measures by which we judge a satisfactory outcome are continually

CORPORATE AND SOCIAL RESPONSIBILITY REPORT

reviewed and the standards raised. Each pub receives a comprehensive health and safety manual for use as a source of information, guidance and training together with a set of compliance documentation that has been widely praised by Environmental Health Officers.

In Marston's Pub Company tenants and lessees are provided with the opportunity to receive health and safety training, and can also obtain examples of best practice for use within their pubs. In addition, we provide assistance with important legal requirements such as fire risk assessments.

FOILE initiative

The Field Operations Interventions with Larger Employers (FOILE) initiative is a programme established by the Health and Safety Executive (HSE) with a view to taking a more proactive stance on health and safety management. The Group was pleased to be asked to be one of the first organisations to work in partnership with the HSE. Work has been ongoing throughout the year and we have already begun to see benefits arising from this partnership.

Alcohol – our responsibility

The Group believes that alcohol which is sold and consumed responsibly has a role within the ever-widening range of social interests and that the pub can be a positive focus for the communities within which we live and operate. However, we are equally mindful of the negative impacts on health and behaviour that alcohol can contribute to when people or retailers choose to abdicate such responsibilities and we strive to ensure that the Group takes a socially responsible approach to all its activities.

The Group is a longstanding member of the British Beer and Pub Association (BBPA), and both Marston's Inns and Taverns and Marston's Pub Company are signatories to the Portman Group's Code of Practice on the Naming, Packaging and Promotion of Alcoholic Drinks. The Group also supports The Drinkaware Trust, as mentioned in the Business Review, and the activities it plans.

Our promotional material carries a clear and concise message encouraging the responsible consumption of alcohol and on our bottles and cans we provide information about the alcohol content of the product concerned. Marston's Pedigree was the first beer brand to include a responsible drinking message in its television advertising, something that the rest of the sector has been quick to adopt.

Alcohol education

Our training programmes for our retail staff include significant elements designed to assist their determination of when it would be inappropriate to serve a customer and how to take positive steps to ensure that difficult situations are handled in a calm, safe and considered manner. Particular emphasis is placed upon the identification of potential underage drinkers and the Group actively supports the Challenge 21 initiative in both its managed and leased pub estate. In addition:

- Marston's Pub Company runs a customised drinks and drugs awareness programme, which our lessees and tenants are encouraged to attend.
- The Group's educational activities extend beyond employees and lessees. We firmly believe that providing support to facilitate training and education for young people in alcohol awareness and responsible drinking is of paramount importance. For the last three years the Group has provided funding for Staffordshire County Youth Service enabling them to give their teenage Peer Health Advisors alcohol awareness training.
- The Group is delighted to announce that in conjunction with the BII and the Schools Project Partnership we have become the first Core Partner of the Schools Hospitality Partnership, a nationwide programme to bring web based alcohol awareness teaching aids together with careers advice to secondary schools across the country.

Further information can be found at www.schoolsproject.co.uk.

Community

The Group is committed to being an active and positive contributor to the communities it serves. The Group's Environmental, Corporate & Social Responsibility (CSR) Committee meets at least quarterly, under the stewardship of the Managing Director of Marston's Pub Company.

The Group works with Business in the Community and encourages employees to get involved in voluntary projects that interest them. The Group is very pleased to be asked to support, both financially and practically, these employee initiatives.

Each year our licensed retail managers, pub staff and tenants raise significant amounts of money for many different charitable causes through local pub based activity and contributions from the Marston's Inns and

CORPORATE AND SOCIAL RESPONSIBILITY REPORT

Taverns Local Heroes Foundation. Donations from the foundation are funded directly from contributions made by employees within its head office function, which are then matched by Marston's Inns and Taverns.

In addition to providing prizes and administrative support for the charitable activities of their tenants and lessees Marston's Pub Company raises money for nominated charities. Marston's Beer Company makes prize donations for charitable activities run by its Free Trade customers.

Our employees also run their own Marston's Employee Charity Fund, which we are proud to support. This fund is run by employees for employees and in the last 12 months the fund has donated over £12,500 to a range of local good causes nominated by our employees.

The Group runs Give As You Earn arrangements for employees enabling them to make tax-efficient donations to this, or any other registered charity of their choice. The administration charges for running this scheme are borne by the Group, thereby ensuring that employees' donations are given in their entirety to good causes.

Ethical purchasing

As a responsible employer we have a duty to support and encourage a responsible purchasing policy for all of our goods and services. As a minimum, all of our purchasing professionals abide by the Chartered Institute of Purchasing and Supply's (CIPS) Professional Code of Ethics Statement. This Code requires purchasing professionals to have due regard for their responsibilities in respect of a whole range of issues and full details of the Code can be found on the CIPS web site. In support of our commitment to this code of practice we also subscribe to the European Eco Management and Audit Scheme (EMAS).

The Group Director of Purchasing is responsible for the implementation and monitoring of the Group's ethical purchasing policy.

MARSTON'S DIRECTORS






RALPH FINDLAY FCA † (46)
CHIEF EXECUTIVE

Joined the Company in 1994 and appointed to the Board as Finance Director in 1996. Appointed as Chief Executive in 2001.

DEREK ANDREW MBE (52)
MANAGING DIRECTOR
MARSTON'S INNS & TAVERNS

Joined the Company in 1980 and appointed to the Board in 1994.

STEPHEN OLIVER (49)
MANAGING DIRECTOR,
MARSTON'S PUB COMPANY

Joined the Company in 1999 on the acquisition of Marston, Thompson & Evershed Ltd and appointed to the Board in 2001.

PAUL INGLETT FCMA (41)
FINANCE DIRECTOR

Joined the Company in 1992, on the acquisition of Camerons, and appointed to the Board in 2002.

ALISTAIR DARBY (41)
MANAGING DIRECTOR
MARSTON'S BEER COMPANY

Joined the Company in 1997 and appointed to the Board in 2003.

DAVID THOMPSON † (53)
CHAIRMAN
NON-EXECUTIVE DIRECTOR

Joined the Company in 1977 and appointed to the Board in 1980. Appointed as Managing Director in 1986 and Chairman in 2001. Director of Persimmon PLC, Tribal Group PLC, Caledonia Investments PLC, Anglia Maltings (Holdings) Ltd and Smiths Flour Mills Ltd.

PETER LIPSCOMB OBE* † (68)
DEPUTY CHAIRMAN,
NON-EXECUTIVE DIRECTOR

Appointed in 2000. Former Managing Director of Guinness Great Britain and Deputy Managing Director of Guinness Brewing Worldwide.

MILES EMLEY* † (58)
NON-EXECUTIVE DIRECTOR

Appointed in 1998. Chairman of St. Ives PLC. Former Director of Rothschild & Sons Limited and UBS Phillips & Drew.

ROBIN HODGSON (65)
THE LORD HODGSON
OF ASTLEY ABBOTTS CBE* †
NON-EXECUTIVE DIRECTOR

Appointed in 2002. Chairman and Director of Nova Captial Group Limited, Rostrum Group Ltd, Johnson Brothers & Co. Ltd, Tenet Group Ltd and RFIB Group Ltd.

ROSALIND CUSCHIERI* † (40)
NON-EXECUTIVE DIRECTOR

Appointed in October 2006. Commercial Director of Warburtons Ltd. Previously with Scottish & Newcastle plc responsible for off-trade category marketing.

ANNE-MARIE BRENNAN (45)
COMPANY SECRETARY

Joined the Company in 1997 and appointed Company Secretary in 2004.

*Member of the Remuneration and Audit Committees

†Member of the Nomination Committee

DIRECTORS' REPORT

Directors' report
The Directors present their report, together with the audited financial statements, for the financial period ended 29 September 2007.

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

Business Review
The Chairman's Statement and the Business Review on pages 4 to 21 provide detailed information relating to the development and performance of the Group and its position at the period end. These reports are incorporated by reference into (and shall be deemed to form part of) this report. Details of the principal risks and uncertainties facing the Group are set out in the Business Review on pages 17 to 19.

Results and dividends
The profit for the period after taxation amounted to £82.3 million (2006: £73.3 million). The dividend on the cumulative preference shares was £5,250 (2006: £5,250). The Directors propose a final dividend of 8.47p (2006: 7.06p) per ordinary share of 7.375p which, when added to the interim dividend of 4.36p (2006: 3.63p), makes a total of 12.83p (2006: 10.69p) per ordinary share for the period ended 29 September 2007. The final dividend as recommended by the Directors and subject to shareholder approval at the Annual General Meeting (AGM) will be paid on 31 January 2008 to those shareholders on the register at close of business on 4 January 2008.

Directors and their interests
Biographies of the Directors currently serving on the Board are set out on pages 26 and 27. Details of Directors' service contracts are set out in the Directors' Remuneration Report on page 33.

The interests of Directors and their connected persons in the ordinary share capital of the Company are disclosed on page 35.

Directors' indemnities
As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the Directors, to the extent permitted by law and the Company's Articles of Association, in respect of all losses arising out of, or in connection with, the execution of their powers, duties and responsibilities, as Directors of the Company or any of its subsidiaries.

Research and development
The Group supports research and development through the British Beer and Pub Association.

Employee involvement
The average number of employees within the Group is shown in note 5 to the financial statements on page 54. The commitment and ability of our employees are key factors in achieving the Group's objectives. We seek to give equal opportunities in employment and ensure that all employees receive fair treatment irrespective of sex, religion, ethnic origin, age or disability including those who become disabled during their employment. Employment policies are based on the provision of appropriate training and annual personal appraisals support skill and career development.

Our communications aim is to increase the understanding and commitment of all our employees through regular briefings and in-house publications.

Contributions for charitable and political purposes
Charitable donations made during the period were £12,500 (2006: £26,675). These were made across the divisions to various local and national charities, further details of which can be found in the Corporate Social Responsibility Report on page 25. No political donations were made (2006: nil).

Environmental policy
Environmental policy is determined by the Board. Performance against preset objectives is reviewed regularly by a sub-committee of the Board chaired by Stephen Oliver, Managing Director of Marston's Pub Company. Further details can be found on pages 19 and 20 of the Business Review.

Treasury management
The Group's policy in relation to the use of financial instruments is set out in note 20 to the financial statements on page 62.

Substantial shareholdings
As at 30 November 2007 the Company had been notified under the Disclosure and Transparency Rules, and with reference to the Register of Members, of the following major interests in shares:

Ordinary shares of 7.375p each	Number	%
AXA S.A.	39,447,350	13.93
Legal & General Group Plc	11,521,335	4.11
Prudential Plc	24,145,574	8.40

Preference shares	Number	%
Fiske Nominees Ltd	34,048	45.40
Medlock & Medlock Ltd	6,750	9.00
George Mary Allison Ltd	5,500	7.33
Mrs A Somerville	5,500	7.33
Mr P F Knowles	4,356	5.81
Mr A W R Medlock	3,657	4.88
R C Greig Nominees Ltd	3,283	4.38
Mr A F Southall	2,855	3.81

Supplier payment policy
The Group's payment policy follows the CBI's Prompt Payment Code for all suppliers. Copies of this Code can be obtained from the Company's registered office. Creditor days at the period end for the Company and Group were 37 (2006: 39).

DIRECTORS' REPORT

Repurchase and cancellation of shares

Changes to the Company's share capital are detailed in note 27 to the financial statements.

At the AGM held on 26 January 2007, shareholders authorised the Company to make market purchases of its ordinary shares of 7.375p each and also to cancel shares.

Pursuant to this authority, the Company has, during the period, purchased 26,644,727 ordinary shares of 7.375p each on the open market for £114.9 million to hold as treasury shares. During September 2007, the Company also cancelled 1,420,000 shares out of treasury at a cost of £5.3 million. The Company's total holding in treasury shares including those purchased last year have a total nominal value of £2.3 million representing 9.99% of the Company's issued share capital as at 29 September 2007. The repurchase and cancellation of shares was in line with the Company's objectives of operating an effective balance sheet and delivering shareholder value.

Post balance sheet events

On 22 November 2007, the Group completed a securitisation of a further 437 pubs raising £330 million of which £313 million was used to repay existing bank loans. Further details can be found in the Business Review and note 39 to the financial statements.

Statement of Directors' responsibilities in respect of the Annual Report, the Directors' Remuneration Report and the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and the Company financial statements and the Directors' Remuneration Report in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The Group and Company financial statements are required by law to give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent; and
- State that the Group financial statements comply with IFRS as adopted by the European Union and, with regard to the Company financial statements, that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and the Company and to enable them to ensure that the Group financial statements comply with the Companies Act 1985 and Article 4 of the International Accounting Standards and that the Company financial statements and the Directors' Remuneration Report comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of audit information

In the case of each of the persons who are Directors of the Company at the date when this report was approved:

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

Relevant audit information means information needed by the Company's auditors in connection with preparing their report.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

Auditors

PricewaterhouseCoopers LLP (PwC) has indicated its willingness to continue as auditors and, accordingly, a resolution to reappoint them will be proposed at the AGM. The reappointment of PwC has been approved by the Audit Committee, who will also be responsible for determining their audit fee on behalf of the Directors.

Annual General Meeting

The AGM of the Company will be held at Warwickshire County Cricket Ground on 25 January 2008. The notice convening the meeting, together with explanatory notes for the special business can be found on pages 88 to 91.

By order of the Board

Anne-Marie Brennan
Secretary
30 November 2007

CORPORATE GOVERNANCE

Statement of compliance with the provisions of the Combined Code

The Group is committed to achieving high standards of corporate governance and to maintaining integrity and high ethical standards in all its business activities. The Board considers that it has complied with Section 1 of the Combined Code throughout the period, and up to the date of this report, except with regard to Code provision A3.2 which provides that at least half of the Board, excluding the Chairman, should comprise independent Non-executive Directors. The report sets out below how the principles of the Combined Code have been applied by the Group and the reasoning behind the composition of the Board.

Board structure

During the period, the Board comprised five Non-executive Directors, one of whom was the Chairman, and five Executive Directors. In accordance with the Combined Code, separate individuals, David Thompson and Ralph Findlay, are appointed to the positions of Chairman and Chief Executive respectively. Peter Lipscomb, Deputy Chairman, served as the Senior Independent Director during the period until 1 October 2007 when Lord Hodgson was appointed as the Senior Independent Director. The Non-executive Directors all possess a wide range of skills and experience. All exercise independent judgement although David Thompson, the Chairman, cannot be considered independent under the requirements of the Code because of his past experience as a long serving Executive Director. The Board consider that the current balance of Executives and Non-executives is such that no one individual or small group can dominate the Board's decision making by virtue of the strength of experience and character possessed by the independent Non-executive Directors. This is further strengthened by the process by which matters are disclosed to, and decisions are taken by, the Board.

The Board met 12 times during the year and each Director attended all of the Board meetings. It has a formal schedule of matters reserved to it for approval ensuring that it considers strategic, financial, organisational and compliance matters with timely information provided in advance of each meeting. The Board approves major acquisitions, disposals and capital expenditure projects, all financial statements and the annual budgets. All Directors receive within their Board papers details of the Group's performance against budget and individual reports from the Chief Executive, Finance Director and divisional managing directors. The Board also receives formal presentations from senior managers on a regular basis, which provides an opportunity for formal discussions with them. There is a strategy away-day held annually to enable the full Board to focus on each division and consider the Group's opportunities, key risks and operating issues.

There is a clear division of roles and responsibilities between the Chairman and the Chief Executive. The Chairman is responsible for running an effective Board and concentrating on the strategic development of the Group. The Chief Executive is responsible for implementing strategy and running the business in accordance with the objectives agreed by the Board.
The Executive Committee, comprising the five Executive Directors, meets weekly to discuss operational matters. The Board is briefed on the decisions reached by the Committee including those involving risk management, health and safety issues and property transactions below a specified financial authority limit.

All Directors have access to the advice and services of the Company Secretary and also to independent legal advice. On appointment to the Board all Directors receive appropriate training: a full induction programme covering briefings and meetings with divisional directors and senior management; and a formal training session, run by third party advisers, covering directors' obligations under the Companies Act 2006. The Group maintains insurance cover and indemnities in respect of legal proceedings and other claims against its Directors and officers.

All Directors are subject to election by shareholders at the first opportunity following appointment and to re-election at intervals not exceeding three years. Non-executive Directors are appointed for terms of three years. In addition, any Non-executive Director who has served for more than nine years is subject to annual re-election. Directors' biographical details are set out on pages 26 and 27. Miles Emley, Stephen Oliver and Paul Inglett are standing for re-election at the forthcoming AGM.

The Board considers that all Directors bring an individual judgement to the Board's deliberations in respect of strategy, performance, resources, key appointments and standards of conduct. All Non-executive Directors are considered by the Board to be free from any business or other relationship which could interfere with the exercise of their judgement. In line with previous years, the Chairman conducted a review of the Board, its Directors and Committees through consultation with each Director and discussion with the Senior Independent Director. The Non-executive Directors also met, without the Chairman being present. This was to consider the governance of the Board and the Group, including the performance of the Chairman. All of these matters were considered and the Directors concluded that the Board continues to operate effectively. Where relevant, and not in respect of their own performance, the Chairman and the Chief Executive were involved in evaluating the composition of the Board and Committees, the meeting process, information and training, leadership, effectiveness and compliance with the Combined Code. The results of the review were reported back to the Board and a number of action points concerning administration and review procedures have been incorporated into next year's meetings agendas. The Board is satisfied with its own composition, meeting process and minute recording, and that of its Committees. In addition, the Chairman met informally with the Non-executive Directors on a number of occasions during the year without the Executive Directors being present.

During the period the Chairman, David Thompson, continued his appointment as Executive Director of Ragleth Limited (Ragleth) and as the controlling shareholder of Anglia Maltings (Holdings) Limited. He has no controlling interest in Ragleth and consequently the transactions between the Group and Ragleth are not Related Party Transactions as defined by

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IFRS. David Thompson has continued his appointment on the basis of Ragleth allowing him sufficient time to devote to the chairmanship of the Company and the Board consider this to be working well.

Board Committees

All Board Committees have agreed terms of reference that meet the provisions of the Combined Code published in June 2006 and they are approved by the Board. They can be found on the Group's website at www.marstons.co.uk.

Nomination Committee

The structure, size and composition of the Board, together with Board appointments and re-elections are considered by the Nomination Committee which comprises David Thompson (Chairman), Miles Emley, Ralph Findlay, Lord Hodgson, Peter Lipscomb and Rosalind Cuschieri (with effect from 23 February 2007). No Director is involved in any decision regarding his or her own re-appointment. The Committee met twice during the period, with all Committee members attending all meetings, to consider re-elections, re-appointments, the composition of the Board and succession planning.

Remuneration Committee

The Remuneration Committee comprises Peter Lipscomb (Chairman), Miles Emley, Lord Hodgson and Rosalind Cuschieri (with effect from 23 February 2007), with Ralph Findlay in attendance if required. It is responsible for agreeing contract terms, remuneration and benefits, including bonuses, for Executive Directors and senior managers. It is also responsible for the granting of LTIP awards and share options. It met twice formally during the period to review pay and the performance of Directors in relation to bonuses and consider the granting of share based incentives. All Committee members attended all meetings.

