24 November 2016

MARSTON'S PLC
PRELIMINARY RESULTS FOR THE 52 WEEKS ENDED 1 OCTOBER 2016

A high quality pub and beer business continuing to deliver profit and returns growth

- **Revenue and earnings growth, stronger balance sheet:**

	Underlying		Statutory	
Revenue	**£905.8m**	**+ 7%**	**£937.3m**	**+ 7%**
Operating profit	**£172.7m**	**+ 4%**	**£163.9m**	**+ 44%**
Profit before tax	**£98.0m**	**+ 7%**	**£80.8m**	**+ 158%**
Earnings per share	**14.0p**	**+ 9%**	**12.7p**	**+ 210%**

- Profit growth in all trading segments
- Operating cash flow up 13% to £182.8 million
- Leverage reduced 0.3x to 4.8x, fixed charge cover up 0.1x to 2.6x
- Return on capital up 0.1% to 10.9%

- **Transformed pub estate generating growth opportunities:**

- Average profit per pub up 8% in 2016, up around 50% since 2012
- 22 new pubs and bars completed this year, creating around 1,000 jobs
- Six lodges opened, taking estate to over 950 rooms
- Like-for-like sales up 2.3% in Destination and Premium, up 2.7% in Taverns
- Leased average profit per pub up 3%

- **Local strategy and innovation creating growth in Brewing:**

- Strong brand portfolio continues to outperform market with volumes up 13%
- Increased market share to 27% of premium bottled ale and 20% of premium cask ale markets
- Thwaites' beer business fully integrated and achieving targets

- **Final dividend up 4.4% to 4.7p. Dividend cover up 0.1x to 1.9x.**

- **Well positioned for growth in 2017:**

- Encouraging start to new financial year
- Target to open at least 20 new-build pub-restaurants in the coming year, including 3 Revere bars and 5-10 lodges, weighted towards the second half
- Continued focus on premium and craft beer to drive growth, energized branding of Marston's beer brands and development of DE14 craft micro-brewery

Commenting, Ralph Findlay, CEO said:
"We have delivered another year of good growth across the business, with the outstanding performance of our beer company particularly encouraging.

Trading has been solid in the first few weeks of the new financial year and we have seen no discernible change to the trends experienced in 2016. The majority of our major product cost lines are contracted for 2017 and well into 2018.

We have a high quality pub and beer business which is displaying positive momentum and is consistently outperforming the market. We believe that, despite some continuing market headwinds, our expansion plans for new pub-restaurants, lodges and Revere bars will further enhance our ability to deliver attractive returns."

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An audio webcast of the results presentation will be available at http://webcast.instinctif.tv/886-1178-17719/en on 24 November 2016.

NOTES TO EDITORS

- Marston's is a leading pub operator and independent brewer.
- It has an estate of 1,559 pubs situated nationally, comprising managed, franchised and leased pubs.
- It is the UK's leading brewer of premium cask and bottled ales, including Marston's Pedigree, Wainwright, Lancaster Bomber and Hobgoblin. The beer portfolio also includes Banks's, Jennings, Wychwood, Ringwood, Brakspear and Mansfield beers.
- Marston's employs around 14,000 people.
- The underlying results reflect the performance of the Group before exceptional and other adjusting items. The Directors consider that these figures provide a useful indication of the underlying performance of the Group.
- Leverage is the ratio of net debt excluding lease financing to underlying EBITDA.

GROUP OVERVIEW

We are pleased to report that we have again achieved profit growth across all of our trading segments, with solid underlying earnings growth, demonstrating further good progress in implementing our strategy.

Our strategy remains consistent, focusing on operating and expanding a high quality pub estate through investment in new pubs and bars as well as increasing our investment in accommodation. In addition, our beer business focuses on increasing market share in the growth areas of premium beers and bottled ale where we are the market leader.

The new-build programme remains our key growth driver. Since 2009, when the current investment plan started, we have opened over 150 new pub-restaurants generating consistently high levels of profitability and strong returns, thereby creating significant shareholder value. Where possible, accommodation is added alongside a new pub-restaurant to generate additional income and enhance returns. We opened six new lodges under the Marston's Inns brand in 2016. We also see expansion opportunities in premium bars, having opened three new bars in 2016 on a leasehold basis.

We identified several years ago, that in locations where Marston's has direct control over the retail offer we are better able to deliver a stronger consumer proposition with more consistent standards across the estate. We therefore pioneered an innovative franchise-style agreement in 2009, and as at the end of 2016, approximately 80% of profits from our pubs are generated by managed or franchise-style pubs.

In Brewing, our focus remains on the growth market of premium beers underpinned by local provenance, our strong brewing heritage and state-of-the-art logistics capability. Our core brewing business grew strongly, in terms of revenue and earnings in the year, supplemented by the successful integration of the Thwaites' beer business acquired in April 2015.

Total underlying revenue increased by 7.1% from 2015 reflecting like-for-like growth in our pubs, the positive impact of new openings, growth in our beer brands and the acquisition of Thwaites' beer business. As previously highlighted, our operating margin was 0.5% below last year reflecting lower margins in Brewing as a result of the contract to supply Thwaites' pubs and the continued impact of franchise conversion within Taverns. In Destination and Premium operating margins were in line with last year, despite the introduction of the National Living Wage in April 2016.

Underlying operating profit of £172.7 million (2015: £165.4 million) was up 4.4% with profit growth in each of our trading segments.

Underlying profit before tax was up 7.1% to £98.0 million (2015: £91.5 million) principally reflecting the contribution from new pub-restaurants and a strong performance from Brewing. Basic underlying earnings per share for the period increased by 8.5% to 14.0 pence per share (2015: 12.9 pence per share).

On a statutory basis, profit before tax was £80.8 million (2015: £31.3 million) and earnings per share were 12.7 pence per share (2015: 4.1 pence per share).

