

# 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.

