

CHAIRMAN'S STATEMENT

David Thompson

Our performance was creditable in a very challenging trading environment. The high quality of our national pub estate, popular ale brands, attractive consumer offers and a supportive approach to tenants and lessees helped the Group to demonstrate resilience, with momentum improving during the course of the year.

We have been successful in anticipating changes in consumer trends. Food sales increased to 38% of total retail sales in Marston's Inns and Taverns, and we have continued to increase market share in the beer market with volumes up by 8%. Our growth in the premium cask ale and premium bottled ale market segments was particularly encouraging.

Having raised £165.6 million through the rights issue in July 2009 we will continue to improve the quality of our pub estate through the development of large, family friendly, new-build pubs. This investment represents an attractive growth opportunity and is being implemented according to plan with around 15 new pubs scheduled to open in 2010. A further 45 new pubs are planned over the following two years.

Results

Revenue of £645.1 million was 1.4% below last year. Group operating margin of 22.8% compared with 23.9% in 2008. Operating profit before exceptional items (underlying) of £147.4 million was 5.7% below last year principally reflecting the weaker performance of Marston's Pub Company.

Profit before taxation and exceptional items was £70.3 million, 13.5% below last year and slightly above our forecast made at the time of the rights issue. After non-cash exceptional costs of £48.9 million as described in the Financial Review, profit before taxation and after exceptional items was £21.4 million.

Underlying basic earnings per share were 13.4 pence (2008: 18.3 pence).



Financing

Our debt financing is principally long-term debt at low rates of interest secured on freehold pub assets. Following the extension of our bank facility announced earlier in the year we have no refinancing requirements until August 2013.

We completed the rights issue in July 2009, raising net proceeds of £165.6 million. At least £140.0 million of the proceeds will be invested in building and developing 60 managed pubs over the next three years.

Net debt of £1,099.3 million as at 3 October 2009 was £168.8 million below last year (2008: £1,268.1 million). Excluding the impact of the rights issue and associated expenditure on new-build pubs net debt would have been approximately £15 million below last year.

Dividend

The proposed final dividend of 3.70 pence per share gives a total dividend for the year of 7.14 pence per share, compared to 9.52 pence per share in the prior year. Following the rights issue the Board has rebased the final dividend for 2009 and also expects to rebase the interim dividend in 2010. The Board's policy remains to target dividend cover of around 2 times over the medium-term although the level of cover in any one year may vary. The Board believes that the dividend has been rebased to an appropriate and sustainable level, with dividend growth a key priority.



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Legislative matters

On 22 October 2009 the Office of Fair Trading (OFT) issued its assessment of the super-complaint lodged by the Campaign for Real Ale (CAMRA) regarding the UK pub industry. The OFT did not find evidence that supply ties cause competition problems with an adverse impact on consumers. In particular, the OFT established that there is competition and choice in the market and noted that any strategy which compromises the competitive position of lessees of pub owning companies would not be sustainable, as their commercial interests are aligned with those of lessees. As a consequence the OFT decided that further investigation is not warranted.

We believe the industry has made significant progress in addressing the issues identified by the Business, Innovation and Skills Committee (BISC). Marston's Pub Company continues to develop its relationship with tenants and lessees, and operates in a transparent manner with the objective of a fair division of risk and reward between the Group and its licensees. We are clear that the principles underlying existing agreements, including the tie, and fair, sustainable rents, confer real benefits to tenants. The industry has developed a new Code of Practice in response to the BISC report which we will implement. Further details are included in the Business Review.



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The Board

Andrew Andrea was appointed Group Finance Director in March 2009, replacing Paul Inglett who left the Group after 17 years to pursue other opportunities. Andrew joined the Group in 2002 and has held various financial, commercial and operational positions in the business.

Outlook

The outlook for the UK economy remains uncertain. Whilst we are still cautious, immediate cost inflation pressures have eased and we are well positioned to meet the forthcoming challenges.

Our strategy is differentiated and appropriate for current market conditions and trends, and we have a defined growth agenda for each of our trading divisions. In our managed pubs, growth is being driven by an accelerated new-build programme and a clear focus on value for money. In our tenanted and leased pubs we have introduced an innovative programme to improve trading in weaker pubs and to further develop the estate as a whole. In brewing, our market leading brand portfolio is benefiting from growing consumer interest in high quality regional cask ales. We are focused on the management of costs, cash flow and return on capital.

I thank all of our employees for their hard work over the last year. We are confident that our strategy, market position and the contributions of our employees will increase shareholder value.

David Thompson

Chairman
3 December 2009