Operating cash flow continued to improve, increasing 12.6% to £182.8 million, principally driven by higher profits and a reduced level of pension contribution. Our fixed charge cover has again improved by 0.1x to 2.6x, demonstrating our increased balance sheet strength.

Net debt at the period end was £1,269 million. Net debt includes £1,074 million of long-term, structured finance with a stable repayment profile and no exposure to increases in interest rates, underpinned by an estate which is 97% freehold. Excluding property leases with freehold reversion entitlement, the ratio of net debt to underlying EBITDA was 4.8 times at the period end (2015: 5.1 times) and this ratio is expected to reduce further over time.

Cash return on cash capital employed improved to 10.9% (2015: 10.8%) reflecting the positive contribution of the new-build pub-restaurants and the disposal of non-core pubs. This represents a 1.4% improvement in returns since 2009. We remain focused on improving returns and are confident that the implementation of our strategy will continue to increase returns over time.

The proposed final dividend of 4.7 pence per share provides a total dividend for the year of 7.3 pence per share, and represents a 4.3% increase on 2015. Dividend cover was 1.9 times (2015: 1.8 times). Our dividend policy remains to target progressive increases in the dividend at a cover of around 2 times over the medium term.

Current trading and outlook

Trading in the current financial year is in line with our plans, our new site development is on track, and there have been no material changes to market conditions that would impact upon our expectations for the full year.

Accepting there are wider concerns regarding the possible impact of Brexit on consumer sentiment and input costs as a consequence of sterling weakness since the vote; to date there has been no discernible change in the spending habits of our customers, and we have forward contracts in place for 2017 and much of 2018 which will mitigate the risk of higher input costs due to exchange rate fluctuation. We have planned for modest increases in business rates in 2017, but are protected from more significant increases by our low exposure on the high street and in city centres. Non-cash pension interest costs will increase by £1.4 million this year as a consequence of the impact of falling gilt yields on pension deficits.

In summary, we are well placed to continue our track record of growth and to make further progress against our key financial objectives.

Strategy

Marston’s strategic objectives remain focused on delivering sustainable growth and maximising return on capital, with six key components as described below.

1. Operating a high quality pub estate

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

Destination and Premium - 416 pubs. Our Destination pubs offer family dining and great value in a relaxed pub environment. We aim to retain strong pub values while reflecting modern tastes and trends in a fast moving market. We operate several formats depending upon local preferences: Marston’s “Two for One”, “Milestone Rotisserie”, “Milestone Carvery”, and “Generous George”, allowing us to have the right consumer offer in each pub. The food sales mix is 60%.

Our Pitcher & Piano and Revere bars and restaurants offer premium food and drink in attractive, often iconic, town centre and suburban locations. The food sales mix is 29%.

Taverns - 812 pubs. Our community pubs are great 'locals' with a more traditional pub ambience in strong locations. The contribution of the licensee, and strong community engagement, are critical to the success of the pub, with entertainment, teams and games often at the heart of the pub's activities. Typically, these are wet-led pubs although food sales are growing and represented 19% of sales in 2016.

Leased - 331 pubs. These distinctive pubs benefit from a high degree of independence and committed licensees. The leased model, with longer-term assignable agreements, attracts skilled entrepreneurs who build value through developing their own businesses. We contribute through our expertise in attracting the right lessee, having a partnership approach with our licensees and providing business support.

2. **Targeting pub growth: investing in pub-restaurants and Premium pubs, further developing Franchise**

New pub-restaurants. In our Destination business, since 2009 we have opened over 150 pub-restaurants offering family dining at reasonable prices. These pubs generate high turnover, with target sales of £25,000 per week and a food sales mix in excess of 60%. We have an experienced site acquisition team and a well-established and proven site selection process. This expansionary investment has generated consistently strong returns and has enabled us to extend the locations in which we trade to include southern England and Scotland. New pub-restaurant investment creates significant value for shareholders, as demonstrated in the 2015 pub estate valuation. In 2016 we opened 19 pub-restaurants, and we are targeting at least 20 for 2017.

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

New Premium pubs. In recent years we have invested in our Premium pub business, including Pitcher & Piano and Revere. Through this investment we have been able to operate Premium pubs as an "innovation-hub" from which learnings can be extended into our broader pub business.

Given the success to date, we are seeking to further expand the Premium estate. In 2016 we converted one pub from the Destination estate to the Revere format, with a further three Revere Town bars opened in Leeds, Edinburgh and Knutsford. We expect to open at least three bars per annum in future, with openings in Hammersmith, Harrogate and Sheffield planned in 2017.

Development of the franchise model. In 2009 we pioneered the introduction of franchise-style agreements in the pub sector. We believe that the franchise operating model in community pubs creates the best experience for our customers and is the most flexible and attractive model for licensees. It is our intention to continue to roll out this model into most of our pubs within the Taverns estate over time.

We have also been successful in expanding franchise-style agreements into higher turnover pubs. This year some of our most successful franchisees have generated turnover levels similar to those in the Destination estate, and we have opened our first new-build Tavern operating under the franchise operating model. We are also evaluating the potential for franchise-style agreements in the Destination estate, and anticipate trialing this in the next two years.

3. Increased investment in rooms

We operate around 950 rooms across 54 pubs within our Destination and Premium estate. Accommodation acts as a complementary income stream to an existing pub, making the total pub revenue more consistent and less dependent on weather. Organic room income has been consistently strong with double-digit sales growth for each of the last four years and we anticipate similar trends in the future with continued growth in leisure and business visitors.

In recent years the focus of this investment has been on two key areas:

Lodge development within Marston's Inns. Within our Destination estate we currently operate 13 lodges with 25-40 rooms, having added six new lodges in 2016. The accommodation has a typical room rate of between £60 - £90 per night, including breakfast and high-speed broadband. In addition, we have developed a new Marston's Inns website and have recently recruited additional accommodation sales and marketing expertise into our business to maximise the opportunity for this income stream.