Audit Committee

The Audit Committee comprises Miles Emley (Chairman), Lord Hodgson, Peter Lipscomb and Rosalind Cuschieri (with effect from 23 February 2007). It monitors the relationship with the external auditors, agrees their scope of work and fees and reviews the results of the full year audit and the interim results each year. It also assesses annually the cost effectiveness, objectivity and independence of the external auditors. The Committee also has responsibility for the Group's whistleblowing policy and annually reviews its arrangements under this policy. The Board consider that both Miles Emley and Lord Hodgson have recent and relevant financial experience in accordance with the requirements of the Combined Code. The Committee met three times during the period to review the results of the full year audit, approve the interim results, consider the risks to the Group and the effectiveness of the Company's internal controls and risk management systems, review the performance of the external auditors and provide guidance on the internal audit strategy. All Committee members attended all meetings.

When appointing advisors for non-audit work the Group considers the value for money, experience and objectivity required and in this respect it has used other accounting firms for a range of non-audit work. The Group also uses the external auditors for non-audit services such as taxation advice and planning, and corporate activity. Where non-audit work is expected to be in excess of an agreed monetary amount, the chairman of the Audit Committee must approve the use of the external auditors. The Committee are satisfied that where the external auditors are used for non-audit services their objectivity and independence is not compromised. In reaching this conclusion the Committee considered a report prepared by PricewaterhouseCoopers LLP prior to the year end, reviewing the potential threats to their objectivity and independence in the light of the ethical standards issued by the Auditing Practices Board. Where a potential risk was identified the Committee was satisfied that the safeguards that the external auditors had put in place were sufficient to prevent a threat to their independence and objectivity.

Communication

The Group recognises the importance of maintaining a strong relationship with its shareholders as a key priority with the Annual Report and Interim Statement being the principal media used, as well as regular institutional presentations, covering reports on trading and market conditions and strategy. During the year the Chairman and the Senior Independent Director offered to meet with the Company's major shareholders to discuss governance and strategy and develop an understanding of shareholder views. All shareholders also have access to the Senior Independent Director if they have specific corporate governance issues which cannot be resolved through the usual channels of communication.

The Group also maintains a website, www.marstons.co.uk, which provides up to date information on its operations and brands. The Company's share price and all Company announcements are available on this site together with slides for analysts' and investor presentations.

The AGM, which is regularly attended by approximately 250 shareholders, provides an important forum for communicating directly with private shareholders and the opportunity for shareholders to raise questions with the Board. The notice of meeting is sent out to shareholders at least twenty working days before the meeting and details of the results of proxy voting are announced after each resolution has been dealt with on a show of hands. The voting results are also reported on the Company's website.

Risk management

There is a weekly review by the Executive Directors, and annually by the Board, of the risks faced by the Group. These reviews cover strategic, operational and compliance risks. Day-to-day control is implemented by the divisional management teams which report to the divisional managing directors.

There is a continuous process for identifying, evaluating and managing the risks facing the Group at the weekly Executive Directors' meetings, the monthly divisional management meetings and at the monthly briefing meetings with the senior management group. Risk issues are also

CORPORATE GOVERNANCE

reviewed regularly by the Chief Executive and the Corporate Risk Manager.

The Group operates a risk management programme whereby key business risks are formally defined, reviewed, and assessed at regular intervals by the managers. This process is performed in conjunction with the Corporate Risk Manager and overseen by the Director of Risk and Treasury. An essential part of the process involves ensuring that all the key risks have clear ownership. Managers are required to identify the key internal controls for each of the risks they are responsible for and to identify the control owners. The risks identified are classified and recorded in a Group risk register. The results are reported to the respective divisional managing directors who in turn prioritise the key risks for their management teams. The risks identified cascade through to an assessment of the significant corporate risks which are in turn reported to every Audit Committee meeting and the Board.

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

Internal control

The Group has complied with the Combined Code provisions on internal control. The Executive Directors examine, and report to the Board as necessary, the procedures required to implement in full the guidance on internal control produced by the Turnbull Committee. In addition, the Board has taken account of the Association of British Insurers guidelines' on socially responsible investment and in this respect the Managing Director of Marston's Pub Company chairs a quarterly meeting of the Group's Corporate and Social Responsibility Committee.

The Board is responsible for the Group's system of internal controls and for ensuring that information supplied to shareholders presents a balanced assessment of the Group's position. It has carried out these responsibilities throughout the period.

The principal elements of the system of internal control, which is designed to ensure there is an ongoing process to identify, evaluate and manage the risks to which the Group is exposed, include:

- a management structure which clearly defines authority levels, responsibility and accountability; and
- a detailed formal budgeting process for all Group activities with the annual Group budget being formally approved by the Board; and
- a process to ensure Board approval is given to all major investment, divestment and strategic plans including capital expenditure, disposals and development programmes.

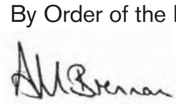
Significant treasury, cash management and investment matters are reviewed and approved by the Board.

The internal audit function has co-ordinated, on behalf of the Board, an annual review of the effectiveness of all the key controls of the business. This includes a Group-wide certification that internal controls are in place and are operating effectively. The internal audit function has carried out additional work on selective controls as well as aligning internal audit projects to verify the certification of effectiveness. Where weaknesses have been identified by the managers, information has also been provided on the plans to improve such controls. The results of the exercise are summarised and an overall assessment reported to the Audit Committee. The review confirmed that there is a clear link between the key risks of the business and the controls used to manage those risks. Ownership of the controls by the managers within the business is well defined and there are no significant weaknesses that require remedial actions to take place. The Group's system of internal controls can only manage rather than eliminate the risk of failure to achieve business objectives and can, therefore, only provide reasonable and not absolute assurance against material mis-statement or loss.

Health and safety

The management of health and safety matters is based on the Health and Safety Executives' management system HSG 65. All areas of the Group have been risk assessed and appropriate control measures implemented. Regular Safety Committee meetings are held throughout the Group and independent experts such as the Royal Society for the Prevention of Accidents (ROSPA) and insurers are used.

By Order of the Board



Anne-Marie Brennan
Secretary
30 November 2007

DIRECTORS' REMUNERATION REPORT

Composition and Terms of Reference of the Remuneration Committee

The Remuneration Committee is appointed by the Board and comprises Peter Lipscomb (Chairman), Miles Emley, Lord Hodgson and Rosalind Cuschieri (with effect from 23 February 2007), all of whom are independent Non-executive Directors.

The Committee is responsible for setting the framework and policy for the remuneration of the Executive Directors, which it reviews annually for appropriateness and relevance. It is also responsible for determining the specific elements of the Executive Directors' remuneration, their contractual terms and compensation arrangements. In addition, the Committee monitors the level and structure of remuneration for senior management and approves their bonus payments. It also oversees any major changes in employee benefit structures throughout the Group. The Terms of Reference of the Committee can be found in the Investors' section of the Group's website at www.marstons.co.uk.

In setting policy and compensation levels, the Remuneration Committee has due regard to the Combined Code. The Committee took advice on specific issues during the year from the Chief Executive, Ralph Findlay, who did not, however, provide any advice in relation to his own remuneration. The Committee also appointed and received independent advice from Deloitte & Touche LLP (Deloitte) with regard to general remuneration levels and comparator group information. Deloitte was also independently appointed by the Company to assist with specific internal audit projects, as directed by the Corporate Risk Manager.

Remuneration policy

The Group's remuneration policy is to ensure that the remuneration of Executive Directors is sufficiently competitive to enable the Group to retain and motivate existing Directors and attract high quality performers in the future. The Committee undertakes an annual review of market practice and considers the remuneration levels of directors in companies of similar size from within and outside the industry sector. The Group aims to incentivise and reward its Executive Directors in a way that is consistent with the Group's commercial objectives and to align the interests of the Directors with those of shareholders. To achieve this, the Executive Directors' total remuneration comprises both fixed remuneration and variable reward, the latter reflecting both Company performance and individual achievement. The main fixed and variable elements of remuneration for Executive Directors are set out in the adjacent column. Only the basic salary element is pensionable.

Fixed	**% of salary**
▪ basic salary;	
▪ benefits in kind (detailed in the notes to the Directors' emoluments table on page 36);	
▪ pension benefits.	
Variable	
▪ annual award of share options under the Long Term Incentive Plan (LTIP), vesting after 3 years, subject to performance conditions being met.	**up to 100%**
▪ annual bonus related to Company performance and individual objectives.	**up to 75%**

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

Service contracts

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

Payments to Directors upon termination of their contracts will be equal to the Director's basic salary for the duration of the notice period. There is no reduction for mitigation or for early payment for those listed below. The Remuneration Committee has taken the view that since the current Executive Directors are all long standing employees of the Group, they would merit full compensation in the event of unilateral termination of their employment by the Group. This would not necessarily apply to new appointments.

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

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

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

DIRECTORS' REMUNERATION REPORT

Salaries

Salaries for Executive Directors were reviewed as at 1 October 2006 following an independent review of executive remuneration by Deloitte. This review included consideration of the packages offered by appropriate comparator companies having regard to their comparable size, complexity and sector.

As stated above, the aim of the Group is to provide a competitive remuneration package to attract, retain and motivate key executives. In this regard, salaries for the Executive Directors are targeted at remaining competitive compared to appropriate comparator companies. When positioning the Executive Directors' base salaries the Committee considers:

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

No Executive Directors earn fees outside their employment with the Company.

Bonuses

Bonus objectives for Executive Directors are set based on a combination of Group profit achievement and personal objectives. The level of bonus payments awarded is dependent on the level of performance achieved and is determined by the Remuneration Committee who retain discretion over the level of payout depending on the quality of the financial performance in achieving the result. There is a maximum possible bonus of 75% of basic salary, comprising a maximum 50% award for profit achievement and a maximum 25%, awarded at the discretion of the Remuneration Committee, for personal achievement.

The terms and conditions for bonus payments are unchanged from the previous year. Bonuses for the current year are payable in December 2007. The performance targets and KPIs are reviewed annually and relate to financial trading targets and other quantitative objectives all of which are commercially sensitive and are therefore not included in this report. Whilst the Committee cannot disclose the actual targets, it is satisfied that these are appropriately challenging for the level of awards that vest. Under the 2006/2007 annual bonus scheme the Executive Directors were paid a bonus of between 18% and 20% of basic salary.

Share incentive schemes

On 9 January 2007 there was a share split under which shareholders received four new ordinary shares of 7.375p each for every one old ordinary share of 29.5p each held. All options and awards outstanding at that date under all the Company's share schemes were adjusted to reflect the share split. The Group operates executive share option schemes, a Long Term Incentive Plan and a Save As You Earn share option scheme. No options have been granted under the executive share option schemes since 2003.

Executive share options

The 1994 Executive Share Option Scheme is an Inland Revenue approved scheme and the 1997 Executive Share Option Scheme is a non-Inland Revenue approved scheme used to make awards to Executive Directors and other selected employees above their £30,000 tax efficient limit. The 1994 scheme expired in January 2004 and this, together with the 1997 scheme, was replaced by the 2004 Executive Share Option Scheme which was approved by shareholders at the Annual General Meeting (AGM) held on 23 January 2004. Executive share options are awarded at the prevailing market rate on the date of grant. Options are normally exercisable between three and ten years after grant and upon the achievement of stated performance criteria.

The exercise of executive share options granted under the 1994 and 1997 schemes is subject to the Group achieving growth in earnings per share (EPS) in excess of the growth in the retail price index (RPI) by an average of 2.0% per year over a three-year performance period. For the 2004 scheme, the growth in EPS must be in excess of the growth in RPI by an average of 3.0% per year over a three-year performance period before an option becomes exercisable. At this level of performance the value of shares under option which will vest will be up to 100% of base salary.

The maximum value of options vesting is up to 200% of salary where the growth in EPS exceeds the growth in RPI by an average of 9.0% per year. Between these two growth rates a straight line vesting of options operates. There are no re-testing provisions under any of the schemes. The Remuneration Committee retains the discretion to change the performance measures for future awards, if appropriate, provided the new conditions are no less stretching. The levels of the target and maximum awards will not be increased without shareholder approval. The Committee believes the EPS performance conditions to be appropriate and provide proper alignment with the Group's overall performance.

Long Term Incentive Plan (LTIP)

The Group introduced the LTIP following shareholder approval at the AGM in January 2004. Both Executive Directors and senior managers are eligible to participate and the maximum annual conditional award of nil cost options that can be made to an individual is equivalent to 100% and 35% of salary respectively. The options granted during the year will only become exercisable (vest) if the performance conditions are met and the participant satisfies the minimum shareholding requirement. The minimum shareholding requirement, as a percentage of salary, required to participate in the LTIP is 100% for Directors and 35% for senior managers. Spouse holdings for both Directors and senior managers are included in satisfying this requirement. The options will vest to the extent that the Group's growth in EPS exceeds the growth in RPI over a period of three years. There will be no re-testing provisions if the performance conditions are not met.

Where the growth is at least 3% compound in excess of the increase in RPI over the three-year performance period, then

DIRECTORS' REMUNERATION REPORT

35% of the options awarded will vest.

Where the excess growth is at least 9% over the period, then 100% of the options will vest.

A sliding scale operates between these two points.

If these performance conditions or the minimum shareholding requirement are not met, then those relevant options will lapse on the first date that they would otherwise have vested.

Once the options have vested the participant may choose to exercise the option at any time thereafter provided they remain with the Company. Alternatively, they may retain the option but, if the Remuneration Committee so determines then, following vesting but before exercise, the participant may be allowed to diversify up to 50% of their risk (switch) such that the number of Company shares under option ultimately receivable will then be determined by reference to the movement in value of other securities. Following a switch an option holder may still exercise their option at any time (subject to the rules of the plan) and the exercise will be satisfied via Company shares.

During the year the LTIP options granted in 2004 vested on the participants to the extent that the performance conditions had been met. Applying the performance measure of EPS growth in excess of RPI growth over the three year performance period, 73% of the options originally granted vested on the participants. The Remuneration Committee did not consider it appropriate to offer a switching opportunity on this occasion.

It is envisaged that for the foreseeable future the Remuneration Committee is likely to continue to make awards under the LTIP rather than the 2004 Executive Share Option Scheme, and in any event does not intend to make awards under both the LTIP and the 2004 Executive Share Option Scheme in the same year.

The Remuneration Committee are of the view that the current performance criteria and vesting schedules remain appropriate to the Group's circumstances and to shareholder value. Real growth in EPS performance was chosen as the measure for awards under the LTIP because it is transparent and creates a direct line of sight for executives to increase shareholder value. The Committee will regularly review the performance conditions for future awards to ensure that they are appropriate for the Group and the prevailing market.

Save As You Earn Share Options (SAYE)
The Group also operates an Inland Revenue approved SAYE plan which is open to all eligible employees, including the Executive Directors, on the completion of three years' service.

Invitations are usually offered annually for a savings contract of 3, 5 or 7 years subject to the maximum monthly savings limit of £250. Options are granted at a discount of 20% of the market value of the Company's shares at the date of grant, subject to the agreement of the Remuneration Committee, and their exercise is not subject to performance conditions.

There have been no changes from the previous year to the terms and conditions of any of the Company's share incentive schemes.

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

The fees for the Chairman and Non-executive Directors are determined by the Board as a whole and are reviewed every two years. They were previously reviewed in October 2004 and, following an independent review of non-executive remuneration by Deloitte and having regard to the increasing responsibilities placed on non-executive directors, the composition of fees for 2006/2007 were set as follows:

- A basic fee of £34,000 per annum
- Chair of the Remuneration Committee - £5,000 per annum
- Chair of the Audit Committee - £6,000 per annum
- Senior Independent Director - £5,000 per annum.

The Non-executive Directors do not participate in any of the Group's incentive plans, nor do they receive any benefits or pension contributions from the Group, with the exception of David Thompson whose benefits are as set out on pages 36 and 38.

Interests of Directors

The interests of the Directors and their connected persons in the ordinary share capital of the Company as at 29 September 2007 were:

	Ordinary Shares of 7.375p			
	Beneficial		Non-beneficial	
	2007	2006*	2007	2006*
Derek Andrew	**232,244**	232,212		
Rosalind Cuschieri	**1,356**	-		
Alistair Darby	**95,984**	91,208		
Miles Emley	**35,248**	35,248		
Ralph Findlay	**278,480**	278,480		
Lord Hodgson	**12,720**	6,720		
Paul Inglett	**92,052**	82,376		
Peter Lipscomb	**20,000**	20,000		
Stephen Oliver	**90,880**	90,880		
David Thompson	**752,772**	726,240	**1,102,172**	1,157,424

* as restated to reflect the 4-for-1 share split that was completed on 9 January 2007.

DIRECTORS' REMUNERATION REPORT

Directors' emoluments (audited information)

The emoluments of the Directors for their services as Directors of the Group for the period ended 29 September 2007 were:

	Salary/ Fees £	Bonus £	Non-cash benefits (2) £	Other cash benefits (3) £	2007 **Total £**	2006 Total £
Executive Directors						
Derek Andrew	237,876	42,663	4,709	13,500	298,748	287,403
Alistair Darby	222,600	44,520	5,092	13,500	285,712	254,915
Ralph Findlay	395,200	75,088	9,387	16,200	495,875	466,304
Paul Inglett	236,500	44,935	5,181	13,500	300,116	276,641
Stephen Oliver	236,500	42,570	5,734	13,500	298,304	264,220
	1,328,676	249,776	30,103	70,200	1,678,755	1,549,483
Non-executive Directors						
David Thompson	132,000	-	2,961	16,200	151,161	139,278
Peter Lipscomb	44,000	-	-	-	44,000	38,000
Lord Hodgson (4)	34,000	-	-	-	34,000	30.000
Miles Emley	40,000	-	-	-	40,000	33,000
Rosalind Cuschieri (1) (4)	34,000	-	-	-	34,000	-
	1,612,676	249,776	33,064	86,400	1,981,916	1,789,761

(1) Appointed 1 October 2006.
(2) Non-cash benefits principally include life assurance and private health cover.
(3) Other cash benefits represent cash allowances paid in lieu of a company car.
(4) The fees relating to the services of Lord Hodgson were paid to Johnson Brothers & Co Limited, and the fees relating to the services of Rosalind Cuschieri were paid to Warburtons Limited.

Share Options (audited information)

		Date of grant	At 01.10.06	Restated 09.01.07	Granted	Exercised	At 29.09.07	Option price (restated) p	Market price on exercise p	Notional gain £
Ralph Findlay	Executive	10/01/03	20,000	80,000	-	80,000	0	151.00	447.50	237,200*
	SAYE	21/06/05	1,967	7,868	-	-	7,868	210.00	-	-
Derek Andrew	SAYE	30/06/00	6,633	26,532	-	26,532	0	69.25	335.00	70,509*
	SAYE	21/06/05	2,127	8,508	-	-	8,508	210.00	-	-
Alistair Darby	SAYE	26/06/02	1,194	4,776	-	4,776	0	138.50	381.25	11,594*
	SAYE	25/06/03	616	2,464	-	-	2,464	129.25	-	-
	SAYE	21/06/05	786	3,144	-	-	3,144	210.00	-	-
	SAYE	29/06/07	-	-	1,021	-	1,021	370.00	-	-
Paul Inglett	SAYE	28/06/04	294	1,176	-	1,176	0	160.00	342.25	2,143*
	SAYE	21/06/05	451	1,804	-	-	1,804	210.00	-	-
	SAYE	29/06/06	368	1,472	-	-	1,472	254.00	-	-
	SAYE	29/06/07	-	-	510	-	510	370.00	-	-
Stephen Oliver	Executive	10/01/03	6,000	24,000	-	-	24,000	151.00	-	-
	SAYE	26/06/02	3,244	12,976	-	-	12,976	138.50	-	-
David Thompson	SAYE	30/06/00	6,633	26,532	-	26,532	0	69.25	381.25	82,780*

* The directors retained all or some of the shares on exercise, but had all of the shares been sold this is the gain that would have been made.

