

MARSTON'S TRADING LIMITED

ANNUAL REPORT

For the 53 weeks ended 4 October 2008

Registered Number 40590

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MARSTON'S TRADING LIMITED

ANNUAL REPORT

53 weeks ended 4 October 2008

Contents	Page
Directors' report	2-3
Independent auditors' report	4
Profit and loss account	5
Statement of total recognised gains and losses	5
Balance sheet	6
Notes to the financial statements	7-22

MARSTON'S TRADING LIMITED

DIRECTORS' REPORT

The Directors submit their report and the audited financial statements of the Company for the 53 weeks ended 4 October 2008 (2007: 52 weeks ended 29 September 2007).

Principal activities

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

Review of business

The Company made a loss after taxation of £8.8m (2007: profit of £2.6m).

Throughout the period, the Company has continued to pursue its objectives of developing and operating good quality community pubs and to market and sell high quality ale brands.

On 22 November 2007 the trade relating to 138 tenanted pubs was sold to Marston's PLC, generating no profit or loss on disposal. Debtors and creditors relating to those pubs were also transferred at their net book value.

Performance

The Directors of Marston's PLC manage the Group's operations on a divisional, rather than statutory entity basis. The development, performance and position of the Group which includes the Company are discussed within the Business Review of the Marston's PLC Annual Report which does not form part of this report.

Principal risks and uncertainties

The principal risks and uncertainties of the Company are integrated with the principal risks of the Marston's Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group which include those of the Company are discussed within the Business Review of the Marston's PLC Annual Report which does not form part of this report.

Further, the key performance indicators (KPIs), and financial risk management of the Company are integrated with that of the Marston's PLC Group and are not assessed separately. An analysis of the KPIs of the Group, which include those of the Company, together with the Group's financial risk exposure, and the management objectives and policies thereon, is presented within the Business Review of the Marston's PLC Annual Report.

Future developments

No changes are anticipated in the nature of the business in the foreseeable future.

Dividends

The Directors do not recommend the payment of a dividend in respect of the current period (2007: £nil).

Directors

The Directors who held office during the period, and up to the date of this report, were as follows:

D Andrew
R Findlay
P Inglett
S J Oliver
A Darby

Employees

The Company's employment policies reflect those of the Marston's PLC Group. Details of the Group employment policies and practices are presented in the Marston's PLC Annual Report.

MARSTON'S TRADING LIMITED

DIRECTORS' REPORT (continued)

Payments to creditors

It is the Company's payment policy to follow the CBI's Prompt payment Code for all suppliers. Copies of the code are available from the Confederation of British Industry at Centre Point, 103 New Oxford Street, London, WC1A 1DU.

Creditor days at the period end were 42 (2007: 37).

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

The Directors are responsible for preparing the Annual Report and the 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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 Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors and disclosure of information to auditors

In the case of each of the persons who are Directors at the time when the report is approved, the following applies:

- a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- b) he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

PricewaterhouseCoopers LLP has indicated its willingness to continue in office and a resolution proposing its reappointment will be put to the Annual General Meeting.

Approved by the Board on 5 December 2008 and signed on its behalf by


Anne-Marie Brennan
Company secretary
5 December 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MARSTON'S TRADING LIMITED

We have audited the financial statements of Marston's Trading Limited for the 53 weeks ended 4 October 2008 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the 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 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 financial statements give a true and fair view and are 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 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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of Audit Opinion

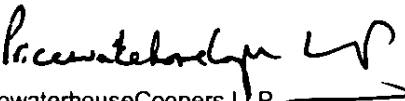
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the 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 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 financial statements.

Opinion

In our opinion:

- The 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 as at 4 October 2008 and of its loss for the 53 weeks then ended;
- The financial statements have been properly prepared in accordance with the Companies Act 1985; and
- The information given in the Directors' report is consistent with the financial statements.


PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Birmingham
5 December 2008

MARSTON'S TRADING LIMITED

PROFIT AND LOSS ACCOUNT

For the 53 weeks ended 4 October 2008

	Notes	53 weeks ended 4 October 2008 £m	52 weeks ended 29 September 2007 £m
Turnover	2	200.3	237.9
Trading expenses			
Before exceptional costs	3	(174.2)	(211.6)
Exceptional costs	3	(12.2)	-
Net trading expenses		(186.4)	(211.6)
Operating profit	2	13.9	26.3
Loss on disposal of fixed assets		(0.4)	(3.6)
Profit on ordinary activities before interest		13.5	22.7
Interest payable and similar charges	6	(27.2)	(20.6)
Interest receivable and similar income	7	3.8	0.4
(Loss)/profit on ordinary activities before taxation		(9.9)	2.5
Taxation credit on (loss)/profit on ordinary activities	8	1.1	0.1
(Loss)/profit for the period	20	(8.8)	2.6

All results relate to continuing operations.

There is no difference between the loss shown above and the loss for the period stated on an unmodified historical cost basis.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the 53 weeks ended 4 October 2008

	Notes	53 weeks ended 4 October 2008 £m	52 weeks ended 29 September 2007 £m
(Loss)/profit on ordinary activities after taxation		(8.8)	2.6
Actuarial (losses)/gains recognised in respect of retirement benefits		(16.8)	25.9
Movement on current/deferred tax relating to retirement benefits	8	4.7	(8.7)
Total recognised (losses)/gains relating to the period		(20.9)	19.8

MARSTON'S TRADING LIMITED

BALANCE SHEET As at 4 October 2008

	Notes	4 October 2008 £m	29 September 2007 £m
Fixed assets			
Intangible assets	9	7.6	7.0
Tangible assets	10	85.9	85.3
Investments	11	296.7	298.1
		<u>390.2</u>	<u>390.4</u>
Current assets			
Assets held for sale	12	0.8	0.7
Stocks	13	13.8	11.5
Debtors – due within one year	14	381.9	337.5
– due after more than one year	14	1.1	1.1
		<u>397.6</u>	<u>350.8</u>
Creditors (amounts falling due within one year)	15	<u>(329.7)</u>	<u>(337.0)</u>
Net current assets		<u>67.9</u>	<u>13.8</u>
Total assets less current liabilities		<u>458.1</u>	<u>404.2</u>
Creditors (amounts falling due after more than one year)	16	<u>(426.6)</u>	<u>(373.1)</u>
Provisions for liabilities and charges	17	<u>(5.3)</u>	<u>(7.3)</u>
Net assets before pension liabilities		<u>26.2</u>	<u>23.8</u>
Pension liabilities	22	<u>(27.3)</u>	<u>(25.7)</u>
Net liabilities		<u>(1.1)</u>	<u>(1.9)</u>
Capital and reserves			
Called up share capital	19	-	-
Profit and loss account	20	(1.1)	(1.9)
Total shareholders' deficit	21	<u>(1.1)</u>	<u>(1.9)</u>

The financial statements on pages 5 to 22 were approved by the Board on 5 December 2008 and were signed on its behalf by:



Paul Inglett
Director
5 December 2008

MARSTON'S TRADING LIMITED

NOTES

1 Accounting Policies

(a) Basis of accounting

These financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards.

Accounting policies applied are consistent with the prior period.

The financial statements contain information about Marston's Trading Limited as an individual company and do not contain consolidated financial information as the parent of a group. The Company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertaking are included by full consolidation in the consolidated financial statements of its ultimate parent, Marston's PLC, a company registered in England and Wales.

(b) Going concern

The Company's parent undertaking, Marston's PLC has stated its intention to provide financial support to the Company to enable it to meet its liabilities as and when they fall due. Consequently the Directors have adopted the going concern basis of preparation for the financial statements.

(c) Cash flow statement and related party disclosures

The Company is a wholly-owned subsidiary of Marston's PLC and is included in the consolidated financial statements of that company, which are publicly available. Consequently, Marston's Trading Limited has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996). 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 Group.

(d) Turnover

Turnover comprises the value of goods and services supplied to customers, and rents receivable from licensed properties. Rental income is recognised in respect of the period to which it relates. Turnover is recorded net of discounts and VAT, and arises solely within the United Kingdom.