The performance of this investment has been encouraging and as a consequence we expect accommodation to be an increasingly important component of our investment plans. In future, we expect to open between 5-10 lodges per annum and we have clear visibility on sites for 2017 and 2018.

Development of Premium rooms. In our Premium business we operate around 120 rooms out of 10 pubs, all of which have been transferred from the Destination pub estate. These have a typical room rate of £90 - £120 per night and offer a premium boutique room experience. We continue to review the existing pub estate to identify additional opportunities to develop premium rooms in future.

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

Quality of food and drink. Given the pace of change and competitive nature of our industry we prioritise quality and target a food offer with broad demographic appeal. Our food quality scores improved in 2016, underpinned by consistent food and service brand values. Traditional favourites such as fish and chips are staple pub classics on our menus, although we continue to develop and evolve our food offers, introducing new tastes and flavours to maintain our reputation for innovation and keep ahead of the competition.

As outlined above, the Revere business acts as an "innovation-hotbed" where we trial new food styles and concepts that can then be extended to the broader pub estate. Pizza is a good example and in 2016 we continued the rollout of Pizza Kitchen, offering fabulous fresh-made pizza with "theatre", which now operates in 70 pubs. Similarly, we have introduced "smoke-house food" and "better-burger" concepts in our Generous George pubs following successful trials in the Revere business.

We are also well placed to benefit from current trends in beer, wines, spirits and non-alcoholic drinks. Growth in premium drinks continues, with strong consumer interest in new brands and styles, particularly in craft beer, spirits and non-alcoholic drinks. Premium beers account for over 70% of beer sold, we sell 16 million glasses of wine and five million cups of coffee a year, with soft drinks accounting for 15% of total drinks volume. In our Revere bars, cocktails account for 12% of drinks sales reflecting the premium nature of the experience, and we have enhanced our cocktail offer in both our Destination and Taverns pubs to capitalise on this growing area of the market.

Non-alcoholic drinks are becoming an increasingly important part of our offer, particularly for younger customers. This year we have introduced more premium branded soft drinks and are also developing freshly prepared drinks such as mocktails, milkshakes and smoothies.

We benefit from having a market-leading beer business. Our pub and beer teams work closely together to ensure our pubs have the best beer range locally, underpinned through initiatives such as “Masters of Cask” in our Taverns pubs, and supported by our own beer quality specialists visiting pubs to help ensure the beer served in our own pubs and those of our customers is of the highest quality.

Service. We believe there is a direct link between relative market performance and service. As such, we are focused on ensuring we offer our customers the highest level of service. We measure service at pub level using a combination of both internal and external measures, and data from InMoment suggests that we have consistently outperformed the hospitality sector over the last two years.

In order to maintain this differential, we have introduced an internally developed social media listening tool this year which provides our pub managers with the ability to quickly respond to any customer feedback. Looking forward, we are in the process of investing significantly in high speed broadband and state of the art EPOS equipment (to be completed in 2017) which will provide us with better customer information and contribute further to improved service.

Value. Value for money is a key element of our offer. Importantly, value does not necessarily mean the cheapest – customers are prepared to pay for a quality experience. We do not seek to be the lowest priced offer locally but to be perceived as offering great value for money. Similarly, we do not participate in significant voucher activity, believing a consistent offer based upon everyday value is important to our customers.

5. Leadership in the UK beer market

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

Our established strategy is well positioned to benefit from these trends. We have a wide portfolio of beers from our own five breweries, a national distribution network and a local approach to beer brand management. Around 1 in 4 premium bottled ales and 1 in 5 premium cask ales in the UK are Marston’s brands and Premium ales now account for around 70% of sales with the mix of sales to the off-trade being around 54%.

Our position as category leaders has been recognised across the industry, most recently by being awarded the Publican National Cask Ale Supplier of the Year for the third year in succession. Our own annual publications, the Cask Ale Report and Premium Bottled Ale Report, continue to be highly valued by both our on-trade and off-trade customers, for insight into current and future market trends.

Our largest brand, Hobgoblin, continues to grow, with total brand volumes of around 130,000 barrels. The introduction of Hobgoblin Gold has proved extremely successful, with volumes now at 30,000 barrels since its launch in 2014. The brand is the most followed beer brand on social media, and in a recent YouGov survey, Hobgoblin was voted the third most recognised beer brand in the UK, only sitting behind two global beer brands. It remains after nine years the "unofficial Beer of Halloween".

We will be energising the Marston's brand in 2017, including the iconic Pedigree, to capitalise on its growing appeal to younger consumers. This campaign will include a redesign of pump clips and bottles, together with an urban marketing campaign under the banner "From Burton with Love".

Following the Thwaites' acquisition in 2015, it has been successfully integrated into the wider beer business and the anticipated synergies realised. The Wainwright brand has performed strongly since acquisition and we have repositioned the branding resulting in significant growth.

Innovation is key to maintaining our competitive advantage. During the year, we invested in the DE14 microbrewery in Burton, enabling us to test new and innovative beer styles to introduce into the market in the future.

Alongside our own beers and ales, collaboration brands also form an integral part of our strategy. Within our portfolio, we have the UK licences for the Shipyard, Warsteiner and Krušovice beer brands and for Kingstone Press Cider in the growing cider category. All have performed extremely well in the year, and of particular note, Shipyard is now the second most popular craft beer in the UK. We anticipate increasing the number of these partnerships in the future.

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

6. Our People – 'People at the Heart'

Marston's employs around 14,000 people and, although many businesses claim that 'people are our most important asset', it is truly the case that nothing makes a bigger difference to our business than our people.