DIRECTORS' REMUNERATION REPORT

Long Term Incentive Plan (LTIP) (audited information)

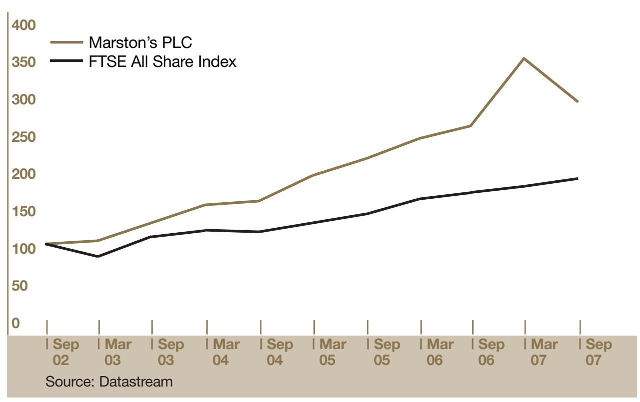
	Date of grant	At 01.10.06	Restated 09.01.07	Granted	Vested	Lapsed	At 29.09.07	Market price on grant (restated) p	Market price on exercise p	Value of vested award £	Exercise period from*
Ralph Findlay	15/06/04	39,901	159,604	-	116,510	43,094	0	203.63	418.48	487,571*	15/06/07
	26/05/05	32,287	129,148	-	-	-	129,148	-	-	-	26/05/08
	26/06/06	29,282	117,128	-	-	-	117,128	-	-	-	26/06/09
	04/06/07	-	-	83,817	-	-	83,817	-	-	-	04/06/10
Derek Andrew	15/06/04	24,554	98,216	-	71,697	26,519	0	203.63	418.48	300,037	15/06/07
	26/05/05	19,833	79,332	-	-	-	79,332	-	-	-	26/05/08
	26/06/06	17,816	71,264	-	-	-	71,264	-	-	-	26/06/09
	04/06/07	-	-	50,268	-	-	50,268	-	-	-	04/06/10
Alistair Darby	15/06/04	22,713	90,852	-	66,321	24,531	0	203.63	418.48	277,540	15/06/07
	26/05/05	18,911	75,644	-	-	-	75,644	-	-	-	26/05/08
	26/06/06	16,733	66,932	-	-	-	66,932	-	-	-	26/06/09
	04/06/07	-	-	47,211	-	-	47,211	-	-	-	04/06/10
Paul Inglett	15/06/04	22,713	90,852	-	66,321	24,531	0	203.63	418.48	277,540	15/06/07
	26/05/05	18,911	75,644	-	-	-	75,644	-	-	-	26/05/08
	26/06/06	17,131	68,524	-	-	-	68,524	-	-	-	26/06/09
	04/06/07	-	-	50,159	-	-	50,159	-	-	-	04/06/10
Stephen Oliver	15/06/04	22,713	90,852	-	66,321	24,531	0	203.63	418.48	277,540	15/06/07
	26/05/05	18,911	75,644	-	-	-	75,644	-	-	-	26/05/08
	26/06/06	17,131	68,524	-	-	-	68,524	-	-	-	26/06/09
	04/06/07	-	-	50,159	-	-	50,159	-	-	-	04/06/10

* Provided the required shareholding and the three-year performance conditions are met, options granted under the LTIP will not expire until the end of the calendar year following the option holder's expected retirement date, or earlier at the discretion of the Remuneration Committee.

The restatement is in respect of the 4-for-1 share split that was completed on 9 January 2007.
The mid-market ordinary share price range during the year was 329.0p to 477.3p with an average price of 413.5p.
The mid-market ordinary share price on 28 September 2007 was 338.5p (29 September 2007 being a Saturday).

Total shareholder return graph

The graph shows the comparative Total Shareholder Return (TSR) performance of the Company against the FTSE All Share Index during the previous five financial years. The FTSE All Share Index has been selected as a comparator because the Group believes it is the most meaningful market index of which the Company is a member. The Group believes it would have been less meaningful to use a narrower index such as the Leisure and Hotels index for comparison purposes. The TSR indices used in the chart have been calculated in accordance with the Directors' Remuneration Report Regulations 2002 relative to a base date at the end of September 2002.



DIRECTORS' REMUNERATION REPORT

Directors' pensions (audited information)

The following directors accrued benefit under the defined benefit scheme provided by the Company. Pension entitlements and transfer values increased as follows:

	Accrued pension at 29 September 2007 £	Change in accrued pension over 2006/2007 excluding increase for inflation £	Members' contributions over year £	GNII Transfer Value at 29 September 2007 £	GNII Transfer Value at 1 October 2006 £	Change in Transfer Value over 2006/2007 net of members' contributions £	Transfer Value of the increase in the accrued pension £
Derek Andrew	119,802	7,055	0	1,326,086	1,211,029	115,057	132,975
Alistair Darby	43,766	5,928	16,695	350,393	303,069	30,629	52,341
Ralph Findlay	42,310	9,874	29,640	423,891	316,013	78,238	102,430
Paul Inglett	33,973	4,890	17,738	251,627	214,432	19,457	43,618
Stephen Oliver	45,561	7,047	17,738	539,974	448,732	73,504	88,107
David Thompson	137,555	2,545	9,900	1,520,780	1,449,146	61,734	92,797

Notes

1 The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year from the approved pension scheme.

2 The increase in accrued pension during the year excludes any increase for inflation.

3 Members of the pension scheme have the option to pay Additional Voluntary Contributions. Neither the contributions nor the resulting benefits are included in the table above.

4 The Group operated funded unapproved arrangements (FURBS) for Ralph Findlay, Stephen Oliver and Paul Inglett until 5 April 2006 when these arrangements ceased.

5 The Transfer Values are calculated in accordance with version 8.1 of guidance note GN11 issued by the actuarial profession.

6 The pension as at 1 October 2006 for Paul Inglett has been restated. The original promise was to target two-thirds of pay inclusive of his non-executive service. The revised pension reflects this promise.

The following additional information relates to Directors' pensions:

(a) Normal retirement age is 60.

(b) On death before retirement a lump sum is payable equal to the Director's contributions. However, some or all of this lump sum may be used to provide a statutory minimum spouse's pension. On death after retirement the spouse's pension payable is two-thirds of the member's pre commutation pension for Derek Andrew and David Thompson, 60% of the member's pre commutation pension for Ralph Findlay, Paul Inglett, Alistair Darby and Stephen Oliver's post 1 January 2002 service and 50% of the member's pre commutation pension for Stephen Oliver's pre 1 January 2002 service.

(c) Early retirement can be taken from age 50 provided the Group gives its consent. The accrued pension will then be reduced to take account of its early payment. From April 2010, the minimum age at which early retirement can take place will increase to 55.

(d) Pension increases for Derek Andrew, Ralph Findlay, David Thompson, Paul Inglett and Alistair Darby will be in line with statutory requirements before and after retirement. Stephen Oliver will receive statutory increases before retirement, post retirement increases on pension earned prior to 6 April 1997 at the rate of 3% per annum, on pension earned between 6 April 1997 and 1 January 2002 at the increase in RPI, subject to a maximum of 5% and a minimum of 3%, and on pension earned after 1 January 2002 at the increase in RPI subject to a maximum of 5%. The Trustees have the discretion to grant pension increases above these rates.

(e) There are no discretionary benefits.

Prior to 6 April 2006, Ralph Findlay, Stephen Oliver and Paul Inglett were contributing to a FURBS arrangement. A new pensions regime came into force on 6 April 2006. Following a review of benefit provisions, contributions to the FURBS for Ralph Findlay, Stephen Oliver and Paul Inglett ceased with effect from 6 April 2006. From that date, pension benefits for these Directors and Alistair Darby are accrued on full salary (previously limited to the earnings cap) from the Marston's PLC Pension and Life Assurance Scheme ("the Marston's Scheme"), formerly The Wolverhampton & Dudley Breweries, PLC Pension and Life Assurance Scheme.

Pension arrangements

At the start of the year the Group operated one final salary pension scheme, the Marston's Scheme. During 2007 the Group acquired the Eldridge Pope Pension Scheme, whose members transferred their benefits into the Marston's Scheme before the year end.

The Group also operates four defined contribution arrangements.

Marston's PLC

During the year, the Group operated a final salary pension scheme (the Marston's Scheme) which was closed to new entrants from 29 September 1997. The Group contributed 17.5% of the pensionable payroll for all members during the year, and members contributed in accordance with the Rules. All employees in the Marston's Scheme have permanent health insurance and death-in-service life assurance cover to the value of four times their salary, subject to acceptance by insurers.

DIRECTORS' REMUNERATION REPORT

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

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

The funds of the Marston's Scheme are administered by Trustees and are separate from the Group. An actuarial valuation of the Marston's Scheme was carried out as at 30 September 2005. This resulted in a long-term Group contribution rate of 17.5% of members' pensionable earnings plus an annual contribution of £7.2 million. The first of these annual contributions was received into the Marston's Scheme on 29 September 2006, and a further £6 million was paid in September 2007. The additional £1.2 million was paid shortly after the year end.

The assumptions that have the most significant effect on the funding position of the Marston's Scheme are those relating to the differences between the long-term rate of return on investments and the rates of increase in earnings and pension increases. The 30 September 2005 funding valuation for the Marston's Scheme assumed that: the long-term investment return before retirement would exceed salary increases by 2.3% per annum and price inflation by 3.0% per annum, and the long-term investment return after retirement would exceed pension increases by 2.0% per annum and price inflation by 2.0% per annum.

The market value of the Marston's Scheme assets was £199.8 million, which was sufficient to cover 77% of members' accrued benefits at 30 September 2005, after allowing for future increases in earnings at the long-term rate.

During the year the Eldridge Pope Pension Scheme merged into the Marston's Scheme. The amounts quoted above do not include the assets and liabilities of this scheme, or the Burtonwood and Jennings Schemes which merged in the 2005/06 financial year, but they are recognised in the valuation adopted in the accounts under IFRS as at 29 September 2007. They will be recognised in the next full actuarial valuation of the Marston's Scheme which has an effective date of 30 September 2008.

Eldridge Pope

During the year the Group acquired Eldridge Pope, which also operated a final salary pension scheme. The Group has paid contributions in accordance with the Schedules of Contributions, which include lump sum payments in respect of the merger payable before and after the year end.

Compliance with the Directors' Remuneration Report Regulations

The Directors' Remuneration Report has been prepared by the Remuneration Committee and approved by the Board. It has been written in line with the Directors' Remuneration Report Regulations incorporated in Schedule 7A to the Companies Act and the Combined Code on Corporate Governance and shareholders will be invited to approve it at the forthcoming AGM.

P. W. Lipscomb

Peter Lipscomb OBE
Chairman, Remuneration Committee
30 November 2007


MARSTON'S
Pedigree

MARSTON'S PLC ANNUAL REPORT

GROUP ACCOUNTS 06/07

FIVE YEAR RECORD

	2003 UK GAAP £m	2004 UK GAAP £m	2005 IFRS £m	2006 IFRS £m	**2007 IFRS £m**
Revenue	490.5	513.7	556.1	595.5	**652.8**
Profit before goodwill and exceptional items	73.1	77.7	89.7	101.5	**98.0**
Exceptional items	(6.6)	(0.5)	(35.5)	–	**(3.3)**
Goodwill amortisation	(6.9)	(7.0)	–	–	**–**
Profit before taxation	59.6	70.2	54.2	101.5	**94.7**
Taxation*	(21.1)	(21.8)	(15.1)	(28.2)	**(12.4)**
Profit after taxation	38.5	48.4	39.1	73.3	**82.3**
Capital employed	457.7	648.3	640.2	653.2	**748.5**
Earnings per ordinary share**	13.2p	16.7p	13.0p	23.8p	**27.9p**
Goodwill and exceptional items**	4.0p	2.2p	7.8p	–	**(1.7)p**
Earnings per ordinary share before goodwill and exceptional items**	17.2p	18.9p	20.8p	23.8p	**26.2p**
Dividend per ordinary share**	8.0p	8.8p	9.7p	10.7p	**12.8p**
Retail price index	100.0	103.1	105.8	109.6	**114.0**
Earnings per share growth	100.0	126.5	98.5	180.3	**211.4**
Earnings per share growth before goodwill and exceptional items	100.0	109.9	120.9	138.4	**152.3**
Dividend growth	100.0	110.0	121.3	133.8	**160.0**

* Taxation includes an exceptional credit of £7.2m in 2007 relating to the change in tax rate and abolition of balancing charges.
** Adjusted to reflect the 4-for-1 share split on 9 January 2007.

Earnings per share growth is distorted by the transition from UK GAAP to IFRS but has been presented for completeness.

INDEPENDENT AUDITORS' REPORT

We have audited the Group financial statements of Marston's PLC (formerly The Wolverhampton & Dudley Breweries, PLC) for the period ended 29 September 2007 which comprise the Group income statement, the Group balance sheet, the Group cash flow statement, the Group statement of recognised income and expense and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Marston's PLC (formerly The Wolverhampton & Dudley Breweries, PLC) for the period ended 29 September 2007 and on the information in the Directors' remuneration report that is described as having been audited.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' report is consistent with the Group financial statements. The information given in the Directors' report includes that specific information presented in the Business review that is cross referenced from the Business review section of the Directors' report. In addition, we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited Group financial statements. The other information comprises only the Chairman's statement, the Business review, the Directors' report, the Corporate governance statement, the Corporate and social responsibility report, the Five year record, the Financial highlights and the non-auditable part of the Directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion:

- The Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 29 September 2007 and of its profit and cash flows for the period then ended;
- The Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- The information given in the Directors' report is consistent with the Group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
30 November 2007

GROUP INCOME STATEMENT

FOR THE 52 WEEKS ENDED 29 SEPTEMBER 2007

	Notes	2007 Before exceptional items £m	2007 Exceptional items £m	2007 Total £m	2006 Before exceptional items £m	2006 Exceptional items £m	2006 Total £m
Revenue	2	**652.8**	**–**	**652.8**	595.5	–	595.5
Operating expenses	3,4	**(489.6)**	**(2.5)**	**(492.1)**	(443.2)	–	(443.2)
Operating profit	2	**163.2**	**(2.5)**	**160.7**	152.3	–	152.3
Finance costs		**(68.0)**	**(0.8)**	**(68.8)**	(52.1)	–	(52.1)
Finance income		**2.8**	**–**	**2.8**	1.3	–	1.3
Net finance costs	6	**(65.2)**	**(0.8)**	**(66.0)**	(50.8)	–	(50.8)
Profit before taxation		**98.0**	**(3.3)**	**94.7**	101.5	–	101.5
Taxation	7	**(20.6)**	**8.2**	**(12.4)**	(28.2)	–	(28.2)
Profit for the period attributable to equity shareholders	28	**77.4**	**4.9**	**82.3**	73.3	–	73.3

All results relate to continuing operations.

	Notes	2007	As restated
Earnings per share:			
Basic earnings per share	9	**27.9p**	23.8p
Basic earnings per share before exceptional items	9	**26.2p**	23.8p
Diluted earnings per share	9	**27.6p**	23.5p
Diluted earnings per share before exceptional items	9	**26.0p**	23.5p

A final dividend of 8.47p (2006: 7.06p) per ordinary share has been proposed and will be paid on 31 January 2008.

GROUP STATEMENT OF RECOGNISED INCOME AND EXPENSE

FOR THE 52 WEEKS ENDED 29 SEPTEMBER 2007

	Notes	2007 £m	2006 £m
Profit for the period		**82.3**	73.3
Income/(expense) recognised directly in equity			
Cash flow hedges	28	**15.6**	0.3
Actuarial gains/(losses) on retirement benefits	28	**27.4**	(18.0)
Unrealised surplus/(deficit) on revaluation of properties	28	**164.9**	(3.7)
Tax on items taken directly to equity	7, 28	**(42.4)**	10.3
Net gains/(losses) not recognised in the income statement		**165.5**	(11.1)
Total recognised income for the period		**247.8**	62.2

GROUP CASH FLOW STATEMENT

FOR THE 52 WEEKS ENDED 29 SEPTEMBER 2007

	Notes	2007 £m	2006 £m
Operating activities			
Operating profit		**160.7**	152.3
Depreciation and amortisation		**42.7**	39.1
EBITDA*		**203.4**	191.4
Working capital and non-cash movements (including outflows upon integration of acquisitions)	29	**(30.1)**	13.1
Difference between defined benefit pension contributions paid and amounts charged		**(7.7)**	(10.5)
Income tax paid		**(9.6)**	(4.0)
Net cash inflow from operating activities		**156.0**	190.0
Investing activities			
Interest received		**1.9**	1.6
Sale of property, plant and equipment and assets held for sale		**102.0**	36.8
Investment in plant and equipment for existing business		**(100.3)**	(71.0)
Purchase of new pubs/site developments		**(46.0)**	(28.1)
Movement in non-current assets		**(1.7)**	(2.0)
Acquisition of subsidiaries, net of cash acquired		**(113.9)**	(22.4)
Repayment of debt of subsidiaries upon acquisition		**(57.9)**	(13.7)
Movement in available-for-sale investments		**31.8**	(31.8)
Net cash outflow from investing activities		**(184.1)**	(130.6)
Financing activities			
Equity dividends paid	8	**(34.1)**	(31.0)
Issue of shares		**1.1**	2.6
Sale of own shares by share trust		**–**	0.9
Purchase of treasury shares		**(115.5)**	(14.8)
Purchase of own shares for Long Term Incentive Plan		**(0.6)**	(6.6)
Purchase of own shares for cancellation		**(5.3)**	–
Interest paid		**(57.7)**	(47.5)
Arrangement costs of new bank facilities and issue costs paid on securitised debt		**(1.1)**	(0.7)
Repayment of securitised debt		**(11.4)**	(10.1)
Advance of loans		**443.6**	43.0
Repayment of bank loans		**(155.0)**	(14.2)
Settlement of debentures		**(18.9)**	–
Repayment of loan notes and loan stock		**(2.2)**	(0.8)
Capital element of finance leases repaid		**(0.1)**	(0.1)
Net cash inflow/(outflow) from financing activities		**42.8**	(79.3)
Net increase/(decrease) in cash and cash equivalents	30	**14.7**	(19.9)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash and cash equivalents in the period	30	**14.7**	(19.9)
(Decrease)/increase in available-for-sale investments		**(31.8)**	31.8
Cash inflow from increase in debt		**(256.0)**	(17.8)
Change in debt resulting from cash flows	30	**(273.1)**	(5.9)
Net debt acquired with subsidiaries	30	**(22.1)**	(14.2)
Non-cash movements	30	**(0.2)**	(1.8)
Movement in net debt in the period		**(295.4)**	(21.9)
Net debt at beginning of the period	30	**(893.7)**	(871.8)
Net debt at end of the period	30	**(1,189.1)**	(893.7)

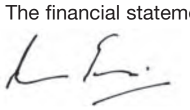
* EBITDA - Earnings before interest, tax, depreciation and amortisation

GROUP BALANCE SHEET

AS AT 29 SEPTEMBER 2007

	Notes	2007 £m	2006 £m
Assets			
Non-current assets			
Intangible assets	10	**9.7**	5.5
Goodwill	11	**217.8**	148.3
Property, plant and equipment	12	**1,934.3**	1,584.0
Deferred tax assets	22	**40.4**	48.9
Other non-current assets	13	**24.8**	23.1
		2,227.0	1,809.8
Current assets			
Inventories	14	**16.7**	12.8
Assets held for sale	15	**7.2**	26.2
Trade and other receivables	16	**69.4**	50.6
Derivative financial instruments	20	**2.4**	–
Financial assets: available-for-sale investments	17	**–**	31.8
Cash and cash equivalents	30	**42.4**	39.8
		138.1	161.2
Liabilities			
Current liabilities			
Borrowings	18	**(97.9)**	(38.6)
Derivative financial instruments	20	**–**	(0.5)
Trade and other payables	21	**(119.3)**	(108.1)
Current tax liabilities		**(21.5)**	(11.2)
		(238.7)	(158.4)
Non-current liabilities			
Borrowings	18	**(1,133.6)**	(926.7)
Derivative financial instruments	20	**(1.6)**	(14.3)
Pension commitments	25	**(38.6)**	(53.1)
Deferred tax liabilities	22	**(195.2)**	(162.6)
Other non-current liabilities	23	**(0.4)**	(0.7)
Provisions	24	**(8.5)**	(2.0)
		(1,377.9)	(1,159.4)
Net assets		**748.5**	653.2
Shareholders' equity			
Equity share capital	27	**23.0**	23.0
Share premium account	28	**188.5**	187.5
Merger reserve	28	**41.5**	41.5
Revaluation reserve	28	**438.4**	311.2
Capital redemption reserve	28	**6.1**	6.0
Hedging reserve	28	**0.5**	(10.4)
Own shares	28	**(135.3)**	(21.5)
Retained earnings	28	**185.8**	115.9
Total equity		**748.5**	653.2

The financial statements on pages 44 to 75 were approved by the Board on 30 November 2007 and signed on its behalf by:



Ralph Findlay
Chief Executive
30 November 2007

NOTES

1 ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC) interpretations adopted by the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings and derivative financial instruments.