(e) Goodwill

Goodwill held on the balance sheet relates to the acquisition of the trade and assets and liabilities of various companies. Goodwill represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill is capitalised and amortised through the profit and loss account on a straight-line basis over its useful economic life up to a presumed maximum of 20 years. The Directors consider the carrying value of the goodwill and make appropriate adjustments to reflect the disposal of certain assets to which it relates. Where goodwill is impaired, the charge is taken to the profit and loss account.

(f) Tangible fixed assets

Plant, fixtures and fittings are stated at cost. Own labour directly attributable to capital projects is capitalised.

Plant, fixtures and fittings are depreciated on a straight-line basis to residual value over periods ranging from three to 15 years, being their anticipated useful lives.

(g) Fixed asset disposals

Profit/loss on fixed asset disposals is net sale proceeds less carrying value of the assets.

(h) Investments

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

(i) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes direct materials and a proportion of attributable overheads.

MARSTON'S TRADING LIMITED

NOTES

1 Accounting policies (continued)

(j) Deferred taxation

Deferred tax is recognised in respect of all timing 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. Timing differences are differences between the Company's taxable profits and profits as stated in the accounts. Deferred tax assets and liabilities are not discounted and assets are only recognised where recoverability is probable.

(k) Pensions

Pension costs for the Company's defined benefit pension scheme are determined using the Projected Unit Credit Method, with actuarial calculations being carried out at each period end date. Costs are recognised separately as operating and interest costs in the profit and loss account. Operating costs comprise the current service cost, any income or expenses on settlements or curtailments, and past service costs where the benefits have vested. Interest 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 total recognised gains and losses. The liability recognised in the balance sheet for the defined benefit pension scheme is the present value of scheme liabilities less the fair value of scheme assets.

Pension costs for the Company's defined contribution pension schemes are charged to the profit and loss account in the period in which they are incurred.

(l) 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 these leases are shown in creditors. The finance charge element of rentals is charged to the profit and loss account as incurred.

(m) Trade loans

Trade loans provided to publicans who purchase beer from the Company are recorded as fixed asset investments. They are linked to supply terms and are of a long-term nature. Trade loans are held at the lower of the amount advanced and the recoverable amount.

(n) 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 profit and loss account on a straight-line basis over the vesting period of the award. The charge to the profit and loss account takes account of the estimated number of shares that will vest.

(o) Assets held for sale

Assets, typically plant, fixtures and fittings, 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 and 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. Assets held for sale are valued at the lower of carrying value and fair value less costs to sell and are no longer depreciated.

(p) Discounted convertible loan note

The Company held a discounted convertible loan note, which it received in exchange for the disposal of certain assets and liabilities. The loan note carried an annual interest coupon of 4.90% of face value receivable annually beginning on the third anniversary of the issue date. No interest was receivable in respect of the first two years. Where qualifying consideration was expected to arise, the interest receivable recorded in the profit and loss account for each financial period was calculated by spreading the total interest receivable over the life of the loan note. Where qualifying consideration was not expected to arise, interest receivable was recorded in the profit and loss account on the basis of cash received. The loan note converted into a mixture of preference shares and new debt on 29 September 2007 when certain conditions relating to 12 month LIBOR borrowing rates were met.

MARSTON'S TRADING LIMITED

NOTES

1 Accounting policies (continued)

(q) Intercompany convertible loan notes

During the period the Company issued intercompany convertible loan notes to Marston's Estates Limited and Eldridge, Pope & Co., Limited in exchange for funds used to repay bank debt. The loan notes are convertible at the option of Marston's Estates Limited and Eldridge, Pope & Co., Limited on 3 October 2009. On the exercise of the options the loan notes convert into a fixed number of floating rate irredeemable preference shares in Marston's Trading Limited. If the conversion is not exercised the loan notes are redeemable at par.

2 Segmental analysis

	53 weeks ended 4 October 2008		52 weeks ended 29 September 2007	
	Turnover	Operating profit	Turnover	Operating profit
	£m	£m	£m	£m
Marston's Inns and Taverns – managed	113.8	10.7	119.0	6.1
Marston's Pub Company – tenanted	4.3	1.8	24.9	7.7
Marston's Beer Company – brewing and wholesale	82.2	11.6	94.0	13.4
Marston's Group Services – central costs	-	(10.2)	-	(0.9)
	200.3	13.9	237.9	26.3

Turnover originates in the UK and is not materially different from turnover by destination.