We want Marston's to be 'The Place to Be' for our employees as well as our customers. Following recruitment of a new People Director last year we have continued to invest in our People Support team, with senior appointments in Talent Development and Internal Communications. We have reviewed and reinvigorated our approach to ways of working, aiming to modernise and build on the excellent values and culture which the business has developed over many years. There are three key components to our People Strategy:

Recruit the best people. Differentiation is essential in our industry and we recognise that the way our people think, feel and act will make Marston's stand out. As such, we aim to recruit, retain and develop the very best people, those who can truly deliver best practice, bring fresh thinking and have the passion and drive to help our business go from strength to strength.

Investment in training and development. We have a strong, caring and collegiate culture at Marston's. Our people are trusted and empowered to play their part in exceeding our customers' expectations and in turn we support the development of their skills and careers in partnership. We are committed to training: this year 1 in 4 employees received formal training encompassing pub, brewing and finance related courses, degree courses and training with the Wine & Spirit Education Trust and Chartered Institute of Management. Around 50% of our people are below the age of 25 and we have completed around 1,500 apprenticeships in the last four years.

Engaged and empowered workforce. People come first at Marston's – making people feel good is what we're all about, whether that's our team, our customers, or our suppliers. By keeping people at the heart of the business we ensure they are engaged and loyal in all they do. We act as one team, we are proud of our heritage and are always striving for success. The results of the 2016 engagement survey have been extremely encouraging with an employee engagement score of 76%, which is 9% above the UK average and 2% above the UK High Performers. In addition, our internal magazine "The Place" won the best new internal communication at the 2016 Institute of Internal Communications Awards.

PERFORMANCE AND FINANCIAL REVIEW

	Underlying revenue		Underlying operating profit		Margin	
	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	%	%
Destination and Premium	440.8	408.1	90.2	83.6	20.5	20.5
Taverns	221.0	214.7	56.0	55.9	25.3	26.0
Leased	50.7	53.6	24.2	23.8	47.7	44.4
Brewing	193.3	169.1	23.2	20.7	12.0	12.2
Group Services	-	-	(20.9)	(18.6)	(2.3)	(2.2)
Group	**905.8**	**845.5**	**172.7**	**165.4**	**19.1**	**19.6**

Destination and Premium

Total revenue increased 8.0% to £440.8 million reflecting the continued strong performance of our new-build pub-restaurants and growth in like-for-like sales. Underlying operating profit of £90.2 million was up 7.9% (2015: £83.6 million). Average profit per pub increased to £223k, up 2%.

Total like-for-like sales were 2.3% above last year, with like-for-like food sales up by 1.7%, assisted by strong growth in sales of starters, desserts and coffee. In addition, like-for-like room income was up 15.8%. In Destination pubs, food now accounts for 58% of total sales (2015: 57%) and in Premium pubs and bars food is 29% of sales (2015: 28%).

Like-for-like wet sales increased by 2.3%, outperforming the declining UK on-trade drinks market. We continue to see growth in more premium products, with own-brewed premium ale volumes up 2%, premium lager up 17% and wine up 4%.

Operating margins were in line with last year.

Taverns

Total revenue increased by 2.9% to £221.0 million, with strong franchised growth offsetting the impact of disposals. The quality of the remaining pub estate has improved significantly with average profit per pub up 10% to £67k.

In our managed and franchised pubs like-for-like sales were up 2.7% and operating profits were up 5.7% versus last year, reflecting the continued success of pubs operating under the franchise model. Operating margins were in line with last year.

Operating profit was up 0.2% to £56.0 million despite the impact of disposals, reflecting the strong performance of franchised pubs within our estate.

Operating margin was 0.7% below last year at 25.3%, primarily reflecting the impact of conversion of pubs to the franchise model.

Leased

Total revenue decreased by 5.4% to £50.7 million, reflecting disposals and transfers, and underlying operating profit of £24.2 million was up 1.7% on last year. The performance of the core estate was strong with like-for-like earnings growth of 2%, including rental income growth of 2%. Average profit per pub increased by 3% to £72k and licensee stability remained stable at over 90%. Operating margin of 47.7% was up 3.3%.

Brewing

Total revenue increased by 14.3% to £193.3 million, reflecting the benefits of the Thwaites' acquisition described above. Underlying operating profit increased by 12.1% to £23.2 million.

Overall ale volumes were up 13% with premium cask ale volumes up 6% and premium bottled ale volumes up 5%. Hobgoblin, our largest brand, continues to grow with sales up 13% on last year, supported by the introduction of Hobgoblin Gold. We have maintained our position as 'category market leader' in both the premium bottled ale and premium cask ale markets.

Operating margin was slightly down on last year at 12.0%, reflecting the impact of the pub supply arrangement with Thwaites which generates a positive profit contribution, albeit at a low margin percentage.

Central costs in the period were £2.3 million higher than last year, reflecting higher IT depreciation, head office rental costs, and increased investment in our people team.

Cash flow, capital expenditure and disposals

Operating cash flow of £182.8 million was 12.6% above last year due to the improved profit performance, lower pension contributions and lower taxation payments.

Capital expenditure was £143.7 million in 2016 (2015: £142.3 million), including £65 million on the construction of 22 pubs and bars and 6 lodges. We expect that capital expenditure will be around £140 million in 2017, including around £70 million for the construction of at least 20 new pub-restaurants, 3 Revere bars and 5 lodges.

During the year we generated £45.9 million of cash from the disposal of assets including £30.9 million of leasing transactions.

Taxation

The underlying rate of taxation of 18.0% in 2016 is below the standard rate of corporation tax of 20% primarily due to credits in respect of deferred tax on property.

The underlying tax rate has decreased by 1.3% from 19.3% in 2015.

Following the agreement of the tax treatment of certain items with HM Revenue & Customs (HMRC), the Group has recognised a non-underlying tax credit of £4.1 million in respect of the additional tax relief claimed by the Group for previous periods, along with a non-underlying charge of £0.5 million in respect of the associated advisory fees. Following this agreement, the Group's corporation tax affairs are now agreed up to and including the year ended 4 October 2014.