IFRS 7 'Financial instruments: Disclosures' will be mandatory for the Group in the period ending 27 September 2008. This will require the Group to amend certain disclosures in relation to its financial instruments, but will have no impact on the results presented.

The Group does not consider that any other standards or interpretations issued by the International Accounting Standards Board (IASB), but not yet applicable, will have a significant impact on the financial statements in the future.

Basis of consolidation

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

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

The consolidated financial statements also incorporate the results of Marston's Issuer PLC (formerly W&DB Issuer PLC), a company set up with the sole purpose of issuing debt secured on assets owned by the Group. The Directors consider this company meets the definition of a special purpose entity under SIC 12 'Consolidation – special purpose entities' and hence for the purpose of the consolidated financial statements it has been treated as a subsidiary undertaking. Details of this company are provided in note 36.

Revenue and other operating income

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

Segmental reporting

For primary segment reporting purposes the Group is considered to have four distinguishable business segments, being Marston's Inns and Taverns (formerly Pathfinder Pubs), Marston's Pub Company (formerly The Union Pub Company), Marston's Beer Company (formerly WDB Brands) and Marston's Group Services (formerly Central). This mirrors the Group's internal organisation and management structure, and reflects the different risk profiles to which the business is exposed. An element of Marston's Group Services costs is allocated to each of the trading divisions.

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

Exceptional items

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

Intangible assets

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

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

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

Computer software	5 years
Brands	Indefinite

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

NOTES

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 is instead reviewed for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Any impairment is recognised immediately in the income statement.

Property, plant and equipment
- Freehold and leasehold properties are stated at valuation or at cost. Plant, furnishings, equipment and other similar items are stated at cost.
- Depreciation is charged to the income statement on a straight-line basis to provide for the cost of the assets less residual value over their useful lives.
- Freehold and long leasehold buildings are depreciated to residual value over 50 years.
- Short leasehold properties are depreciated over the life of the lease.
- Other plant and equipment is depreciated over periods ranging from 3 to 15 years.
- Own labour directly attributable to capital projects is capitalised.
- Land is not depreciated.

Valuation of properties - Properties are revalued by qualified valuers on a 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. 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 income statement. Surpluses on revaluation are recognised in the revaluation reserve, except where they reverse previously charged impairment losses, in which case they are recorded in the income statement.

Disposals of property, plant and equipment
Profit/loss on disposal of property, plant and equipment represents net sale proceeds less the carrying value of the assets. Any element of the revaluation reserve relating to the property, plant and equipment 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. If there is an indication that any previously recognised impairment losses may no longer exist or may have decreased, a reversal of the loss may be 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 years. The reversal is recognised in the income statement. The depreciation charge is adjusted in future periods to allocate the asset's revised carrying value, less any residual value, on a systematic basis over its remaining useful life. There is no reversal of impairment losses relating to goodwill.

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

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

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

Other non-current assets
Other non-current assets represent trade loans and premiums paid on the acquisition of operating leases.

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 financial instruments held for trading and are recognised initially at cost. Subsequently trade loans are measured at fair value, being amounts advanced less deemed impairment.

Payments made on entering into or acquiring leaseholds that are accounted for as operating leases represent prepaid lease payments and hence are classified as non-current assets. These are amortised on a straight-line basis over the lease term.

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

NOTES

1 ACCOUNTING POLICIES (CONTINUED)

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

Financial assets: available-for-sale investments
Cash invested in short-term investment funds for which there are no withdrawal penalties and the maturity dates are in excess of 90 days are treated as financial assets, rather than a cash equivalent, as required by IAS 7 'Cash flow statements'.

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

Financial instruments
The Group's treasury policy is set out in note 20 to the financial statements.

Derivative financial instruments - The Group uses derivative financial instruments to hedge its exposure to fluctuations in interest rates. Derivative financial instruments are recognised in the balance sheet at fair value. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are charged or credited to the income statement in the period in which they arise.

The Group seeks to achieve hedge accounting to mitigate the impact on the Group of changes in interest rates on the floating rate tranches of securitised loan notes by matching the impact with a fixed rate interest swap in the income statement. This is recognised as a cash flow hedge.

To qualify for hedge accounting, the hedging relationship must meet several conditions with respect to documentation, probability of occurrence, hedge effectiveness and reliability of measurement. At the inception of the transaction the Group documents the relationship between the hedging instrument and the hedged item, as well as the Group's risk management objective and strategy for undertaking the hedge transaction. This process includes linking all derivative financial instruments designated as hedges to specific liabilities. The Group also documents its assessment, both at the hedge inception and on a regular basis, as to whether the hedging transaction has been, and is likely to continue to be, highly effective at offsetting changes in cash flows.

The effective part of the changes in fair value of cash flow hedges is recognised in equity, whilst any ineffective part is recognised immediately in the income statement.

Trade receivables - Trade receivables are measured at initial recognition, do not carry any interest and are stated at their fair value. They are subsequently measured at amortised cost using the effective interest rate method and recorded net of provision for impairment.

Trade payables - Trade payables are non-interest bearing and are stated at their nominal value.

Employee benefits
Pension costs for the Group's defined benefit post-retirement plan are determined by the Projected Unit Credit Method, with actuarial calculations being carried out at each period end date.

Costs are recognised separately as operating and finance costs in the income statement. Operating costs comprise the current service cost, any income or expenses on settlements or curtailments, and past service costs where the benefits have vested. Finance items comprise the interest on plan liabilities and the expected return on plan assets.

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

The liability recognised in the balance sheet for the defined benefit post-retirement plan is the present value of scheme liabilities less the fair value of scheme assets.

Pension costs for the Group's defined contribution post-retirement plan 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 post-retirement plans.

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 (formerly The Wolverhampton & Dudley Breweries, PLC) the only key management personnel are considered to be the Directors of the Group.

NOTES

1 ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

When valuations of leasehold properties (based on future estimated income streams) give rise to a deficit as a result of onerous lease conditions they are recognised as provisions. Such provisions are not discounted as the Directors consider the discounted amounts would not be materially different from the amounts recognised.

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

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

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

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

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.

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. Details of the Group's key assumptions and significant judgements are set out in each relevant accounting policy and detailed note to the financial statements.

NOTES

2 SEGMENTAL REPORTING

Primary reporting format – business segments

For primary segment reporting purposes, the Group is considered to have four distinguishable business segments, being Marston's Inns and Taverns (formerly Pathfinder Pubs), Marston's Pub Company (formerly The Union Pub Company), Marston's Beer Company (formerly WDB Brands) and Marston's Group Services (formerly Central).

Period ended 29 September 2007	Marston's Inns and Taverns £m	Marston's Pub Company £m	Marston's Beer Company £m	Marston's Group Services £m	Group £m
Income statement					
Revenue	367.8	200.9	121.8	–	690.5
Less: sales to other segments	–	–	(37.7)	–	(37.7)
	367.8	200.9	84.1	–	652.8
Operating expenses before exceptional items	(301.1)	(110.1)	(66.7)	(11.7)	(489.6)
Operating profit before exceptional items	66.7	90.8	17.4	(11.7)	163.2
Exceptional items	(0.6)	(0.4)	(0.5)	(1.0)	(2.5)
Operating profit	66.1	90.4	16.9	(12.7)	160.7
Finance costs					(68.8)
Finance income					2.8
Profit before taxation					94.7
Taxation					(12.4)
Profit for the period attributable to equity shareholders					**82.3**
Balance sheet					
Segment assets	983.1	1,090.2	162.4	44.2	2,279.9
Unallocated assets					
Deferred tax assets					40.4
Derivative financial instruments					2.4
Group cash and cash equivalents					42.4
Total assets					**2,365.1**
Segment liabilities	(40.1)	(16.2)	(41.8)	(30.1)	(128.2)
Unallocated liabilities					
Group borrowings					(1,231.5)
Current tax liabilities					(21.5)
Pension commitments					(38.6)
Deferred tax liabilities					(195.2)
Derivative financial instruments					(1.6)
Total liabilities					**(1,616.6)**
Other segmental information					
Capital expenditure					
Intangible fixed assets	0.2	–	–	0.8	1.0
Property, plant and equipment	64.1	65.8	13.5	2.3	145.7
Depreciation of property, plant and equipment	21.7	9.8	7.9	2.6	42.0
Amortisation of intangible fixed assets	0.4	–	–	0.3	0.7

NOTES

2 SEGMENTAL REPORTING (CONTINUED)

Period ended 30 September 2006	Marston's Inns and Taverns £m	Marston's Pub Company £m	Marston's Beer Company £m	Marston's Group Services £m	Group £m
Income statement					
Revenue	330.7	178.8	131.2	–	640.7
Less: sales to other segments	–	–	(45.2)	–	(45.2)
	330.7	178.8	86.0	–	595.5
Operating expenses before exceptional items	(267.2)	(98.5)	(68.0)	(9.5)	(443.2)
Operating profit before exceptional items	63.5	80.3	18.0	(9.5)	152.3
Exceptional items	–	–	–	–	–
Operating profit	63.5	80.3	18.0	(9.5)	152.3
Finance costs					(52.1)
Finance income					1.3
Profit before taxation					101.5
Taxation					(28.2)
Profit for the period attributable to equity shareholders					**73.3**
Balance sheet					
Segment assets	707.3	927.2	137.7	78.3	1,850.5
Unallocated assets					
Deferred tax assets					48.9
Financial assets: available-for-sale investments					31.8
Group cash and cash equivalents					39.8
Total assets					**1,971.0**
Segment liabilities	(26.7)	(21.9)	(35.2)	(27.0)	(110.8)
Unallocated liabilities					
Group borrowings					(965.3)
Current tax liabilities					(11.2)
Pension commitments					(53.1)
Deferred tax liabilities					(162.6)
Derivative financial instruments					(14.8)
Total liabilities					**(1,317.8)**
Other segmental information					
Capital expenditure					
Intangible fixed assets	0.9	–	–	0.3	1.2
Property, plant and equipment	59.7	27.2	8.5	2.3	97.7
Depreciation of property, plant and equipment	19.6	9.5	7.0	2.5	38.6
Amortisation of intangible fixed assets	0.3	–	–	0.2	0.5

Secondary reporting format – geographical segments

Revenue generated outside the United Kingdom during the period was £0.4m (2006: £0.3m). Geographical reporting is therefore not considered appropriate.

NOTES

3 OPERATING EXPENSES

	2007 £m	2006 £m
Change in stocks of finished goods and work in progress	**(3.8)**	0.5
Own work capitalised	**(0.7)**	(0.6)
Other operating income	**(5.0)**	(4.8)
Raw materials, consumables and excise duties	**211.7**	190.4
Depreciation of property, plant and equipment	**42.0**	38.6
Amortisation of intangible fixed assets	**0.7**	0.5
Employee costs	**142.5**	126.8
Hire of plant and machinery	**1.2**	1.3
Other operating lease rentals	**10.0**	8.0
Other operating charges	**95.9**	84.2
Income from other non-current assets	**(0.5)**	(0.4)
Impairment of properties	**2.8**	3.8
Profit on disposal of property, plant and equipment	**(4.7)**	(5.1)
	492.1	443.2

Exceptional reorganisation costs of £0.2m (2006: £nil) are included in other operating charges and £2.3m (2006: £nil) within employee costs.

Fees paid to PricewaterhouseCoopers LLP:	2007 £m	2006 £m
Statutory audit fees - consolidated Group financial statements	**0.2**	0.2
Statutory audit fees - other entity financial statements	**0.1**	0.1
Corporate finance services	**0.8**	–
Tax advisory services	**0.2**	0.2
Due diligence and refinancing fees	**1.0**	0.2
	2.3	0.7

Due diligence and refinancing fees of £1.0m (2006: £0.2m) have been capitalised.

4 EXCEPTIONAL ITEMS

	2007 £m	2006 £m
Operating items		
Costs of reorganisation of newly acquired subsidiaries	**2.5**	–
Non-operating items		
Write-off of unamortised finance costs following arrangement of new bank facilities	**0.8**	–
	3.3	–

The funding of the acquisition of Eldridge Pope (note 32) during the period necessitated a renegotiation of the Group's borrowing facilities.

The current tax credit relating to the above exceptional items amounts to £1.0m (2006: £nil). In addition, £7.2m has been credited as exceptional in relation to the change in tax rate and abolition of balancing charges.

NOTES

5 EMPLOYEES

Staff costs	2007 £m	2006 £m
Wages and salaries	**128.1**	112.6
Social security costs	**9.5**	8.8
Pension costs	**3.5**	4.4
Share-based payment costs	**1.4**	1.0
	142.5	126.8

Staff costs include £2.3m (2006: £nil) which were classified as exceptional items.

Key management personnel
Directors' emoluments are set out in the Directors' Remuneration Report on pages 33 to 39. The total Directors' remuneration for the period was £2.9m (2006: £2.0m), including employer's national insurance and share-based payments.

Average number of employees	2007	2006
Full-time	**5,782**	5,021
Part-time	**7,088**	7,476

6 FINANCE COSTS AND INCOME

Finance costs	2007 £m	2006 £m
Bank interest payable	**20.4**	7.5
Securitised debt interest payable	**41.9**	42.5
Other interest payable	**1.7**	0.6
Amortisation of issue costs on securitised debt	**1.0**	0.9
Amortisation of issue costs on bank loan	**0.3**	0.2
Net finance expense in respect of retirement benefits	**2.7**	0.4
Exceptional finance costs (note 4)	**0.8**	–
	68.8	52.1
Finance income		
Deposit and other interest receivable	**(2.8)**	(1.3)
Net finance costs	**66.0**	50.8

7 TAXATION

Income statement	2007 £m	2006 £m
Current tax		
Current period	**20.9**	22.9
Adjustment in respect of prior periods	**–**	(0.5)
	20.9	22.4
Deferred tax		
Current period	**(0.7)**	6.1
Adjustment in respect of prior periods	**(0.6)**	(0.3)
Exceptional credit in respect of the change in tax rate and abolition of balancing charges	**(7.2)**	–
	(8.5)	5.8
Taxation charge reported in the income statement	**12.4**	28.2

£1.0m of the current tax credit relates to the tax on exceptional items (note 4).

Statement of recognised income and expense	2007 £m	2006 £m
Gain/(loss) on actuarial valuation of pension liability	**8.3**	(5.4)
Revaluation of properties	**35.2**	(5.0)
Net gain on revaluation of cash flow hedges	**4.7**	0.1
Credit in respect of the change in tax rate	**(5.8)**	–
Taxation charge/(credit) reported in the statement of recognised income and expense	**42.4**	(10.3)

NOTES

7 TAXATION (CONTINUED)

The actual tax rate for the period is lower (2006: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

Tax reconciliation	2007 £m	2006 £m
Profit before tax	**94.7**	101.5
Profit before tax multiplied by the UK corporation tax rate of 30% (2006: 30%)	**28.4**	30.4
Effects of:		
Adjustments to tax in respect of prior periods	**(0.6)**	(0.8)
Net deferred tax credit in respect of land and buildings	**(8.5)**	(1.8)
Costs not deductible for tax purposes	**0.3**	0.4
Impact of change in tax rate and abolition of balancing charges	**(7.2)**	–
Current year taxation charge	**12.4**	28.2

8 ORDINARY DIVIDENDS ON EQUITY SHARES

Paid in the period	2007 £m	2006 £m
Final dividend for 2006 of 7.06p per share (2005: 6.42p)	**21.5**	19.8
Interim dividend for 2007 of 4.36p per share (2006: 3.63p)	**12.6**	11.2
	34.1	31.0

A final dividend for 2007 of 8.47p per share amounting to £23.6m 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 31 January 2008 to those shareholders on the register at close of business on 4 January 2008.

A 4-for-1 share split was completed on 9 January 2007.

9 EARNINGS PER ORDINARY SHARE

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

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

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

	2007			As restated 2006		
	Earnings £m	Weighted average number of shares m	Per share amount p	Earnings £m	Weighted average number of shares m	Per share amount p
Basic earnings per share	**82.3**	**295.2**	**27.9**	73.3	308.5	23.8
Effect of dilutive options	**–**	**2.5**	**–**	–	3.1	–
Diluted earnings per share	**82.3**	**297.7**	**27.6**	73.3	311.6	23.5
Underlying earnings per share figures						
Basic earnings per share	**82.3**	**295.2**	**27.9**	73.3	308.5	23.8
Effect of exceptional items	**(4.9)**		**(1.7)**	–		–
Basic earnings per share before exceptional items	**77.4**	**295.2**	**26.2**	73.3	308.5	23.8
Diluted earnings per share	**82.3**	**297.7**	**27.6**	73.3	311.6	23.5
Effect of exceptional items	**(4.9)**		**(1.6)**	–		–
Diluted earnings per share before exceptional items	**77.4**	**297.7**	**26.0**	73.3	311.6	23.5

Historic earnings per share and the weighted average number of shares have been restated to reflect the 4-for-1 share split that was completed on 9 January 2007.