3 Net trading expenses

	53 weeks ended 4 October 2008 £m	52 weeks ended 29 September 2007 £m
Before exceptional expenses		
Change in stocks of finished goods and work in progress	4.2	2.5
Own work capitalised	(0.9)	(0.1)
Other operating income	(2.2)	(0.8)
Raw materials and consumables	64.3	79.0
Depreciation	14.4	15.2
Employee costs	146.3	142.5
Recharge of employee costs to other Group undertakings	(91.4)	(86.6)
Operating lease rentals – plant and machinery	1.9	1.1
Operating lease rentals – other	4.6	5.0
Other operating charges	32.6	53.3
Goodwill amortisation	0.4	0.5
	174.2	211.6
Exceptional expenses		
Reorganisation and redundancy costs	3.5	-
Recharge of redundancy costs to other Group undertakings	(0.9)	-
Loss on disposal of swap	9.6	-
	12.2	-
	186.4	211.6

Auditors' remuneration is borne by the ultimate parent company, Marston's PLC. The Company incurred no non-audit fees during the period (2007: £nil).

The tax credit relating to the above exceptional items amounts to £3.4m (2007: £nil).

MARSTON'S TRADING LIMITED

NOTES

4 Employees

The average monthly number of employees during the period was:

	53 weeks ended 4 October 2008	52 weeks ended 29 September 2007
Full time	6,052	5,782
Part time	7,112	7,088

Staff costs consist of:

	53 weeks ended 4 October 2008 £m	52 weeks ended 29 September 2007 £m
Wages and salaries	136.4	128.1
Social security costs	10.0	9.5
Pension costs	4.5	3.5
Share-based payments	0.1	1.4
	151.0	142.5

Staff costs include £3.5m (2007: £nil) which were charged as exceptional items (note 3).

5 Directors' emoluments

	53 weeks ended 4 October 2008 £m	52 weeks ended 29 September 2007 £m
Aggregate emoluments	1.4	1.3

Retirement benefits are accruing to 5 (2007: 5) Directors under a defined benefit pension scheme.

Share options were exercised by 1 (2007: 5) Director during the period.

Highest paid Director

	53 weeks ended 4 October 2008 £'000	52 weeks ended 29 September 2007 £'000
Aggregate emoluments	407	356
Accrued pension at the period end	56	42

The Directors of the Company are also Directors of Marston's PLC. The Directors' emoluments shown above represent an apportionment of the total emoluments paid to all Directors of Marston's PLC.

MARSTON'S TRADING LIMITED

NOTES

6 Interest payable and similar charges

	53 weeks ended 4 October 2008 £m	52 weeks ended 29 September 2007 £m
Bank loans and overdrafts	17.2	17.8
Amortisation of loan fees	0.3	0.8
Net interest payable on pension scheme liabilities	-	2.0
Interest on intercompany convertible loan notes (note 16)	9.7	-
	27.2	20.6

7 Interest receivable and similar income

	53 weeks ended 4 October 2008 £m	52 weeks ended 29 September 2007 £m
Income from fixed asset investments	0.3	0.3
Other loan interest receivable	0.1	-
Dividend on preference shares held in Marston's Estates Limited	1.0	-
Net finance income in respect of retirement benefits	1.2	-
Financing income	-	0.1
Other interest receivable	1.2	-
	3.8	0.4

8 Taxation

	53 weeks ended 4 October 2008 £m	52 weeks ended 29 September 2007 £m
Current tax:		
Corporation tax on (loss)/profit for the period	(0.5)	(4.3)
Adjustments in respect of prior periods	(1.1)	-
Profit and loss account	(1.6)	(4.3)
Statement of total recognised gains and losses	(4.7)	-
	(6.3)	(4.3)
Deferred tax (note 17)	0.5	12.9
Taxation (credit)/charge on (loss)/profit on ordinary activities	(5.8)	8.6
Taken to:		
Profit and loss account	(1.1)	(0.1)
Statement of total recognised gains and losses	(4.7)	8.7
	(5.8)	8.6