Financing

At 1 October 2016 the Group had a £257.5 million bank facility to November 2018, and the amount drawn down at 1 October 2016 was £233.0 million. In addition, we have a £30 million two-year facility for the Thwaites acquisition. These facilities, together with a long-term securitisation of approximately £834 million and the lease financing arrangements described below, provides us with an appropriate level of financing headroom for the medium term. The Group has sufficient headroom on both the banking and securitisation covenants and also has flexibility to transfer pubs between the banking and securitisation groups.

The Group has entered into lease financing arrangements which have a total value of £240.1 million (2015: £202.2 million) as at 1 October 2016. This financing is a form of sale and leaseback agreement whereby the freehold reverts to the Group at the end of the term at nil cost, consistent with our preference for predominantly freehold asset tenure. The agreements range from 35 to 40 years and provide the Group with an extended debt maturity profile at attractive rates of interest. Unlike a traditional sale and leaseback, the associated liability is recognised as debt on the balance sheet due to the reversion of the freehold.

Net debt excluding lease financing of £1,029 million at 1 October 2016 is £14 million below last year. For the period ended 1 October 2016 the ratio of net debt excluding lease financing to underlying EBITDA was 4.8 times (2015: 5.1 times). It remains our intention to reduce this ratio over time, principally through EBITDA growth generated from our new-build investment programme.

Pensions

Our final salary pension scheme at the year end showed a deficit of £34.0 million before tax (2015: £15.0 million surplus). This position reflects the impact of deteriorating gilt yields on discount rate assumptions during the course of the last year.

Non-underlying items

There is a net non-underlying charge of £7.4 million after tax. This includes charges of £1.7 million relating to non-core estate disposal and reorganisation costs, £4.4 million in respect of the change in the rate assumptions used in calculating our onerous lease provisions, £3.8 million in respect of relocation, reorganisation and integration costs and £8.4 million in respect of the mark-to-market movement in the fair value of certain interest rate swaps. These are offset by the £1.5 million profit on disposal of a parcel of surplus land for residential development. The revenue of £31.5 million and expenses of £31.4 million in respect of the ongoing management of the pubs from the portfolio disposal in December 2013 have also been included within non-underlying items. Following the agreement of the tax treatment of certain items with HMRC the Group has recognised a non-underlying tax credit of £4.1 million in respect of the additional tax relief claimed by the Group for previous periods, along with a non-underlying charge of £0.5 million in respect of the associated advisory fees. In addition, there is a non-underlying deferred tax credit of £2.4 million in relation to the change in corporation tax rate and a credit of £3.3 million relating to the tax on non-underlying items.

GROUP INCOME STATEMENT

For the 52 weeks ended 1 October 2016

	2016			2015		
	Underlying items £m	**Non-underlying items £m**	**Total £m**	Underlying items £m	Non-underlying items £m	Total £m
Revenue	**905.8**	**31.5**	**937.3**	845.5	33.1	878.6
Operating expenses*	**(733.1)**	**(40.3)**	**(773.4)**	(680.1)	(84.7)	(764.8)
Operating profit	**172.7**	**(8.8)**	**163.9**	165.4	(51.6)	113.8
Finance costs	**(75.2)**	**-**	**(75.2)**	(74.5)	-	(74.5)
Finance income	**0.5**	**-**	**0.5**	0.6	-	0.6
Movement in fair value of interest rate swaps	**-**	**(8.4)**	**(8.4)**	-	(8.6)	(8.6)
Net finance costs	**(74.7)**	**(8.4)**	**(83.1)**	(73.9)	(8.6)	(82.5)
Profit before taxation	**98.0**	**(17.2)**	**80.8**	91.5	(60.2)	31.3
Taxation	**(17.6)**	**9.8**	**(7.8)**	(17.7)	9.7	(8.0)
Profit for the period attributable to equity shareholders	**80.4**	**(7.4)**	**73.0**	73.8	(50.5)	23.3

Earnings per share:						
Basic earnings per share			**12.7p**			4.1p
Basic underlying earnings per share			**14.0p**			12.9p
Diluted earnings per share			**12.6p**			4.0p
Diluted underlying earnings per share			**13.8p**			12.8p

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the 52 weeks ended 1 October 2016

	2016 £m	2015 £m
Profit for the period	**73.0**	23.3
Items of other comprehensive income that may subsequently be reclassified to profit or loss		
Losses arising on cash flow hedges	**(50.9)**	(56.1)
Transfers to the income statement on cash flow hedges	**11.3**	12.2
Tax on items that may subsequently be reclassified to profit or loss	**2.0**	8.7
	(37.6)	(35.2)
Items of other comprehensive income that will not be reclassified to profit or loss		
Remeasurement of retirement benefits	**(56.3)**	(6.7)
Unrealised surplus on revaluation of properties*	**2.0**	216.5
Reversal of past revaluation surplus*	**-**	(120.6)
Tax on items that will not be reclassified to profit or loss	**27.7**	(17.1)
	(26.6)	72.1
Other comprehensive (expense)/income for the period	**(64.2)**	36.9
Total comprehensive income for the period	**8.8**	60.2

* During the prior period revaluations of the Group's freehold and leasehold properties were undertaken, resulting in a net increase in property values of £57.3 million. An unrealised surplus on revaluation of £216.5 million and a reversal of past revaluation surplus of £120.6 million were recognised in the revaluation reserve, and a net charge of £38.6 million was recognised in the income statement.