NOTES

10 INTANGIBLE ASSETS

	Brands £m	Lease premiums £m	Computer software £m	Total £m
Cost				
At 1 October 2006	2.8	0.9	2.3	6.0
Additions	–	–	1.0	1.0
Acquisitions	2.9	1.1	–	4.0
Disposals	–	–	(0.1)	(0.1)
At 29 September 2007	**5.7**	**2.0**	**3.2**	**10.9**
Amortisation				
At 1 October 2006	–	–	0.5	0.5
Charged during the period	–	0.1	0.6	0.7
At 29 September 2007	**–**	**0.1**	**1.1**	**1.2**
Net book amount at 30 September 2006	2.8	0.9	1.8	5.5
Net book amount at 29 September 2007	**5.7**	**1.9**	**2.1**	**9.7**

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, regulatory or contractual limits to their useful lives, they are regarded as having indefinite useful lives and no annual amortisation is provided.

The carrying values of brands are subject to annual impairment reviews. No impairment was identified during the current or prior period as a result of these reviews.

The Ringwood Brewery brand was acquired during the period (note 34).

Lease premiums classified as intangible assets are those acquired with Eldridge Pope (note 32) and Celtic Inns (note 35).

	Brands £m	Lease premiums £m	Computer software £m	Total £m
Cost				
At 2 October 2005	2.8	–	1.9	4.7
Additions	–	–	1.2	1.2
Acquisitions	–	0.9	–	0.9
Disposals	–	–	(0.8)	(0.8)
At 30 September 2006	**2.8**	**0.9**	**2.3**	**6.0**
Amortisation				
At 2 October 2005	–	–	0.8	0.8
Charged during the period	–	–	0.5	0.5
Disposals	–	–	(0.8)	(0.8)
At 30 September 2006	**–**	**–**	**0.5**	**0.5**
Net book amount at 1 October 2005	2.8	–	1.1	3.9
Net book amount at 30 September 2006	**2.8**	**0.9**	**1.8**	**5.5**

Impairment testing of brands

The key assumptions used in the impairment testing of brands were a discount rate of 9.0% (2006: 9.0%) and a long-term growth rate used to extrapolate cash flows beyond the cash flow projection period of one year of 2.0% (2006: 2.0%). These assumptions are based on historic trends adjusted for management estimates of future prospects, and take account of economic forecasts, marketing plans, political factors and estimates of competitors' strategy.

NOTES

11 GOODWILL

	£m
Cost	
At 1 October 2006	149.4
Additions	69.5
At 29 September 2007	**218.9**
Aggregate impairment	
At 1 October 2006	1.1
Impairment for the period	–
At 29 September 2007	**1.1**
Net book amount at 30 September 2006	148.3
Net book amount at 29 September 2007	**217.8**

Additions relate to goodwill arising on the acquisitions of Eldridge Pope (note 32), Sovereign Inns (note 33), Ringwood Brewery (note 34) and Bluu (note 35).

	£m
Cost	
At 2 October 2005	132.1
Additions	17.3
At 30 September 2006	**149.4**
Aggregate impairment	
At 2 October 2005	1.1
Impairment for the period	–
At 30 September 2006	**1.1**
Net book amount at 1 October 2005	131.0
Net book amount at 30 September 2006	**148.3**

Impairment testing of goodwill

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

The carrying amount of goodwill has been allocated £115.7m (2006: £68.7m) to Marston's Inns and Taverns (formerly Pathfinder Pubs), £85.4m (2006: £69.2m) to Marston's Pub Company (formerly The Union Pub Company) and £16.7m (2006: £10.4m) to Marston's Beer Company (formerly WDB Brands). Goodwill has been allocated to business segments based on the extent to which the benefits of acquisitions flow to that segment.

The key assumptions used are the pre-tax discount rate applied to the cash flow projections of 9.0% (2006: 9.0%) and the growth rate used to extrapolate the projected cash flows beyond the one year budgets of 2.0% (2006: 2.0%) in line with an expected long-term inflation rate which is below the long-term average growth rate for the industry.

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 estimates of competitors' strategy.

Following the above impairment tests, no impairment of goodwill was required in the current or prior period.

NOTES

12 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation				
At 1 October 2006	1,392.7	25.4	300.9	1,719.0
Additions	95.9	3.9	45.9	145.7
Acquisitions	144.1	0.4	20.3	164.8
Transfers to assets held for sale and disposals	(67.8)	(0.6)	(36.2)	(104.6)
Impairment/revaluation	161.3	–	–	161.3
At 29 September 2007	**1,726.2**	**29.1**	**330.9**	**2,086.2**
Depreciation				
At 1 October 2006	7.4	8.1	119.5	135.0
Charge for the period	3.1	3.4	35.5	42.0
Transfers to assets held for sale and disposals	(0.4)	(0.6)	(23.3)	(24.3)
Revaluation	(0.8)	–	–	(0.8)
At 29 September 2007	**9.3**	**10.9**	**131.7**	**151.9**
Net book amount at 30 September 2006	1,385.3	17.3	181.4	1,584.0
Net book amount at 29 September 2007	**1,716.9**	**18.2**	**199.2**	**1,934.3**

	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation				
At 2 October 2005	1,360.5	27.6	279.6	1,667.7
Additions	48.6	3.3	45.8	97.7
Acquisitions	33.3	–	2.0	35.3
Transfers from other non-current assets	1.0	–	–	1.0
Transfers to assets held for sale and disposals	(43.2)	(5.5)	(26.5)	(75.2)
Impairment/revaluation	(7.5)	–	–	(7.5)
At 30 September 2006	**1,392.7**	**25.4**	**300.9**	**1,719.0**
Depreciation				
At 2 October 2005	4.4	10.4	101.9	116.7
Charge for the period	3.2	3.1	32.3	38.6
Transfers to assets held for sale and disposals	(0.2)	(5.4)	(14.7)	(20.3)
At 30 September 2006	**7.4**	**8.1**	**119.5**	**135.0**
Net book amount at 1 October 2005	1,356.1	17.2	177.7	1,551.0
Net book amount at 30 September 2006	**1,385.3**	**17.3**	**181.4**	**1,584.0**

NOTES

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	2007 £m	2006 £m
Freehold properties	**1,608.1**	1,286.2
Leasehold properties over 50 years unexpired	**70.3**	59.8
Leasehold properties under 50 years unexpired	**38.5**	39.3
	1,716.9	1,385.3

Cost or valuation of properties comprises:

	2007 £m	2006 £m
Valuation	**1,667.9**	1,323.3
At cost	**58.3**	69.4
	1,726.2	1,392.7

During the period, independent chartered surveyors Christie + Co revalued 1,903 (2006: 2) properties on an open market value basis. These valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve. The revaluations during the period ended 29 September 2007 resulted in a total revaluation surplus of £189.3m (2006: £0.2m), including reversal of past impairments of £2.7m (2006: £nil).

In addition, various properties were reviewed for impairment during the period. This identified an impairment of £27.2m (2006: £7.7m) which has been taken either to the income statement or, where the impairment reverses a previous upwards valuation, to the revaluation reserve.

The impact of the revaluations/impairments described above is as follows:	2007 £m	2006 £m
Income statement:		
Impairment	**(5.5)**	(3.8)
Reversal of past impairments	**2.7**	–
	(2.8)	(3.8)
Revaluation reserve:		
Unrealised revaluation surplus	**186.6**	0.2
Reversal of past revaluation surplus	**(21.7)**	(3.9)
	164.9	(3.7)
Net increase/(decrease) in shareholders' equity/property, plant and equipment	**162.1**	(7.5)

At 17 March 2006 Christie + Co fair valued the acquired Celtic Inns pub estate on an open market value basis. At 6 July 2006 the Group, using internal chartered surveyors, fair valued the acquired Bluu pub estate on an open market value basis.

At 16 January 2007 Brownill Vickers & Platts fair valued the acquired Sovereign Inns pub estate on an open market value basis. On 25 January 2007 Colliers CRE fair valued the acquired Eldridge Pope pub estate on an open market value basis.

On 12 July 2007 Christie + Co fair valued the acquired Ringwood Brewery pub estate on an open market value basis and on the same date Donaldsons fair valued the acquired brewery on an open market value basis.

If the freehold and leasehold properties had not been revalued, the historical net book value would be £1,278.4m (2006: £1,074.1m).

Cost at 29 September 2007 includes £12.5m (2006: £11.4m) of assets in the course of construction.

Capital expenditure authorised and committed at the period-end but not provided for in the financial statements was £15.0m (2006: £7.5m).

13 OTHER NON-CURRENT ASSETS

	Trade loans £m
At 1 October 2006	23.1
Additions	8.8
Disposals, repayments and impairments	(7.1)
At 29 September 2007	**24.8**

NOTES

13 OTHER NON-CURRENT ASSETS (CONTINUED)

	Trade loans £m	Operating lease premiums £m	Total £m
At 2 October 2005	21.1	1.0	22.1
Additions	8.1	–	8.1
Transfers to property, plant and equipment	–	(1.0)	(1.0)
Disposals, repayments and impairments	(6.1)	–	(6.1)
At 30 September 2006	**23.1**	**–**	**23.1**

14 INVENTORIES

	2007 £m	2006 £m
Raw materials and consumables	**4.6**	4.3
Work in progress	**0.2**	0.2
Finished goods	**11.9**	8.3
	16.7	12.8

15 ASSETS HELD FOR SALE

	2007 £m	2006 £m
Properties	**7.2**	26.2

16 TRADE AND OTHER RECEIVABLES

	2007 £m	2006 £m
Trade receivables	**32.1**	28.5
Prepayments and accrued income	**18.4**	12.0
Other receivables	**18.9**	10.1
	69.4	50.6

17 FINANCIAL ASSETS: AVAILABLE-FOR-SALE INVESTMENTS

	2007 £m	2006 £m
At beginning of period	**31.8**	–
Additions	**–**	31.8
Disposals	**(31.8)**	–
At end of period	**–**	31.8

The Group invested in a short-term investment fund. The Group had access to the cash invested in this fund on demand and there were no withdrawal penalties. However under the terms of IAS 7 these investments were treated as a financial asset rather than a cash equivalent.

18 BORROWINGS

Current	2007 £m	2006 £m
Unsecured bank loans and overdrafts due within one year or on demand	**77.4**	19.0
Securitised debt	**11.2**	10.4
Unsecured loan notes	**9.2**	9.1
Finance leases	**0.1**	0.1
	97.9	38.6

NOTES

18 BORROWINGS (CONTINUED)

Non-current	2007 £m	2006 £m
Unsecured bank loans	**372.5**	154.3
Securitised debt	**760.9**	772.1
Finance leases	**0.1**	0.2
Preference shares	**0.1**	0.1
	1,133.6	926.7

All of the Group's borrowings are denominated in pounds sterling. Bank loans and overdrafts bear interest at LIBOR plus a margin. Interest is payable on the unsecured loan notes at a rate of 0.75% below six month LIBOR.

Preference shares
The Group has 0.1m (2006: 0.1m) preference shares of £1 each in issue at the balance sheet date. The preference shares, which are classified as debt under IAS 32, 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.

Interest rates
The effective interest rates on borrowings at the balance sheet date, excluding securitised debt (note 19), were as follows:

	2007	2006
Bank overdraft	**6.75%**	5.75%
Bank loans	**6.81%**	5.88%
Loan notes	**5.08%**	3.95%
Finance leases	**13.92%**	13.92%
Preference shares	**6.00%**	6.00%

19 SECURITISED DEBT

On 9 August 2005, £805m 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 (formerly W&DB Pubs Limited). These loan notes were secured over the properties and their future income streams and were issued by Marston's Issuer PLC (formerly W&DB Issuer PLC), a special purpose entity (note 36). During the period ended 29 September 2007, 182 (2006: seven) of the securitised pubs were sold to third parties, and 72 (2006: one) pubs were acquired from other members of the Marston's Group.

The securitisation is governed by various covenants, warranties and events of default, many of which apply to Marston's Pubs Limited (formerly W&DB 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 securitised debt at 29 September 2007 consists of four tranches with the following principal terms:

Tranche	2007 £m	2006 £m	Interest	Principal repayment period - by instalments	Expected average life	Expected maturity date
A1	**214.4**	225.9	Floating	2007 to 2020	4 years	2012
A2	**214.0**	214.0	Fixed/floating	2020 to 2027	12 years	2019
A3	**200.0**	200.0	Fixed/floating	2027 to 2032	20 years	2027
B	**155.0**	155.0	Fixed/floating	2032 to 2035	12 years	2019
	783.4	794.9				

Interest on the Class A1 notes is payable at three month LIBOR plus a margin of 0.55%, stepping up to three month LIBOR plus 1.375% from July 2012. These notes are hedged in full by the Group using interest rate swaps whereby all interest payments are swapped to fixed interest payable.

Interest on the Class A2 notes is payable at interest of 5.1576% until July 2019 and thereafter at three month LIBOR plus a margin of 1.32%. Interest on the Class A3 notes is payable at interest of 5.1774% until April 2027 and thereafter at three month LIBOR plus a margin of 1.45%. Interest on the Class B notes is payable at interest of 5.6410% until July 2019 and thereafter at three month LIBOR plus a margin of 2.55%.

At 29 September 2007 Marston's Pubs Limited (formerly W&DB Pubs Limited) held cash of £26.8m (2006: £16.0m) and available-for-sale investments of £nil (2006: £31.8m) which were governed by certain restrictions under the covenants associated with the securitisation.

NOTES

19 SECURITISED DEBT (CONTINUED)

The carrying value of the secured notes in the Group balance sheet at 29 September 2007 is analysed as follows:

	£m
Gross proceeds received on 9 August 2005	805.0
Deferred issue costs	(13.5)
	791.5
Capital repayments	(21.5)
Amortisation of deferred issue costs	2.1
Carrying value at 29 September 2007	**772.1**

20 FINANCIAL INSTRUMENTS

Treasury policy
The Group's financial instruments, other than derivative financial instruments, comprise securitised debt, preference shares, bank borrowings (loans and overdrafts), other loans, finance leases and cash. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group also has various other financial instruments such as trade receivables and trade payables that arise directly from its operations, which have not been included in the following disclosures.

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

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

The main risks arising from the Group's financial instruments are interest rate, liquidity and credit risk. The Board regularly reviews and agrees policies for managing all of these risks and these are summarised below. The Group has no material exposure to currency rate risk.

Interest rate risk:
The Group finances its operations through a mixture of retained earnings, securitised debt and bank borrowings. The Group borrows at both fixed and floating rates of interest and then uses interest rate swaps to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations.

The Group's aim is to reduce the risk of exposure to market rate fluctuations in the medium term.

Liquidity risk:
The Group's policy is to ensure continuity of funding and in particular to ensure that funding requirements for the medium term are available through committed facilities. In addition, having regard to the longevity of the Group's assets, securitised debt is considered to be a suitable debt instrument.

Short-term flexibility is achieved through the use of overdraft facilities and other uncommitted facilities.

Credit risk:
The Group has no significant concentrations of credit risk. The Group has implemented policies that require appropriate credit checks on potential customers before sales commence.

Fair values of borrowings, cash and derivative financial instruments

	2007		2006	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Primary instruments:				
Borrowings	**(1,243.5)**	**(1,207.4)**	(978.6)	(990.1)
Cash and cash equivalents	**42.4**	**42.4**	39.8	39.8
Financial assets: available-for-sale investments	**–**	**–**	31.8	31.8
	(1,201.1)	**(1,165.0)**	(907.0)	(918.5)

NOTES

20 FINANCIAL INSTRUMENTS (CONTINUED)

	2007 Book value £m	2007 Fair value £m	2006 Book value £m	2006 Fair value £m
Derivative financial instruments:				
Interest rate swaps				
Current assets	**2.4**	**2.4**	–	–
Current liabilities	**–**	**–**	(0.5)	(0.5)
Non-current liabilities	**(1.6)**	**(1.6)**	(14.3)	(14.3)
	0.8	**0.8**	(14.8)	(14.8)

The various tranches of securitised debt have been valued at fair value, using period end mid-market quoted prices. All other fair values have been calculated by discounting cash flows at prevailing interest rates.

Interest rate swaps

The Group uses interest rate swaps to fix the interest rate payable on the floating rate tranches of its securitised debt. These derivative financial instruments have qualified for cash flow hedge accounting as defined in IAS 39 and, as a result, changes in fair value are recognised in equity for the effective portion of the hedge. The gains on cash flow hedges taken directly to equity in the period totalled £15.6m (2006: £0.3m).

The notional principal amount of the outstanding interest rate swap contracts at 29 September 2007 was £214.4m (2006: £225.9m). The interest rate swap fixes interest at 4.9%.

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

	2007 Floating rate financial liabilities £m	2007 Fixed rate financial liabilities £m	2007 Total £m	2006 Floating rate financial liabilities £m	2006 Fixed rate financial liabilities £m	2006 Total £m
Borrowings	**459.8**	**783.7**	**1,243.5**	183.3	795.3	978.6

The weighted average interest rate of the fixed rate financial borrowings was 5.3% (2006: 5.3%) and the weighted average period for which the rate is fixed was 12 years (2006: 13 years).

Maturity of borrowings

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

	2007 Gross borrowings £m	2007 Unamortised issue costs £m	2007 Net borrowings £m	2006 Gross borrowings £m	2006 Unamortised issue costs £m	2006 Net borrowings £m
Due within one year	**99.1**	**(1.2)**	**97.9**	39.8	(1.2)	38.6
In more than one year but less than two years	**12.7**	**(1.2)**	**11.5**	11.5	(1.2)	10.3
In more than two years but less than five years	**415.3**	**(2.9)**	**412.4**	196.1	(3.2)	192.9
In more than five years	**716.4**	**(6.7)**	**709.7**	731.2	(7.7)	723.5
	1,243.5	**(12.0)**	**1,231.5**	978.6	(13.3)	965.3

Included within the above table are finance leases of £0.2m (2006: £0.3m). The maturity profile is: due within one year £0.1m (2006: £0.1m), in more than one year but less than two years £0.1m (2006: £0.1m) and in more than two years but less than five years £nil (2006: £0.1m).

NOTES

20 FINANCIAL INSTRUMENTS (CONTINUED)

Finance leases

The minimum lease payments under finance leases fall due as follows:

	2007 £m	2006 £m
Due within one year	**0.1**	0.1
In more than one year but less than five years	**0.2**	0.3
	0.3	0.4
Future finance charges on finance leases	**(0.1)**	(0.1)
Present value of finance lease liabilities	**0.2**	0.3

21 TRADE AND OTHER PAYABLES

	2007 £m	2006 £m
Trade payables	**47.1**	42.6
Other taxes and social security	**15.6**	17.5
Accruals and deferred income	**39.2**	32.1
Other payables	**17.4**	15.9
	119.3	108.1

22 DEFERRED TAX

Net deferred tax liability

Deferred tax is calculated on temporary differences between tax bases of assets and liabilities and their carrying amounts under the liability method using principally a tax rate of 28% (2006: 30%). The movement on the deferred tax accounts is as shown below:

	2007 £m	2006 £m
At beginning of period	**113.7**	113.6
Acquisitions	**6.4**	3.8
(Credited)/charged to the income statement	**(8.5)**	5.8
Charged/(credited) to equity		
Actuarial gain/(loss)	**9.2**	(5.4)
Revaluation of properties	**28.5**	(5.0)
Share-based payments	**0.8**	0.8
Hedging reserve	**4.7**	0.1
At end of period	**154.8**	113.7

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.