MARSTON'S TRADING LIMITED

NOTES

8 Taxation (continued)

The actual tax rate for the period is higher than (2007: lower than) the standard rate of corporation tax in the UK of 29% (2007: 30%). The differences are explained below:

	53 weeks ended 4 October 2008 £m	52 weeks ended 29 September 2007 £m
(Loss)/profit on ordinary activities before tax	(9.9)	2.5
(Loss)/profit before tax multiplied by the UK corporation tax rate of 29% (2007: 30%)	(2.9)	0.8
Effect of:		
Adjustments in respect of prior period	(1.1)	-
Costs not deductible for tax purposes	3.0	0.4
Other permanent differences	0.2	(1.4)
Excess of capital allowances over depreciation	(0.5)	(0.3)
Tax relief on pension contributions	(2.6)	(3.8)
Other timing differences	2.3	-
Current period taxation credit	(1.6)	(4.3)

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly the Company's profits for this accounting period are taxed at an effective rate of 29% and will be taxed at 28% in the future.

9 Intangible fixed assets

	Goodwill £m
Cost	
At 30 September 2007	9.0
Additions	1.0
At 4 October 2008	10.0
Amortisation	
At 30 September 2007	2.0
Amortisation charge for the period	0.4
At 4 October 2008	2.4
Net book value	
At 4 October 2008	7.6
At 29 September 2007	7.0

MARSTON'S TRADING LIMITED

NOTES

12 Assets held for sale

	4 October 2008 £m	29 September 2007 £m
Plant, fixtures and fittings	0.8	0.7

13 Stocks

	4 October 2008 £m	29 September 2007 £m
Raw materials and consumables	2.6	2.6
Work in progress	-	0.2
Finished goods	11.2	8.7
	13.8	11.5

14 Debtors

Amounts due within one year

	4 October 2008 £m	29 September 2007 £m
Trade debtors	17.7	19.4
Corporation tax	5.2	3.8
Amounts due from Group undertakings	345.2	298.0
Other debtors	4.3	4.5
Prepayments	9.5	11.8
	381.9	337.5

Amounts due after more than one year

	4 October 2008 £m	29 September 2007 £m
Loan note – owed by Group undertaking	1.1	1.1

A discounted convertible loan note was issued by Marston's Estates Limited on 27 May 2006, in exchange for the disposal of certain assets and liabilities. The loan note carried an annual interest coupon of 4.90% of the face value.

The loan note converted into a mixture of preference shares (note 11) and new debt on 29 September 2007 when certain conditions relating to 12 month LIBOR borrowing rates were met. Interest is receivable on the new loan note at LIBOR plus a margin.

The new loan note expires on 17 July 2036. The obligations of Marston's Estates Limited are guaranteed by Marston's PLC.

Other debtors include interest due on the loan and dividends due on the preference shares.

MARSTON'S TRADING LIMITED

NOTES

10 Tangible fixed assets

	Plant, fixtures and fittings £m
Cost	
At 30 September 2007	115.6
Additions	19.8
Net transfers to Group undertakings	(5.1)
Net transfers to assets held for sale	(1.5)
Disposals	(3.6)
Gross up of intercompany transfers	16.1
At 4 October 2008	141.3
Depreciation	
At 30 September 2007	30.3
Charge for the period	14.4
Net transfers to Group undertakings	(1.0)
Net transfers to assets held for sale	(0.8)
Disposals	(3.6)
Gross up of intercompany transfers	16.1
At 4 October 2008	55.4
Net book value	
At 4 October 2008	85.9
At 29 September 2007	85.3

Cost at 4 October 2008 includes £2.3m (2007: £3.4m) of assets in the course of construction.

The net book value of assets held under finance leases was £0.1m (2007: £0.2m).

Capital expenditure authorised and committed but not provided in the financial statements was £3.3m (2007: £5.9m).