GROUP CASH FLOW STATEMENT

For the 52 weeks ended 1 October 2016

	2016 £m	2015 £m
Operating activities		
Underlying operating profit	**172.7**	165.4
Depreciation and amortisation	**40.0**	37.9
Underlying EBITDA	**212.7**	203.3
Non-underlying operating items	**(8.8)**	(51.6)
EBITDA	**203.9**	151.7
Working capital movement	**8.9**	10.7
Non-cash movements	**(7.9)**	30.0
(Decrease)/increase in provisions and other non-current liabilities	**(4.7)**	0.1
Difference between defined benefit pension contributions paid and amounts charged	**(7.6)**	(14.0)
Income tax paid	**(9.8)**	(16.2)
Net cash inflow from operating activities	**182.8**	162.3
Investing activities		
Interest received	**0.7**	0.7
Sale of property, plant and equipment and assets held for sale	**45.9**	69.6
Purchase of property, plant and equipment and intangible assets	**(143.7)**	(142.3)
Acquisition of business	**-**	(28.8)
Movement in other non-current assets	**1.7**	2.4
Net cash outflow from investing activities	**(95.4)**	(98.4)
Financing activities		
Equity dividends paid	**(40.8)**	(38.9)
Interest paid	**(70.3)**	(71.8)
Arrangement costs of bank facilities	**-**	(0.2)
Arrangement costs of other lease related borrowings	**(2.8)**	(2.9)
Purchase of own shares	**(0.1)**	-
Proceeds from sale of own shares	**0.9**	1.5
Repayment of securitised debt	**(26.7)**	(25.4)
Advance of bank borrowings	**13.0**	38.0
Capital element of finance leases repaid	**(0.1)**	(0.1)
Advance of other lease related borrowings	**40.7**	47.0
Net cash outflow from financing activities	**(86.2)**	(52.8)
Net increase in cash and cash equivalents	**1.2**	11.1

GROUP BALANCE SHEET
As at 1 October 2016

	1 October 2016 £m	3 October 2015 £m
Non-current assets		
Goodwill	**227.5**	227.5
Other intangible assets	**37.3**	37.6
Property, plant and equipment	**2,199.4**	2,122.6
Deferred tax assets	**16.7**	3.2
Retirement benefit surplus	**-**	15.0
Other non-current assets	**10.4**	12.1
	2,491.3	2,418.0
Current assets		
Inventories	**28.7**	28.2
Trade and other receivables	**85.0**	84.3
Cash and cash equivalents*	**185.6**	193.1
	299.3	305.6
Assets held for sale	**6.6**	18.0
Current liabilities		
Borrowings*	**(176.9)**	(154.0)
Derivative financial instruments	**(38.0)**	(25.7)
Trade and other payables	**(194.9)**	(185.2)
Current tax liabilities	**(3.6)**	(7.2)
	(413.4)	(372.1)
Non-current liabilities		
Borrowings	**(1,278.1)**	(1,284.1)
Derivative financial instruments	**(202.7)**	(167.0)
Deferred tax liabilities	**(77.5)**	(92.2)
Retirement benefit obligations	**(34.0)**	-
Other non-current liabilities	**(0.6)**	(1.8)
Provisions for other liabilities and charges	**(38.8)**	(41.5)
	(1,631.7)	(1,586.6)
Net assets	**752.1**	782.9
Shareholders' equity		
Equity share capital	**44.4**	44.4
Share premium account	**334.0**	334.0
Revaluation reserve	**623.1**	616.0
Capital redemption reserve	**6.8**	6.8
Hedging reserve	**(165.7)**	(128.1)
Own shares	**(113.7)**	(118.7)
Retained earnings	**23.2**	28.5
Total equity	**752.1**	782.9

* Cash and cash equivalents includes £120.0 million (2015: £120.0 million) drawn down under the liquidity facility and borrowings includes the corresponding liability.

GROUP STATEMENT OF CHANGES IN EQUITY
For the 52 weeks ended 1 October 2016

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

	Equity share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Own shares £m	Retained earnings £m	Total equity £m
At 5 October 2014	44.4	334.0	545.9	6.8	(92.9)	(126.8)	47.6	759.0
Profit for the period	-	-	-	-	-	-	23.3	23.3
Remeasurement of retirement benefits	-	-	-	-	-	-	(6.7)	(6.7)
Tax on remeasurement of retirement benefits	-	-	-	-	-	-	1.4	1.4
Losses on cash flow hedges	-	-	-	-	(56.1)	-	-	(56.1)
Transfers to the income statement on cash flow hedges	-	-	-	-	12.2	-	-	12.2
Tax on hedging reserve movements	-	-	-	-	8.7	-	-	8.7
Property revaluation	-	-	216.5	-	-	-	-	216.5
Property impairment	-	-	(120.6)	-	-	-	-	(120.6)
Deferred tax on properties	-	-	(18.5)	-	-	-	-	(18.5)
Total comprehensive income/(expense)	-	-	77.4	-	(35.2)	-	18.0	60.2
Share-based payments	-	-	-	-	-	-	0.8	0.8
Tax on share-based payments	-	-	-	-	-	-	0.3	0.3
Sale of own shares	-	-	-	-	-	8.1	(6.6)	1.5
Disposal of properties	-	-	(7.4)	-	-	-	7.4	-
Tax on disposal of properties	-	-	0.9	-	-	-	(0.9)	-
Transfer to retained earnings	-	-	(0.8)	-	-	-	0.8	-
Dividends paid	-	-	-	-	-	-	(38.9)	(38.9)
Total transactions with owners	-	-	(7.3)	-	-	8.1	(37.1)	(36.3)
At 3 October 2015	**44.4**	**334.0**	**616.0**	**6.8**	**(128.1)**	**(118.7)**	**28.5**	**782.9**

NOTES

1 ACCOUNTING POLICIES

Basis of preparation
The financial information for the 52 weeks ended 1 October 2016 (2015: 52 weeks ended 3 October 2015) has been extracted from the audited financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee and Standing Interpretations Committee interpretations adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain items, principally land and buildings, derivative financial instruments, retirement benefits and share-based payments.