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

NOTES

22 DEFERRED TAX (CONTINUED)

Deferred tax liabilities

	Accelerated capital allowances £m	Revaluation of properties £m	Rolled over capital gains £m	Hedging reserve £m	Other £m	Total £m
At 1 October 2006	32.1	119.1	8.3	–	3.1	162.6
Acquisitions	2.5	7.1	6.4	–	1.2	17.2
(Credited)/charged to the income statement	(2.4)	(12.5)	1.8	–	(0.3)	(13.4)
Charged to equity	–	28.5	–	0.3	–	28.8
At 29 September 2007	**32.2**	**142.2**	**16.5**	**0.3**	**4.0**	**195.2**

Deferred tax assets

	Pensions £m	Tax losses £m	Share-based payments £m	Hedging reserve £m	Other £m	Total £m
At 1 October 2006	(20.5)	(21.9)	(1.9)	(4.4)	(0.2)	(48.9)
Acquisitions	(5.4)	(4.0)	–	–	(1.4)	(10.8)
Charged/(credited) to the income statement	3.8	(0.3)	–	–	1.4	4.9
Charged to equity	9.2	–	0.8	4.4	–	14.4
At 29 September 2007	**(12.9)**	**(26.2)**	**(1.1)**	**–**	**(0.2)**	**(40.4)**

Net deferred tax liability	
At 30 September 2006	113.7
At 29 September 2007	**154.8**

23 OTHER NON-CURRENT LIABILITIES

	2007 £m	2006 £m
Accruals and deferred income	**–**	0.4
Other liabilities	**0.4**	0.3
	0.4	0.7

24 PROVISIONS

	Property leases £m
At 1 October 2006	2.0
Acquisitions	7.7
Disposals	(1.0)
Credited to the income statement	(0.2)
At 29 September 2007	**8.5**

	Property leases £m
At 2 October 2005	2.2
Credited to the income statement	(0.2)
At 30 September 2006	**2.0**

When valuations of leasehold properties (based on future estimated income streams) give rise to a deficit as a result of onerous lease conditions they are recognised as liabilities in provisions. Payments are expected to continue on these properties for periods of 4 to 42 years. The amounts are not discounted as the Directors consider the discounted amounts would not be materially different from the amounts recognised.

NOTES

25 PENSION COMMITMENTS

During the period the Group contributed to two funded final salary (defined benefit) pension schemes and three Group personal pension plans (defined contribution pension schemes). On 7 September 2007 the Eldridge Pope final salary scheme was merged with the Marston's PLC Pension and Life Assurance Scheme following the Group's acquisition of Eldridge Pope (note 32).

Defined contribution schemes
Pension costs for defined contribution schemes are as follows:

	2007 £m	2006 £m
Defined contribution schemes	**0.8**	0.7

Defined benefit scheme
An updated actuarial valuation of the Marston's PLC Pension and Life Assurance Scheme was performed by Mercer as at 29 September 2007 for the purposes of IAS 19. The principal assumptions made by the actuaries were:

	2007	2006
Discount rate	**5.8%**	5.2%
Rate of increase in pensionable salaries	**3.8%**	3.4%
Rate of increase in pensions – 5% LPI	**3.1%**	2.7%
Rate of increase in pensions – 2.5% LPI	**2.3%**	2.3%
Inflation assumption	**3.1%**	2.7%
Expected return on plan assets	**6.8%**	5.7%
Life expectancy for active and deferred members from age 65		
Male	**22.2 years**	22.2 years
Female	**25.0 years**	25.0 years
Life expectancy for current pensioners from age 65		
Male	**20.5 years**	20.5 years
Female	**23.4 years**	23.4 years

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

Pensions and other post-retirement obligations
Movement in plan assets and pension obligations during the period:

	Plan assets		Pension obligations		Net deficit	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
At beginning of period	**245.1**	219.3	**(298.2)**	(264.9)	**(53.1)**	(45.6)
Current service cost	**–**	–	**(2.7)**	(3.5)	**(2.7)**	(3.5)
Interest cost on benefit obligations	**–**	–	**(17.2)**	(13.4)	**(17.2)**	(13.4)
Expected return on plan assets	**14.5**	13.0	**–**	–	**14.5**	13.0
Employer contributions	**10.4**	14.4	**–**	–	**10.4**	14.4
Contributions by employees	**1.3**	1.3	**(1.3)**	(1.3)	**–**	–
Benefits paid	**(13.6)**	(9.5)	**13.6**	9.5	**–**	–
Acquisitions	**34.9**	–	**(52.9)**	–	**(18.0)**	–
Actuarial gain/(loss)	**8.9**	6.6	**18.6**	(24.6)	**27.5**	(18.0)
At end of period	**301.5**	245.1	**(340.1)**	(298.2)	**(38.6)**	(53.1)

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

	2007	2006
Equities	**59.4%**	67.0%
Bonds	**33.5%**	30.5%
Other	**7.1%**	2.5%

The actual return on plan assets was £23.4m (2006: £19.6m).

NOTES

25 PENSION COMMITMENTS (CONTINUED)

Pension costs recognised in the income statement
The amounts recognised in the income statement are as follows:

	2007 £m	2006 £m
Current service cost	**2.7**	3.5
Interest cost	**17.2**	13.4
Expected return on plan assets	**(14.5)**	(13.0)
Total expense recognised in the income statement	**5.4**	3.9

Of the total charge £2.7m (2006: £3.5m) is included within employee costs (note 5) and £2.7m (2006: £0.4m) is included within finance costs (note 6).

Cumulative actuarial gains and losses recognised in equity

	2007 £m	2006 £m
At beginning of the period	**(21.0)**	(3.0)
Net actuarial gains/(losses) recognised in the period	**27.5**	(18.0)
At end of the period	**6.5**	(21.0)

Post retirement medical benefits of £(0.1)m (2006: £nil) have been included in the statement of recognised income and expense.

History of experience gains and losses

	2007	2006	2005
Experience adjustments arising on scheme assets:			
Amount	**£8.9m**	£(6.6)m	£15.9m
Percentage of fair value of scheme assets	**3.0%**	2.7%	7.3%
Experience adjustments arising on scheme liabilities:			
Amount	**£18.6m**	£(24.6)m	£(18.9)m
Percentage of present value of scheme liabilities	**5.5%**	8.2%	7.1%
Present value of scheme liabilities	**£(340.1)m**	£(298.2)m	£(264.9)m
Fair value of scheme assets	**£301.5m**	£245.1m	£219.3m
Deficit	**£(38.6)m**	£(53.1)m	£(45.6)m

The contribution expected to be paid during the financial period ending 27 September 2008 amounts to £22.0m.

NOTES

26 SHARE-BASED PAYMENTS

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

(a) Save As You Earn (SAYE). Under this scheme employees enter into a savings contract for a period of three to seven years and options are granted on commencement of the contract, exercisable using the amount saved under the contract at the time it terminates. Options under the scheme are granted at a discount of 20% of the market price of the shares at the time of the grant and are not subject to performance conditions. Exercise of options is subject to continued employment.

(b) Executive Share Option Plan (ESOP). Under this scheme executive share options are awarded at the prevailing market rate on the date of the grant. Options are normally exercisable between three and ten years after grant and upon the achievement of performance criteria in relation to earnings per share, as set out in the Directors' Remuneration Report on page 34.

(c) Long Term Incentive Plan (LTIP). Under this scheme nil cost options are granted that will only vest provided the participant satisfies the minimum shareholding requirement and performance conditions relating to earnings per share, as set out in the Directors' Remuneration Report on page 34 and 35, are met.

The tables below summarise outstanding options that were issued after 7 November 2002. All comparative figures have been restated to reflect the 4-for-1 share split that was completed on 9 January 2007.

	Number of shares		Weighted average exercise price	
SAYE:	2007 m	2006 m	2007 p	2006 p
Outstanding at beginning of period	**2.1**	1.9	**195.0**	172.9
Granted	**0.5**	0.5	**370.0**	254.0
Exercised	**(0.1)**	(0.2)	**161.9**	123.2
Expired	**(0.2)**	(0.1)	**220.1**	179.7
Outstanding at end of period	**2.3**	2.1	**235.8**	195.0
Exercisable at end of period	**–**	–		
Range of exercise prices	**99.8p to 370.0p**	99.8p to 254.0p		
Weighted average remaining contractual life (years)	**3.1**	3.0		

	Number of shares		Weighted average exercise price	
ESOP:	2007 m	2006 m	2007 p	2006 p
Outstanding at beginning of period	**0.2**	0.9	**151.0**	151.0
Exercised	**(0.1)**	(0.7)	**151.0**	151.0
Outstanding at end of period	**0.1**	0.2	**151.0**	151.0
Exercisable at end of period	**0.1**	0.2	**151.0**	151.0
Exercise price	**151.0p**	151.0p		
Weighted average remaining contractual life (years)	**3.8**	4.1		

	Number of shares		Weighted average exercise price	
LTIP:	2007 m	2006 m	2007 p	2006 p
Outstanding at beginning of period	**2.0**	1.4	**–**	–
Granted	**0.4**	0.6	**–**	–
Exercised	**(0.5)**	–	**–**	–
Expired	**(0.2)**	–	**–**	–
Outstanding at end of period	**1.7**	2.0	**–**	–
Exercisable at end of period	**–**	–		
Exercise price	**–**	–		
Weighted average remaining contractual life (years)	**2.6**	1.9		

The fair values of the SAYE, ESOP and LTIP rights are calculated at the date of grant using the Black-Scholes option-pricing model. The main assumptions used during the period, for all schemes unless otherwise stated, were:

	2007	2006
Dividend yield %	**3.2**	3.4
Expected volatility %	**19.2 to 21.9**	17.8 to 23.1
Risk free interest rate %	**5.6 to 5.8**	4.7 to 4.8
Expected life of rights		
SAYE	**3 to 7 years**	3 to 7 years
ESOP	**3 years**	3 years
LTIP	**3 years**	3 years

NOTES

26 SHARE-BASED PAYMENTS (CONTINUED)

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

The weighted average fair value of options granted during the period in relation to the SAYE was 133.3p (2006: 85.5p). The fair value of options granted during the period in relation to the LTIP was 408.0p (2006: 275.3p).

The weighted average share price for options exercised over the period was 407.7p (2006: 317.0p). The total charge for the period relating to employee share-based payment plans was £1.4m (2006: £1.0m), all of which related to equity-settled share-based payment transactions. After tax, the total charge was £1.1m (2006: £0.7m).

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

	SAYE				ESOP			
	Number of shares		Weighted average exercise price		Number of shares		Weighted average exercise price	
	2007	2006	2007	2006	2007	2006	2007	2006
	m	m	p	p	m	m	p	p
Outstanding at beginning of period	**0.8**	1.2	**89.3**	88.2	**0.4**	1.8	**117.8**	111.0
Exercised	**(0.7)**	(0.2)	**83.2**	83.4	**(0.2)**	(1.4)	**98.3**	108.6
Expired	**–**	(0.2)	**103.7**	92.4	**–**	–	**–**	141.3
Outstanding at end of period	**0.1**	0.8	**124.9**	89.3	**0.2**	0.4	**130.7**	117.8
Exercisable at end of period	**–**	–	**–**	–	**0.2**	0.4	**130.7**	117.8
Weighted share price at date of exercise			**375.1**	306.5			**454.7**	330.8
Range of exercise prices	**61.8p to 138.5p**	58.5p to 138.5p			**129.0p to 143.4p**	81.4p to 146.9p		
Weighted average remaining contractual life (years)	**1.8**	1.0			**3.4**	5.7		

The LTIP scheme was introduced in January 2004.

27 EQUITY SHARE CAPITAL

	2007		2006	
	Number m	Value £m	Number m	Value £m
Authorised				
Ordinary shares of 7.375p each (2006: 29.5p each)	**406.8**	**30.0**	101.7	30.0
Allotted, called up and fully paid				
Ordinary shares of 7.375p each (2006: 29.5p each):				
At beginning of period	**77.9**	**23.0**	77.3	22.8
Effect of 4-for-1 share split	**233.6**	**–**	–	–
Allotted under share option schemes	**1.1**	**0.1**	0.6	0.2
Cancellation of shares	**(1.4)**	**(0.1)**	–	–
At end of period	**311.2**	**23.0**	77.9	23.0

A total of 1.1m ordinary shares were issued during the period ended 29 September 2007 pursuant to the exercise of ESOP and SAYE share options at exercise prices ranging from 67.5p to 254.0p. The aggregate consideration in respect of these exercises was £1.1m.

At 29 September 2007 there were 0.3m (2006: 0.6m) executive share options outstanding at prices from 129.0p to 151.0p per share, exercisable between 2007 and 2013 and 2.4m (2006: 2.9m) SAYE options outstanding at prices from 61.8p to 370.0p per share exercisable between 2007 and 2015. Details of the Group's LTIP and other executive share options schemes are included in the Directors' Remuneration Report on pages 33 to 39.

A 4-for-1 share split was completed on 9 January 2007.

NOTES

28 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Equity share capital £m	Share premium account £m	Merger reserve £m	Revaluation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Own shares £m	Retained earnings £m	Total £m
At 1 October 2006	23.0	187.5	41.5	311.2	6.0	(10.4)	(21.5)	115.9	653.2
Actuarial gain	–	–	–	–	–	–	–	27.5	27.5
Tax on actuarial gain	–	–	–	–	–	–	–	(9.2)	(9.2)
Post-retirement medical benefits	–	–	–	–	–	–	–	(0.1)	(0.1)
Issue of own shares from LTIP share trust	–	–	–	–	–	–	2.3	(2.3)	–
Purchase of treasury shares	–	–	–	–	–	–	(115.5)	–	(115.5)
Purchase of own shares for LTIP	–	–	–	–	–	–	(0.6)	–	(0.6)
Share-based payments	–	–	–	–	–	–	–	1.4	1.4
Tax in relation to share-based payments	–	–	–	–	–	–	–	0.5	0.5
Cash flow hedges	–	–	–	–	–	15.6	–	–	15.6
Tax on cash flow hedges	–	–	–	–	–	(4.7)	–	–	(4.7)
Property revaluation	–	–	–	164.9	–	–	–	–	164.9
Deferred tax on properties	–	–	–	(28.5)	–	–	–	–	(28.5)
Disposal of properties	–	–	–	(8.9)	–	–	–	8.9	–
Transfer to retained earnings	–	–	–	(0.3)	–	–	–	0.3	–
Share option schemes	0.1	1.0	–	–	–	–	–	–	1.1
Cancellation of own shares	(0.1)	–	–	–	0.1	–	–	(5.3)	(5.3)
Profit for the period	–	–	–	–	–	–	–	82.3	82.3
Dividends paid	–	–	–	–	–	–	–	(34.1)	(34.1)
At 29 September 2007	**23.0**	**188.5**	**41.5**	**438.4**	**6.1**	**0.5**	**(135.3)**	**185.8**	**748.5**
At 2 October 2005	22.8	185.1	41.5	311.2	6.0	(10.6)	(1.0)	83.2	638.2
Actuarial loss	–	–	–	–	–	–	–	(18.0)	(18.0)
Tax on actuarial loss	–	–	–	–	–	–	–	5.4	5.4
Sale of own shares from ESOP share trust	–	–	–	–	–	–	0.9	–	0.9
Purchase of treasury shares	–	–	–	–	–	–	(14.8)	–	(14.8)
Purchase of own shares for LTIP	–	–	–	–	–	–	(6.6)	–	(6.6)
Share-based payments	–	–	–	–	–	–	–	1.0	1.0
Tax in relation to share-based payments	–	–	–	–	–	–	–	0.7	0.7
Cash flow hedges	–	–	–	–	–	0.3	–	–	0.3
Tax on cash flow hedges	–	–	–	–	–	(0.1)	–	–	(0.1)
Property revaluation	–	–	–	0.2	–	–	–	–	0.2
Impairment of assets previously revalued	–	–	–	(3.9)	–	–	–	–	(3.9)
Deferred tax on properties	–	–	–	5.0	–	–	–	–	5.0
Disposal of properties	–	–	–	(1.0)	–	–	–	1.0	–
Transfer to retained earnings	–	–	–	(0.3)	–	–	–	0.3	–
Share option schemes	0.2	2.4	–	–	–	–	–	–	2.6
Profit for the period	–	–	–	–	–	–	–	73.3	73.3
Dividends paid	–	–	–	–	–	–	–	(31.0)	(31.0)
At 30 September 2006	**23.0**	**187.5**	**41.5**	**311.2**	**6.0**	**(10.4)**	**(21.5)**	**115.9**	**653.2**

Total equity at 2 October 2005 included minority interests of £2.0m.
The merger reserve recognised on the acquisition of Burtonwood reflects the difference between the nominal and fair value of the Company's shares issued as part of the consideration for the acquisition. Merger relief was taken, relieving the Group from the need to transfer this difference to the share premium account. The capital redemption reserve arose on share buy-backs.

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

	2007 Number of shares m	2007 Value £m	2006 As restated Number of shares m	2006 Value £m
ESOP	**0.1**	**0.1**	0.1	0.1
LTIP	**1.7**	**4.9**	2.1	6.6
Treasury shares	**31.1**	**130.3**	4.5	14.8
	32.9	**135.3**	6.7	21.5

The market value of own shares held is £111.4m (2006: £23.8m). Shares held by the LTIP represent 0.5% (2006: 0.6%) of issued share capital. Treasury shares held represent 10.0% (2006: 1.4%) of issued share capital. The Directors' interests in the shares in the trust are disclosed in the Directors' report. Dividends on own shares have been waived.

NOTES

29 WORKING CAPITAL AND NON-CASH MOVEMENTS

	2007 £m	2006 £m
Income from non-current assets	**(0.5)**	(0.4)
(Increase)/decrease in inventories	**(1.4)**	1.0
(Increase)/decrease in trade and other receivables	**(11.7)**	1.4
(Decrease)/increase in trade and other payables	**(16.0)**	11.4
Profit on disposal of property, plant and equipment	**(4.7)**	(5.1)
Impairment of properties	**2.8**	3.8
Share-based payments	**1.4**	1.0
Working capital and non-cash movements	**(30.1)**	13.1

30 ANALYSIS OF NET DEBT

	2007 £m	Cash flow £m	Non-cash flow £m	Acquisitions £m	2006 £m
Cash and cash equivalents					
Cash at bank and in hand	**42.4**	2.6	–	–	39.8
Bank overdraft	**(7.1)**	12.1	–	–	(19.2)
	35.3	14.7	–	–	20.6
Financial assets					
Available-for-sale investments	**–**	(31.8)	–	–	31.8
	–	(31.8)	–	–	31.8
Debt due within one year					
Loan notes	**(9.2)**	2.0	–	(2.1)	(9.1)
Bank loans	**(70.3)**	(70.6)	0.1	–	0.2
Securitised debt	**(11.2)**	11.4	(12.2)	–	(10.4)
Finance leases	**(0.1)**	0.1	(0.1)	–	(0.1)
	(90.8)	(57.1)	(12.2)	(2.1)	(19.4)
Debt due after one year					
Bank loans	**(372.5)**	(218.0)	(0.2)	–	(154.3)
Securitised debt	**(760.9)**	–	11.2	–	(772.1)
Finance leases	**(0.1)**	–	0.1	–	(0.2)
Loan stock	**–**	0.2	–	(0.2)	–
Debentures	**–**	18.9	0.9	(19.8)	–
Preference shares	**(0.1)**	–	–	–	(0.1)
	(1,133.6)	(198.9)	12.0	(20.0)	(926.7)
	(1,189.1)	(273.1)	(0.2)	(22.1)	(893.7)

Included within cash at bank and in hand is an amount of £3.9m (2006: £3.9m) relating to a letter of credit with Royal Sun Alliance which is considered to be restricted cash. Available-for-sale investments represent the Group's holding in a short-term investment fund from which cash can be withdrawn on demand and without penalty and therefore it has been classified within net debt.