The prior period deferred tax balances that were originally presented on a gross basis in the balance sheet have been represented on a net basis to better reflect the offsetting requirements of IAS 12 'Income Taxes' and to be consistent with the current period presentation.

2 SEGMENT REPORTING

Underlying revenue by segment	**2016 £m**	2015 £m
Destination and Premium	**440.8**	408.1
Taverns	**221.0**	214.7
Leased	**50.7**	53.6
Brewing	**193.3**	169.1
Group Services	**-**	-
Underlying revenue	**905.8**	845.5
Non-underlying items	**31.5**	33.1
Revenue	**937.3**	878.6

Underlying operating profit by segment	**2016 £m**	2015 £m
Destination and Premium	**90.2**	83.6
Taverns	**56.0**	55.9
Leased	**24.2**	23.8
Brewing	**23.2**	20.7
Group Services	**(20.9)**	(18.6)
Underlying operating profit	**172.7**	165.4
Non-underlying operating items	**(8.8)**	(51.6)
Operating profit	**163.9**	113.8
Net finance costs	**(83.1)**	(82.5)
Profit before taxation	**80.8**	31.3

3 NON-UNDERLYING ITEMS

	2016 £m	2015 £m
Exceptional operating items		
Non-core estate disposal and reorganisation costs	**1.7**	2.5
Impact of change in rate assumptions used for onerous lease provisions	**4.4**	4.9
Relocation, reorganisation and integration costs	**3.8**	2.6
Impairment of freehold and leasehold properties	**-**	39.0
Profit on sale of surplus land for residential development	**(1.5)**	-
Tax advisory fees	**0.5**	-
	8.9	49.0
Other adjusting operating items		
Results in respect of the ongoing management of pubs in the portfolio disposal	**(0.1)**	2.6
	(0.1)	2.6
Non-underlying operating items	**8.8**	51.6
Exceptional non-operating items		
Movement in fair value of interest rate swaps	**8.4**	8.6
	8.4	8.6
Total non-underlying items	**17.2**	60.2

Non-core estate disposal and reorganisation costs
During the period ended 5 October 2013 the Group commenced a restructuring of its pub estate and operating segments. Costs in respect of this restructuring were incurred in both the current and prior period.

Impact of change in rate assumptions used for onerous lease provisions
The update of the discount and inflation rate assumptions used in the calculation of the Group's onerous property lease provisions at the current period end resulted in an increase of £4.4 million (2015: £4.9 million) in the total provision.

Relocation, reorganisation and integration costs
During the current and prior period a redevelopment of the Group's head office building in Wolverhampton was undertaken along with a reorganisation of certain head office functions. Costs of £0.5 million (2015: £1.6 million) were incurred in respect of temporarily relocating to alternative premises nearby during the period of redevelopment and in undertaking the reorganisation.

The Group also incurred reorganisation and integration costs of £3.3 million (2015: £1.0 million) as a result of the acquisition of the trading operations of Daniel Thwaites PLC's beer division in the prior period.

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

Portfolio disposal of pubs
During the period ended 4 October 2014 the Group disposed of a portfolio of 202 pubs and subsequently entered into a four year lease and five year management agreement in respect thereof. The Group no longer has strategic control of these pubs and they do not form part of its core activities. As such the results in respect of the ongoing operation and management of these pubs post disposal have been classified as a non-underlying item, comprised as follows:

	2016 **£m**	2015 £m
Revenue	**31.5**	33.1
Operating expenses	**(31.4)**	(35.7)
	0.1	(2.6)

Movement in fair value of interest rate swaps
The Group's interest rate swaps are revalued to fair value at each balance sheet date. The movement in fair value of interest rate swaps which are not designated as part of a hedging relationship, and the ineffective portion of the movement in fair value of interest rate swaps which are accounted for as hedging instruments are both recognised in the income statement. The net loss of £8.4 million (2015: £8.6 million) is shown as an exceptional item.

Impact of taxation
The current tax credit relating to the above non-underlying items amounts to £1.7 million (2015: £1.9 million). The deferred tax credit relating to the above non-underlying items amounts to £1.6 million (2015: £7.8 million). In addition, there is a non-underlying deferred tax credit of £2.4 million (2015: £nil) in relation to the change in corporation tax rate.

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

Prior period non-underlying items
At 1 February 2015 the Group's freehold and leasehold properties were revalued by independent chartered surveyors on an open market value basis. The resulting revaluation adjustments were recognised in the revaluation reserve or income statement as appropriate. The amount recognised in the income statement comprised:

	2015 £m
Impairment of other intangible assets	0.1
Reversal of impairment of other intangible assets	(0.2)
Impairment of property, plant and equipment	60.1
Reversal of impairment of property, plant and equipment	(26.3)
Impairment of assets held for sale	5.0
Reversal of impairment of assets held for sale	(0.1)
Valuation fees	0.4
	39.0

4 TAXATION

Income statement	**2016** **£m**	2015 £m
Current tax:		
Current period	**14.1**	14.2
Adjustments in respect of prior periods	**(0.6)**	0.1
Credit in respect of tax on non-underlying items	**(1.7)**	(1.9)
Non-underlying credit in relation to additional relief for prior periods	**(3.7)**	-
	8.1	12.4
Deferred tax:		
Current period	**4.2**	3.5
Adjustments in respect of prior periods	**(0.1)**	(0.1)
Credit in respect of tax on non-underlying items	**(1.6)**	(7.8)
Non-underlying credit in relation to the change in tax rate	**(2.4)**	-
Non-underlying credit in relation to additional relief for prior periods	**(0.4)**	-
	(0.3)	(4.4)
Taxation charge reported in the income statement	**7.8**	8.0

5 ORDINARY DIVIDENDS ON EQUITY SHARES

Paid in the period	**2016** **£m**	2015 £m
Final dividend for 2015 of 4.5p per share (2014: 4.3p)	**25.9**	24.6
Interim dividend for 2016 of 2.6p per share (2015: 2.5p)	**14.9**	14.3
	40.8	38.9

A final dividend for 2016 of 4.7p per share amounting to £27.0 million has been proposed for approval at the Annual General Meeting, but has not been reflected in the financial statements.

Subject to approval at the Annual General Meeting, this dividend will be paid on 30 January 2017 to those shareholders on the register at close of business on 16 December 2016.

6 EARNINGS PER ORDINARY SHARE

Basic earnings per share are calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the period, excluding treasury shares and those held on trust for employee share schemes.

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

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

	2016		2015	
	Earnings £m	**Per share amount p**	Earnings £m	Per share amount p
Basic earnings per share	**73.0**	**12.7**	23.3	4.1
Diluted earnings per share	**73.0**	**12.6**	23.3	4.0
Underlying earnings per share figures				
Basic underlying earnings per share	**80.4**	**14.0**	73.8	12.9
Diluted underlying earnings per share	**80.4**	**13.8**	73.8	12.8

	2016 m	2015 m
Basic weighted average number of shares	**574.6**	572.2
Dilutive options	**6.0**	6.1
Diluted weighted average number of shares	**580.6**	578.3

7 NET DEBT

Analysis of net debt	**2016 £m**	Cash flow £m	Non-cash movements and deferred issue costs £m	2015 £m
Cash and cash equivalents				
Cash at bank and in hand	**185.6**	(7.5)	-	193.1
Bank overdrafts	**-**	8.7	-	(8.7)
	185.6	1.2	-	184.4
Debt due within one year				
Unsecured bank borrowings	**(29.2)**	-	(30.1)	0.9
Securitised debt	**(27.8)**	26.7	(28.3)	(26.2)
Finance leases	**(0.1)**	0.1	(0.1)	(0.1)
Other lease related borrowings	**0.2**	-	0.1	0.1
Other borrowings	**(120.0)**	-	-	(120.0)
	(176.9)	26.8	(58.4)	(145.3)
Debt due after one year				
Unsecured bank borrowings	**(232.0)**	(13.0)	29.2	(248.2)
Securitised debt	**(805.8)**	-	27.8	(833.6)
Finance leases	**(20.5)**	-	0.1	(20.6)
Other lease related borrowings	**(219.7)**	(40.7)	2.6	(181.6)
Preference shares	**(0.1)**	-	-	(0.1)
	(1,278.1)	(53.7)	59.7	(1,284.1)
Net debt	**(1,269.4)**	(25.7)	1.3	(1,245.0)

Other borrowings represent amounts drawn down under the securitisation's liquidity facility. During the period ended 4 October 2014 the facility's provider, the Royal Bank of Scotland Group plc, had its short-term credit rating downgraded below the minimum prescribed in the facility agreement and as such the Group exercised its entitlement to draw the full amount of the facility and hold it in a designated bank account. The corresponding balance of £120.0 million (2015: £120.0 million) held in this bank account is included within cash and cash equivalents. The amounts drawn down can only be used for the purpose of meeting the securitisation's debt service obligations should there ever be insufficient funds available from operations to meet such payments. As such these amounts are considered to be restricted cash.

Included within cash and cash equivalents is an amount of £0.6 million (2015: £1.6 million) relating to a letter of credit with Royal Sun Alliance Insurance, an amount of £1.5 million (2015: £1.0 million) relating to a letter of credit with Aviva, and an amount of £7.8 million (2015: £7.8 million) relating to collateral held in the form of cash deposits. These amounts are also considered to be restricted cash.

In addition, any other cash held in connection with the securitised business is governed by certain restrictions under the covenants associated with the securitisation.

Reconciliation of net cash flow to movement in net debt	**2016 £m**	2015 £m
Increase in cash and cash equivalents in the period	**1.2**	11.1
Cash inflow from movement in debt	**(26.9)**	(59.5)
Change in debt resulting from cash flows	**(25.7)**	(48.4)
Non-cash movements and deferred issue costs	**1.3**	1.6
Movement in net debt in the period	**(24.4)**	(46.8)
Net debt at beginning of the period	**(1,245.0)**	(1,198.2)
Net debt at end of the period	**(1,269.4)**	(1,245.0)

Reconciliation of net debt before lease financing to net debt	**2016 £m**	2015 £m
Cash and cash equivalents	**185.6**	193.1
Unsecured bank borrowings (including bank overdrafts)	**(261.2)**	(256.0)
Securitised debt	**(833.6)**	(859.8)
Other borrowings	**(120.0)**	(120.0)
Preference shares	**(0.1)**	(0.1)
Net debt before lease financing	**(1,029.3)**	(1,042.8)
Finance leases	**(20.6)**	(20.7)
Other lease related borrowings	**(219.5)**	(181.5)
Net debt	**(1,269.4)**	(1,245.0)

Notes:

(a) The financial information contained in this preliminary announcement does not constitute the Group's statutory accounts within the meaning of Section 434 of the Companies Act 2006. The financial information has been extracted from the audited statutory accounts of the Group for the 52 weeks ended 1 October 2016, which will be filed with the Registrar of Companies in due course. The independent auditors' report on these accounts is unqualified and does not contain any statements under section 498 (2) or (3) of the Companies Act 2006. The statutory accounts for the 52 weeks ended 3 October 2015 have been delivered to the Registrar of Companies.

(b) The Annual Report and Accounts for the 52 weeks ended 1 October 2016 will be posted to shareholders on 16 December 2016. The Annual Report and Accounts can be downloaded from the Marston's PLC website: www.marstons.co.uk. Alternatively, copies will be obtainable from Instinctif Partners (020 7457 2020) or from the Group Secretary, Marston's PLC, Marston's House, Brewery Road, Wolverhampton, WV1 4JT.