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

31 OPERATING LEASES

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

	2007 Land and buildings £m	2007 Other £m	2006 Land and buildings £m	2006 Other £m
Due within one year	**10.4**	**0.7**	7.7	1.0
Due between one and five years	**40.7**	**0.5**	30.3	0.6
Due beyond five years	**207.9**	**–**	152.7	–
	259.0	**1.2**	190.7	1.6

NOTES

31 OPERATING LEASES (CONTINUED)

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

	2007		2006	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Due within one year	**35.6**	**–**	37.6	–
Due between one and five years	**122.8**	**–**	128.7	–
Due beyond five years	**338.7**	**–**	367.0	–
	497.1	**–**	533.3	–

32 ACQUISITION OF ELDRIDGE POPE

On 25 January 2007, the Group acquired 100% of Nouveaustar Limited ('Eldridge Pope') and its wholly owned subsidiaries. The acquisition has been accounted for under acquisition accounting principles and is therefore included in the consolidated balance sheet as at 29 September 2007.

		Fair value adjustments		
	Book value £m	**Revaluations £m**	**Other £m**	**Provisional fair value £m**
Property, plant and equipment	107.4	28.8	–	136.2
Intangible assets: lease premiums	–	1.1	–	1.1
Intangible assets: negative goodwill	(0.4)	–	0.4	–
Inventories	2.1	–	–	2.1
Trade and other receivables	5.6	–	(0.1)	5.5
Cash and cash equivalents	3.6	–	–	3.6
Bank overdraft	(1.2)	–	–	(1.2)
Trade and other payables	(19.7)	–	–	(19.7)
Borrowings	(69.5)	–	(4.9)	(74.4)
Pension commitments	(13.0)	–	(5.0)	(18.0)
Derivative financial instruments	–	–	0.2	0.2
Provisions	–	(7.7)	–	(7.7)
Deferred tax	1.5	(8.0)	5.0	(1.5)
Net assets acquired	**16.4**	**14.2**	**(4.4)**	**26.2**
Cash consideration (including acquisition fees)				84.5
Goodwill arising on consolidation				**58.3**

The attributed fair values are provisional.

The revaluation adjustment reflects the valuation of the acquired estate as at 25 January 2007. The valuation was carried out by independent chartered surveyors Colliers CRE on an open market value basis. Valuations reflecting onerous leases have been included in provisions. Deferred tax on property revaluations has been recognised on acquisition.

The other fair value adjustments reflect the elimination of negative goodwill, the fair values of the debentures, derivative financial instruments and defined benefit pension scheme commitments at the date of acquisition, and the associated deferred tax.

The net cash outflow in respect of the acquisition of Eldridge Pope was:

	£m
Acquisition of equity	
Cash	84.5
Net cash held by subsidiary	(2.4)
	82.1
Acquisition of debt	
Immediate repayment of subsidiary's debt	52.3
Net cash outflow in respect of the acquisition	134.4

The purchase agreement for Eldridge Pope required the immediate repayment of certain borrowings, which were included in its balance sheet at the date of acquisition. The debt repayments have therefore been classified as part of the overall consideration for the acquisition of Eldridge Pope.

NOTES

32 ACQUISITION OF ELDRIDGE POPE (CONTINUED)

In the financial year to 30 September 2006, Eldridge Pope made a profit after taxation of £2.2m. For the period from 1 October 2006 to 24 January 2007, Eldridge Pope recorded revenue of £25.4m, operating loss of £2.5m, loss before taxation of £5.8m and loss after taxation of £4.2m. There is no difference between loss after taxation and the recognised income and expenses for that period.

Since acquisition, the Group has integrated the cash operations of Eldridge Pope into the existing Group financial statements. As a result, it is impractical to isolate the cash flows of Eldridge Pope.

33 ACQUISITION OF SOVEREIGN INNS

On 16 January 2007, the Group acquired 100% of Sovereign Inns Limited ('Sovereign Inns'). The acquisition has been accounted for under acquisition accounting principles and is therefore included in the consolidated balance sheet as at 29 September 2007.

	£m
Book value of net assets acquired	3.7
Fair value adjustments	5.8
Goodwill	4.8
Consideration satisfied by cash	14.3

The attributed fair values are provisional. Fair value adjustments were made to the value of the acquired estate of £9.6m and deferred tax thereon of £(3.8)m. The valuation of the estate was carried out by independent chartered surveyors Brownill Vickers & Platts on an open market value basis.

The net cash outflow in respect of the acquisition of Sovereign Inns was:

	£m
Acquisition of equity	
Cash	14.3
Net cash held by subsidiary	(0.3)
	14.0
Acquisition of debt	
Immediate repayment of subsidiary's debt	5.6
Net cash outflow in respect of the acquisition	19.6

The purchase agreement for Sovereign Inns required the immediate repayment of certain borrowings, which were included in its balance sheet at the date of acquisition. The debt repayments have therefore been classified as part of the overall consideration for the acquisition of Sovereign Inns.

34 ACQUISITION OF RINGWOOD BREWERY

On 12 July 2007, the Group acquired 100% of Ringwood Brewery Limited ('Ringwood Brewery'). The acquisition has been accounted for under acquisition accounting principles and is therefore included in the consolidated balance sheet as at 29 September 2007.

	£m
Book value of net assets acquired	7.4
Fair value adjustments	6.2
Goodwill	6.3
Consideration satisfied by cash	19.9

The attributed fair values are provisional. Fair value adjustments were made to the value of the Ringwood brand of £2.9m, the acquired estate of £4.0m and deferred tax thereon of £(0.7)m. The valuation of the brewery was carried out by independent chartered surveyors Donaldsons on an open market value basis. The valuation of the pub estate was carried out by independent chartered surveyors Christie + Co on an open market value basis.

The net cash outflow in respect of the acquisition of Ringwood Brewery was:

	£m
Acquisition of equity	
Cash	19.9
Net cash held by subsidiary	(2.1)
Net cash outflow in respect of the acquisition	17.8

NOTES

35 PRIOR PERIOD ACQUISITIONS

On 17 March 2006, the Group acquired Celtic Inns Holdings Limited. The fair value adjustments stated in the financial statements for the period ended 30 September 2006 are now confirmed with no adjustments made to those previously published.

On 6 July 2006, the Group acquired Bluu Limited. An additional £0.1m of acquired liabilities have been identified during the period to 29 September 2007 and recorded as a fair value adjustment.

36 SPECIAL PURPOSE ENTITY – MARSTON'S ISSUER PLC (FORMERLY W&DB ISSUER PLC)

The summarised financial statements of Marston's Issuer PLC (formerly W&DB Issuer PLC) are as follows:

Income statement:	**2007 £m**	2006 £m
Finance costs	**(41.9)**	(42.5)
Finance income	**41.9**	42.6
Profit for the period attributable to equity shareholders	**–**	0.1

There are no recognised income and expenses other than the profit for the period.

Cash flow statement:	**2007 £m**	2006 £m
Net cash inflow from operating activities	**–**	–
Investing activities		
Interest received	**42.1**	39.9
Repayment of loans advanced	**11.4**	10.1
Net cash inflow from investing activities	**53.5**	50.0
Financing activities		
Interest paid	**(42.1)**	(39.9)
Repayment of securitised debt	**(11.4)**	(10.1)
Net cash outflow from financing activities	**(53.5)**	(50.0)
Net increase in cash and cash equivalents	**–**	–

Balance sheet:	**2007 £m**	2006 £m
Assets		
Amounts due from Marston's Pubs Limited (formerly W&DB Pubs Limited)	**783.4**	794.9
Other receivables	**12.7**	24.0
Liabilities		
Securitised debt	**(783.4)**	(794.9)
Other payables	**(12.6)**	(23.9)
Shareholders' equity	**0.1**	0.1

37 PRINCIPAL SUBSIDIARY UNDERTAKINGS

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

NOTES

38 CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

On 9 August 2005 the Group entered into a Tax Deed of Covenant, the primary objective of which is to ensure that the Group does not trigger a total de-grouping liability of £173.2m, of which £136.0m relates to Capital Gains Tax (CGT) and £37.2m relates to Stamp Duty Land Tax (SDLT). This would arise in the event of Marston's Pubs Limited (formerly W&DB Pubs Limited) being sold outside the Group within six years for CGT purposes and three years for SDLT purposes. The Directors consider the likelihood of such a sale to be remote.

The Group has provided guarantees to Barclays Bank PLC in relation to loans entered into by tenants to finance the purchase of certain fixtures and fittings. The total amount guaranteed under these arrangements is £1.2m (2006: £1.4m).

The Group has also entered into a Deed of Guarantee with the trustees of the Marston's PLC Pension and Life Assurance Scheme (formerly The Wolverhampton & Dudley Breweries, 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.

39 EVENTS AFTER THE BALANCE SHEET DATE

On 22 November 2007, £330.0m of secured loan notes were issued in connection with the securitisation of an additional 437 of the Group's freehold and long leasehold tenanted pubs held in Marston's Pubs Limited (formerly W&DB Pubs Limited). The additional loan notes were issued by Marston's Issuer PLC (formerly W&DB Issuer PLC), a special purpose entity (see note 36).The loan notes are secured on the properties and their future income streams. On the same date, £313.0m of existing bank loans were repaid from the funds raised.

COMPANY ACCOUNTS

INDEPENDENT AUDITORS' REPORT

We have audited the parent company financial statements of Marston's PLC (formerly The Wolverhampton & Dudley Breweries, PLC) for the period ended 29 September 2007 which comprise the Company balance sheet and the related notes. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

We have reported separately on the Group financial statements of Marston's PLC (formerly The Wolverhampton & Dudley Breweries, PLC) for the period ended 29 September 2007.

Respective responsibilities of Directors and Auditors

The Directors responsibilities for preparing the annual report, the Directors' remuneration report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the parent company financial statements. In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Chairman's statement, the Business review, the Directors' report, the Corporate governance statement, the Corporate and social responsibility report, the Five year record, the Financial highlights and the non-auditable part of the Directors' remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- The parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs at 29 September 2007;
- The parent company financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- The information given in the Directors' report is consistent with the parent company financial statements.

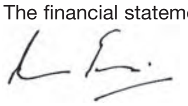
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
30 November 2007

COMPANY BALANCE SHEET

AS AT 29 SEPTEMBER 2007

	Notes	2007 £m	2006 £m
Fixed assets			
Tangible assets	3	**332.8**	329.1
Investments	4	**205.1**	205.1
		537.9	534.2
Current assets			
Assets held for sale	5	**0.8**	6.2
Debtors			
Amounts falling due within one year	6	**759.4**	548.8
Amounts falling due after more than one year	6	**448.1**	429.3
Cash at bank and in hand		**40.5**	37.4
		1,248.8	1,021.7
Creditors Amounts falling due within one year	7	**(1,025.9)**	(728.4)
Net current assets		**222.9**	293.3
Total assets less current liabilities		**760.8**	827.5
Creditors Amounts falling due after more than one year	7	**(0.1)**	(0.1)
Provisions for liabilities and charges	8	**(7.8)**	(8.4)
Net assets		**752.9**	819.0
Capital and reserves			
Equity share capital	10	**23.0**	23.0
Share premium account	11	**188.5**	187.5
Revaluation reserve	11	**88.5**	81.2
Capital redemption reserve	11	**6.1**	6.0
Own shares	11	**(135.3)**	(21.5)
Profit and loss account	11	**582.1**	542.8
Total shareholders' funds	12	**752.9**	819.0

The financial statements on pages 79 to 86 were approved by the Board on 30 November 2007 and signed on its behalf by:



Ralph Findlay
Chief Executive
30 November 2007

NOTES

1 ACCOUNTING POLICIES

Basis of preparation
The Company financial statements are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain freehold and leasehold properties, and in accordance with the Companies Act 1985 and applicable UK accounting standards.

Cash flow statement and related party disclosures
The Company is exempt from preparing a cash flow statement under the terms of FRS 1 as it is included within the consolidated Group cash flow statement presented in this annual report. The Company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Marston's PLC (formerly The Wolverhampton & Dudley Breweries, PLC) Group.

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

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

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

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

Assets held for sale
Assets, typically properties, are categorised as held for sale when the value of the asset will be recovered through a sale transaction rather than continuing use. This condition is met when the sale is highly probable, the asset is available for immediate sale in its present condition and is being actively marketed. In addition, the Company must be committed to the sale and the completion should be expected to occur within one year from the date of classification.

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 retained earnings at the date of sale.

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

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

NOTES

1 ACCOUNTING POLICIES (CONTINUED)

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

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

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

2 AUDITORS' REMUNERATION

The Company's statutory audit fees for the financial statements was £0.1m (2006: £0.1m).

3 TANGIBLE FIXED ASSETS

	Land and buildings £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation			
At 1 October 2006	322.9	16.1	339.0
Additions	26.5	1.8	28.3
Transfers to Group undertakings	(35.7)	–	(35.7)
Transfers to assets held for sale and disposals	(12.0)	(2.1)	(14.1)
Revaluation	27.7	–	27.7
At 29 September 2007	**329.4**	**15.8**	**345.2**
Depreciation			
At 1 October 2006	6.1	3.8	9.9
Charge for the period	2.7	2.4	5.1
Transfers to assets held for sale and disposals	(0.2)	(2.1)	(2.3)
Revaluation	(0.3)	–	(0.3)
At 29 September 2007	**8.3**	**4.1**	**12.4**
Net book value at 30 September 2006	316.8	12.3	329.1
Net book value at 29 September 2007	**321.1**	**11.7**	**332.8**

NOTES

3 TANGIBLE FIXED ASSETS (CONTINUED)

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

	2007 £m	2006 £m
Freehold properties	**267.9**	265.5
Leasehold properties over 50 years unexpired	**24.9**	20.5
Leasehold properties under 50 years unexpired	**28.3**	30.8
	321.1	316.8

Cost or valuation of properties comprises:

	2007 £m	2006 £m
Valuation	**294.3**	269.4
At cost	**35.1**	53.5
	329.4	322.9

Cost at 29 September 2007 includes £5.8m (2006: £4.2m) of assets in the course of construction.

During the period, independent chartered surveyors Christie + Co revalued 138 properties on an existing use basis. The remainder of the estate was revalued at 2 October 2004 on an existing use basis for pubs and a depreciated replacement cost basis for breweries.

During the period, various properties were reviewed for impairment prior to their recategorisation as assets held for sale. This review identified an impairment of £0.4m (2006: £3.8m) which has been taken either to the profit and loss account or, where the impairment reverses a previous upwards valuation, to the revaluation reserve.

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

	2007 £m	2006 £m
Profit and loss account:		
Revaluation loss charged as an impairment	**(0.4)**	(1.8)
Revaluation reserve:		
Unrealised revaluation surplus	**28.4**	–
Reversal of past revaluation surplus	**–**	(2.0)
Net increase/(decrease) in shareholders' funds/fixed assets	**28.0**	(3.8)

4 FIXED ASSET INVESTMENTS

	Subsidiary undertakings £m
At 29 September 2007 and 30 September 2006	**205.1**

The principal subsidiary undertakings are:

	Country of incorporation	Nature of business	% held	Class of shares
Marston's Trading Limited (formerly Wolverhampton & Dudley Breweries (Trading) Limited)	England	Pub retailer and brewer	100	Ordinary £5 shares
Marston's Property Developments Limited (formerly W&DB Properties Limited)	England	Property developer	100	Ordinary £1 shares
Marston's Pubs Limited (formerly W&DB Pubs Limited)	England	Pub retailer	100	Ordinary £1 shares
Marston's Estates Limited (formerly W&DB Estates Limited)	England	Property management	100	Ordinary 25p shares
Marston's Operating Limited (formerly W&DB Operating Limited)	England	Pub retailer	100	Ordinary £1 shares
Banks's Brewery Insurance Limited	Guernsey	Insurance	100	Ordinary £1 shares

NOTES

4 FIXED ASSET INVESTMENTS (CONTINUED)

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

The Group financial statements also include the consolidation of Marston's Issuer PLC (formerly W&DB Issuer PLC), which the Directors consider to be a special purpose entity as set out in note 36 to the Group financial statements. The ultimate parent undertaking of Marston's Issuer PLC (formerly W&DB issuer PLC) is Wilmington Trust SP Services (London) Limited, which holds the shares of the company's parent company under a charitable trust. Marston's Issuer PLC (formerly W&DB Issuer PLC) was set up with the sole purpose of issuing debt securitised on the assets of Marston's Pubs Limited.

5 ASSETS HELD FOR SALE

	2007 £m	2006 £m
Properties	**0.8**	6.2

6 DEBTORS

Amounts falling due within one year	2007 £m	2006 £m
Other debtors	**2.7**	–
Prepayments and accrued income	**3.1**	–
Amounts owed by Group undertakings	**753.6**	548.8
	759.4	548.8
Amounts falling due after more than one year		
12.5% subordinated loan owed by Group undertakings	**448.1**	429.3

7 CREDITORS

Amounts falling due within one year	2007 £m	2006 £m
Bank loans	**70.5**	–
Unsecured loan notes	**7.3**	9.1
Amounts owed to Group undertakings	**931.9**	714.3
Corporation tax	**15.0**	4.7
Accruals and deferred income	**1.2**	0.3
	1,025.9	728.4
Amounts falling due after more than one year		
Preference shares	**0.1**	0.1

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

Interest is payable on the unsecured loan notes at a rate of 0.75% below six month LIBOR.

NOTES

8 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred tax £m	Property leases £m	Total £m
At 1 October 2006	7.1	1.3	8.4
Disposals	–	(0.6)	(0.6)
Charged/(credited) to profit and loss account	0.1	(0.1)	–
At 29 September 2007	**7.2**	**0.6**	**7.8**

Deferred tax

	2007 £m	2006 £m
The amount provided in respect of deferred tax is as follows:		
Excess of capital allowances over accumulated depreciation	**7.2**	7.1

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

Property leases

When valuations of leasehold properties (based on future estimated income streams) give rise to a deficit as a result of onerous lease conditions they are recognised as liabilities in provisions. Payments are expected to continue on these properties for periods of 16 to 41 years. The amounts are not discounted as the Directors consider the discounted amounts would not be materially different from the amounts recognised.

9 OPERATING LEASE COMMITMENTS

At 29 September 2007 the Company was committed to making the following payments during the next year in respect of operating leases:

	2007		2006	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Leases which expire:				
Later than one year and less than five years	**0.3**	**–**	0.3	–
After five years	**4.0**	**–**	4.8	–
	4.3	**–**	5.1	–

10 SHARE CAPITAL

	2007		2006	
Authorised	**Number m**	**Value £m**	Number m	Value £m
Ordinary shares of 7.375p each (2006: 29.5p each)	**406.8**	**30.0**	101.7	30.0

	2007		2006	
Allotted, called up and fully paid	**Number m**	**Value £m**	Number m	Value £m
Ordinary shares of 7.375p each (2006: 29.5p each):				
At beginning of period	**77.9**	**23.0**	77.3	22.8
Effect of 4-for-1 share split	**233.6**	**–**	–	–
Allotted under share option schemes	**1.1**	**0.1**	0.6	0.2
Cancellation of shares	**(1.4)**	**(0.1)**	–	–
At end of period	**311.2**	**23.0**	77.9	23.0

Further information on share capital, including details of the 4-for-1 share split, is provided in note 27 to the Group financial statements.

NOTES

11 RESERVES

	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Own shares £m	Profit and loss account £m	Total £m
At 1 October 2006	187.5	81.2	6.0	(21.5)	542.8	796.0
Share option schemes	1.0	–	–	–	–	1.0
Issue of own shares from LTIP share trust	–	–	–	2.3	(2.3)	–
Purchase of treasury shares	–	–	–	(115.5)	–	(115.5)
Purchase of own shares for LTIP	–	–	–	(0.6)	–	(0.6)
Revaluation of properties	–	28.4	–	–	–	28.4
Disposal of properties	–	(21.1)	–	–	21.1	–
Cancellation of own shares	–	–	0.1	–	(5.3)	(5.2)
Profit for the financial period	–	–	–	–	59.9	59.9
Dividends paid	–	–	–	–	(34.1)	(34.1)
At 29 September 2007	**188.5**	**88.5**	**6.1**	**(135.3)**	**582.1**	**729.9**

No profit and loss account is presented for the Company as permitted by section 230 of the Companies Act 1985.

The capital redemption reserve arose on share buy-backs.

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

The Company's profit and loss account reserve includes £156.9m (2006: £156.9m) of unrealised profit from the sale of pubs to its subsidiary during the period ended 1 October 2005.

12 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2007 £m	2006 £m
Profit for the financial period	**59.9**	34.9
Dividends paid	**(34.1)**	(31.0)
Profit for the period transferred to reserves	**25.8**	3.9
Share option schemes	**1.1**	2.6
Purchase of treasury shares	**(115.5)**	(14.8)
Purchase of own shares for LTIP	**(0.6)**	(6.6)
Sale of own shares from ESOP share trust	**–**	0.9
Cancellation of own shares	**(5.3)**	–
Revaluation of properties	**28.4**	–
Reversal of past revaluation surplus	**–**	(2.0)
Net reduction to shareholders' funds	**(66.1)**	(16.0)
Opening shareholders' funds	**819.0**	835.0
Closing shareholders' funds	**752.9**	819.0

NOTES

13 CONTINGENT LIABILITIES

The Company has provided guarantees to Barclays Bank PLC in relation to loans entered in to by tenants to finance the purchase of certain fixtures and fittings. The total amount guaranteed under these arrangements is £1.2m (2006: £1.4m).

The Company has provided guarantees amounting to £21.2m (2006: £225.6m) in respect of discounted convertible loan notes issued by one of its subsidiaries to a number of its other subsidiaries. In the event of conversion in 2008 these existing guarantees will be replaced with new guarantees amounting to £2.0m in respect of new loan notes to be issued on conversion.

The Company has provided guarantees amounting to £20.0m (2006: £nil) in respect of inter-company convertible loan notes issued by one of its subsidiaries to another subsidiary. The Company has provided guarantees amounting to £18.5m (2006: £nil) in respect of other loan notes issued by one of its subsidiaries to a number of its other subsidiaries.

The Company has also entered into a Deed of Guarantee with Marston's Trading Limited (formerly Wolverhampton & Dudley Breweries (Trading) Limited) ('Trading') and the Trustees of the Marston's PLC Pension and Life Assurance Scheme (formerly The Wolverhampton & Dudley Breweries, 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.

14 POST BALANCE SHEET EVENTS

On 22 November 2007, 138 freehold and long leasehold tenanted pubs were sold to Marston's Pubs Limited (formerly W&DB Pubs Limited) for £78.2m, generating a profit on disposal of £5.3m. Cash, debtors and creditors relating to those pubs were also transferred to Marston's Pubs Limited at their net book value. On the same date, £73.0m of the existing bank loan was repaid from the funds received.


MARSTON'S
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OFFICIAL BEER OF ENGLAND

NOTICE OF MEETING

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek immediately your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial advisor duly authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all of your shares in the Company, please send this document, and the accompanying form of proxy, at once to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.

Notice is hereby given that the one hundred and twentieth Annual General Meeting (AGM) of Marston's PLC will be held at Warwickshire County Cricket Ground, Edgbaston, Birmingham B5 7QU on Friday 25 January 2008 at 1200 hours for the following purposes:

Ordinary business

1 To receive and to adopt the Company's accounts, and the reports of the Directors and Independent Auditors for the 52 weeks ended 29 September 2007.
2 To declare and to confirm dividends.
3 To re-elect Miles Emley.
4 To re-elect Stephen Oliver.
5 To re-elect Paul Inglett.
6 To re-appoint PricewaterhouseCoopers LLP as Independent Auditors of the Company and to authorise the Directors to fix their remuneration.
7 To approve the Directors' Remuneration Report for the year ended 29 September 2007 as set out on pages 33 to 39 of the Annual Report 2007.

Special business

To propose the following as an ordinary resolution:

8 That the Board be and it is hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £6,886,573 provided that this authority shall expire at the conclusion of the next AGM of the Company after the passing of this resolution or, if earlier, 25 April 2009, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

To propose the following as special resolutions:

9 That subject to the passing of the previous resolution the Board be and it is hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94(2) and Section 94(3A) of the said Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment provided that this power shall be limited:

a to the allotment of equity securities in connection with an issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them, but subject to such exclusions or other arrangements as the Board may deem necessary or expedient to deal with fractional entitlements or legal problems which may arise in any overseas territory or under the requirements of any regulatory body or any stock exchange; and
b to the allotment (otherwise than pursuant to sub paragraph (a) above) of equity securities up to an aggregate nominal value of £1,032,986.

This authority shall expire at the conclusion of the next AGM of the Company after the passing of this resolution, or, if earlier, 25 April 2009, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of Section 94(3A) of the Companies Act 1985 as if in the first paragraph of this resolution the words "pursuant to the authority conferred by the previous resolution" were omitted.

10 That the Company be and is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares in its capital, subject as follows:

a the maximum number of shares which may be so acquired is 41,991,752 ordinary shares of 7.375 pence each;
b the minimum price (exclusive of expenses) which may be paid for such shares is 7.375 pence per share;
c the maximum price (exclusive of expenses) which may be paid for a share is the higher of: (i) an amount equal to 105% of the average of the middle market quotations of the ordinary shares of the Company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased; and (ii) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System; and
d the authority conferred by this resolution shall expire at the conclusion of the next AGM of the Company or, if earlier, 25 April 2009 (except in relation to the purchase of shares the contract for which was

NOTICE OF MEETING (CONTINUED)

made before the expiry of such authority and which might be concluded wholly or partly after such expiry).

11 That the Articles of Association of the Company be amended by making the alterations marked on the print of the Articles of Association produced to the meeting marked 'A' and initialled by the Chairman for the purposes of identification with effect from the conclusion of the meeting.

12 That the Articles of Association of the Company be amended with effect from the date on which Section 175 of the Companies Act 2006 is brought into force by making the alterations marked on the print of the Articles of Association produced to the meeting marked 'B' and initialled by the Chairman for the purposes of identification.

By order of the Board

Anne-Marie Brennan
Secretary
30 November 2007

Explanatory notes to the Notice of meeting

Resolution 8
This resolution seeks renewal of the Directors' authority to allot ordinary shares in the Company up to an aggregate nominal amount of £6,886,573 being approximately one third of the Company's issued share capital, excluding the 31,112,339 ordinary shares (being 9.99% of the Company's issued share capital) held in treasury as at 30 November 2007. The authority contained in this resolution will be valid for up to 15 months after passing the resolution or until the date of the AGM in 2009, whichever is earlier. The Directors consider that this authority is desirable to allow the Company to retain flexibility, although they have no present intention of exercising this authority.

Resolution 9
This resolution seeks renewal of the Directors' authority to issue ordinary shares of the Company (including ordinary shares held in treasury) as if the pre-emption provisions of Section 89 of the Companies Act 1985 did not apply. Other than in connection with a rights or other similar issue, the authority contained in this resolution will be limited to an aggregate nominal amount of £1,032,986, being 5% of the Company's issued share capital, excluding the 31,112,339 ordinary shares (being 9.99% of the Company's issued share capital) held in treasury as at 30 November 2007. The authority contained in this resolution will be valid for up to 15 months after passing the resolution or until the date of the AGM in 2009, whichever is earlier.

Resolution 10
The Company's Articles of Association permit the purchase of the Company's own shares, subject to the provisions of the Companies Acts. The Directors consider it desirable and in the Company's interests for shareholders to grant the Company authority to exercise this power, within certain limits, to enable it to purchase its own shares in the market. The Directors have no present intention of exercising the authority to purchase the Company's ordinary shares other than to complete the £150m share buy-back programme announced on 25 May 2007.
The Directors undertake that the authority will only be exercised if they are satisfied that the purchase will result in an increase in earnings per share and is in the best interests of the shareholders generally. Subject to the passing of Resolution 10, which is proposed as a special resolution, and to the extent that the Company exercises such power, the Company may decide to either cancel the shares it purchases pursuant to such power and/or hold such shares in treasury for resale.

The Directors propose an authority for the Company to purchase its own shares in the market, up to a total of 41,991,752 ordinary shares of 7.375p each, having an aggregate nominal value of £3,096,892 and representing approximately 14.99% of the issued share capital of the Company, excluding the 31,112,339 ordinary shares (being 9.99% of the Company's issued share capital) held in treasury as at 30 November 2007, at or between the maximum and minimum prices specified in the resolution giving the authority.

As at 30 November 2007, there were options and other awards outstanding under the Company's share schemes over 4.1m ordinary shares which represent 1.46% of the Company's issued share capital (excluding treasury shares) at that date. If the authority to purchase the Company's ordinary shares is exercised in full, these options and other awards would represent 1.72% of the Company's issued share capital (excluding treasury shares).

Resolutions 11 and 12
Amendments to the Articles of Association of the Company
The Companies Act 2006 (the "2006 Act") received Royal Assent in November 2006. The 2006 Act represents a major reform of UK companies' legislation. Some provisions of the 2006 Act are already in force with further provisions currently scheduled to be implemented in April 2008 and October 2008. In addition, the UK Government has recently announced that certain key sections of the 2006 Act are now unlikely to be implemented before October 2009. It is proposed that, at this year's AGM, the Company amends its Articles of Association (the "Articles") to reflect certain changes in the law governing electronic communications and Directors' conflicts of interest which have or will come into force as a result of the 2006 Act.

However, over the coming year, the Company (in conjunction with its legal advisers) intends to conduct a further review of the Articles, incorporating any further changes which are necessary or desirable following the full implementation of the 2006 Act. Any proposed amendments will be put to shareholders at the next AGM. Copies of the current and proposed Articles (and comparison documents showing all the proposed changes to the Articles) are available for inspection during normal business hours at the registered

NOTICE OF MEETING (CONTINUED)

office of the Company until the date of the AGM or upon request from the Secretary. Copies will also be available at least 15 minutes prior to and during the AGM. The material differences between the current and the proposed Articles are summarised below. Changes of a minor, conforming or purely technical nature have not been mentioned specifically.

Resolution 11
Provisions relating to electronic communications
The 2006 Act contains new provisions relating to electronic and/or website communications between companies and their shareholders. These provisions enable companies to use electronic communications as the "default" method of communication with shareholders by placing documents or information on a website unless shareholders specifically elect to receive hard copies of such documents or information. The Company needs to amend its Articles to take advantage of these provisions.

Before implementing the "default" provisions (as detailed above), the Company would write to all shareholders to ask them individually to exercise their choice as to whether they wish to continue to receive documents or information in hard copy form or via the Company's website. This request will explain that, if the Company has not received a response within 28 days beginning with the day of the request, the shareholder will be taken to have agreed to receive documents or information via a website.

Even if a shareholder fails to respond, and is taken to agree to website publication, he or she can ask for a hard copy of any document or information from the Company at any time. The Company will send the copy within 21 days of receiving the request. The Company will send a notification to shareholders to alert them to the publication of the relevant document or information when it is made available on the website. Shareholders may choose to receive this notification in hard copy or electronic form. The new arrangements are expected to save considerable administrative, printing and postage costs, while preserving shareholders' rights to receive hard copy documents or information if they wish.

Resolution 12
Provisions relating to conflicts of interest
The 2006 Act sets out directors' general duties, which largely codify the existing law, but with some changes. Under the 2006 Act, a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. This requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. Currently, the Directors discuss such proposed positions with the Company before taking them up and there are actions that the Directors can take to avoid a breach of their duties if an actual conflict arises. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the Articles to contain a provision to this effect. The 2006 Act also allows the Articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. This change to the Articles, to take effect from the date on which the relevant provisions of the 2006 Act are brought into force, would give the Directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when the Directors decide whether to authorise a conflict or potential conflict. Firstly, only Directors who have no interest in the matter being considered will be able to take the relevant decision and secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the Articles should, from the date on which the relevant provisions are brought into force, contain provisions relating to confidential information, attendance at Board meetings and availability of Board papers to protect a Director from being in breach of duty if a conflict of interest or potential conflict of interest should arise. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the Board.

The Directors believe that all the resolutions proposed to be considered at the AGM are in the best interests of the Company and the shareholders as a whole and, accordingly, unanimously recommend all shareholders to vote in favour of the resolutions, as the Directors intend to do in respect of their own shares in the Company.

Notes

1 A shareholder entitled to attend, speak and vote at the meeting is also entitled to appoint one or more proxies to attend, speak and, on a poll, vote instead of the shareholder provided that if more than one proxy is appointed each proxy is appointed to exercise rights attaching to different shares. A proxy need not be a shareholder. Shareholders or their duly appointed proxies are requested to bring proof of identity with them to the meeting in order to confirm their identity for security reasons.

2 The form(s) of proxy must be executed by or on behalf of the shareholder making the appointment. A corporation may execute the form(s) of proxy either under its common seal or under the hand of a duly authorised officer. A shareholder may appoint more than one proxy to attend and vote on the same occasion.

3 A shareholder wishing to appoint a proxy should complete the accompanying form(s) of proxy and return it/them to Equiniti Registrars (formerly Lloyds TSB Registrars). If you wish to return the form(s) of proxy by post, you should send it/them to Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA. To be valid, the completed form(s) of proxy and any power of attorney under which (it is) (they are) executed (or a certified copy thereof) must be received by the Registrars not less than 48 hours before the time appointed for the AGM.

NOTICE OF MEETING (CONTINUED)

4(a) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the AGM to be held on 25 January 2008 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

(b) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 7RA01) by the latest time(s) for receipt of proxy appointments specified in the Notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

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

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

5 In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, the Company gives notice that only those shareholders entered in the register of members of the Company at close of business on 23 January 2008 or, in the event that the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, will be entitled to attend or vote at the AGM in respect of the number of shares registered in their name at that time. Changes to entries in the register after close of business on 23 January 2008 or, in the event that the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, will be disregarded in determining the rights of any person to attend or vote at the meeting.

6 Shareholders who return the form(s) of proxy or register the appointment of a proxy electronically will still be able to attend the AGM, speak and vote in person if they so wish.

7 Except as provided above, members who wish to communicate with the Company in relation to the AGM should do so using the following means: (1) by writing to the Company Secretary at the registered office address; or (2) by writing to the Registrars, Equiniti (formerly Lloyds TSB Registrars), Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA. No other methods of communication will be accepted. In particular you may not use any electronic address provided either in this Notice of meeting or in any related documents (including the Chairman's statement, the Annual Report 2007 and the Proxy Form) to communicate with the Company for any purposes other than those expressly stated.

8 The following are available for inspection at the Company's registered office during normal business hours on any weekday (excluding public holidays) and will be available for at least 15 minutes prior to, and during, the AGM:

(a) The register of Directors' interests and those of their immediate families in the share capital of the Company;

(b) Directors' service contracts; and

(c) A copy of the Company's Memorandum and Articles of Association, together with comparison documents showing (i) the changes proposed to be made to the Articles of Association pursuant to Resolution 11 and (ii) the changes proposed to be made to the Articles of Association pursuant to Resolution 12.

9 **Data protection statement**
Your personal data includes all data provided by you, or on your behalf, which relates to you as a shareholder, including your name and contact details, the votes you cast and your Reference Number (attributed to you by the Company). The Company determines the purposes for which and the manner in which your personal data is to be processed. The Company and any third party to which it discloses the data (including the Company's Registrars) may process your personal data for the purposes of compiling and updating the Company's records, fulfilling its legal obligations and processing the shareholder rights you exercise.

SHAREHOLDER INFORMATION

Financial Calendar

Current financial period ended	29 September 2007
Annual General Meeting	25 January 2008
Half-year results	23 May 2008
Next financial period ends	27 September 2008
Full-year results	5 December 2008

Dividend payment dates

Preference shares

Final dividend	31 December 2007
Interim dividend	30 June 2008

Ordinary shares

Final dividend	31 January 2008
Interim dividend	30 June 2008

Interest payment dates

Loan stock	15 January 2008
	15 April 2008
	15 July 2008
	15 October 2008

Loan notes
(issued on the acquisition of Burtonwood, Jennings and Celtic Inns and inherited from the acquisition of Eldridge Pope) — 30 April 2008, 31 October 2008

Websites

You may wish to visit the following websites which contain details of Group activities and investor information:
www.marstons.co.uk
www.marstonsinnsandtaverns.co.uk
www.marstonspubcompany.co.uk
www.marstonsbeercompany.co.uk
www.pitcherandpiano.com

Advisors

Registrar and transfer office
Equiniti Registrars,
Aspect House, Spencer Road,
Lancing, West Sussex, BN99 6DA.
Shareholder queries: 0870 600 3970
www.shareview.co.uk

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

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

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

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

Stockbrokers
UBS Investment Bank,
1 Finsbury Avenue, London, EC2M 2PP

Company Secretary and registered office

Anne-Marie Brennan
Marston's House, Brewery Road, Wolverhampton WV1 4JT
Telephone: 01902 711811
Registered Number: 31461


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WWW.MARSTONS.CO.UK

MARSTON'S PLC
MARSTON'S HOUSE, BREWERY ROAD,
WOLVERHAMPTON WV1 4JT

REGISTERED NO. 31461
TELEPHONE 01902 711811