11 Investments

	Trade loans £m	Subsidiary undertaking £m	Preference shares £m	Total £m
At 30 September 2007	17.5	271.5	9.1	298.1
Additions	4.7	-	-	4.7
Disposals, repayments and provisions	(6.1)	-	-	(6.1)
At 4 October 2008	16.1	271.5	9.1	296.7

The Company's subsidiary undertaking is S K Williams Limited, an investment company incorporated in England. The Company owns 99.9% of the ordinary £1 shares of S K Williams Limited.

On conversion of the discounted convertible loan note (note 14) on 29 September 2007 the Company received 10,742,652 irredeemable preference shares with a nominal value of £0.01 each, issued by Marston's Estates Limited. The value of the preference shares received was £9,100,000.

An annual dividend is receivable on these preference shares, calculated with reference to prevailing LIBOR rates.

MARSTON'S TRADING LIMITED

NOTES

15 Creditors (amounts falling due within one year)

	4 October 2008 £m	29 September 2007 £m
Bank loans and overdraft	33.8	33.8
Trade creditors	49.9	46.3
Finance leases	0.1	0.1
Amounts owed to Group undertakings	211.9	213.3
Other creditors	1.1	2.6
Other taxes and social security	13.9	11.9
Accruals and deferred income	19.0	29.0
	329.7	337.0

Amounts owed to Group undertakings are unsecured, repayable on demand and non-interest bearing.

16 Creditors (amounts falling due after more than one year)

	4 October 2008 £m	29 September 2007 £m
Bank loans	233.8	372.6
Finance leases	-	0.1
Accruals and deferred income	1.3	0.4
Intercompany convertible loan notes – owed to Group undertakings	191.5	-
	426.6	373.1

All bank loans are repayable within two to five years (2007: all bank loans repayable within two to five years).

An intercompany convertible loan note was issued on 22 November 2007 to Marston's Estates Limited, a subsidiary undertaking of Marston's PLC, in exchange for funds used to repay bank debt. Of the total cost of £182.2m, £162.8m was initially recognised in creditors due after more than one year and £19.4m was recognised within equity (note 20). A finance charge of £8.7m (2007: £nil) has been recognised in the period. The loan note is convertible into preference shares on 3 October 2009.

An intercompany convertible loan note was issued on 22 November 2007 to Eldridge, Pope & Co., Limited, a subsidiary undertaking of Marston's PLC, in exchange for funds used to repay bank debt. Of the total cost of £21.2m, £19.0m was initially recognised in creditors due after more than one year and £2.2m was recognised within equity (note 20). A finance charge of £1.0m (2007: £nil) has been recognised in the period. The loan note is convertible into preference shares on 3 October 2009.

On 22 November 2007 the Company entered into two interest rate swaps of £70.0m each to fix the interest rate payable on the Company's bank loans. The interest rate swaps fix interest at 5.5% and 5.6%.

MARSTON'S TRADING LIMITED

NOTES

17 Provisions for liabilities and charges

	Deferred tax £m
At 30 September 2007	7.3
Profit and loss account	(1.8)
Transfers to other Group undertakings	(0.2)
At 4 October 2008	5.3

The amount provided in respect of deferred tax is as follows:

	4 October 2008 £m	29 September 2007 £m
Excess of capital allowances over accumulated depreciation	8.4	8.1
Pension costs	(0.1)	(0.1)
Other timing differences	(2.9)	(0.2)
Share options	(0.1)	(0.5)
	5.3	7.3

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.

18 Commitments under operating leases

The Company had annual commitments under non-cancellable operating leases as set out below:

	4 October 2008		29 September 2007	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases which expire:				
Within one year	-	0.1	-	0.2
Within two to five years	-	0.6	-	0.5
After five years	-	-	-	-
	-	0.7	-	0.7

19 Called up share capital

	4 October 2008 £'000	29 September 2007 £'000
Authorised		
1,000 ordinary shares of £5 each	5	5
600 ordinary shares of £10 each	6	6
	11	11
	4 October 2008 £'000	29 September 2007 £'000
Allotted, issued and fully paid		
1,000 ordinary shares of £5 each	5	5

MARSTON'S TRADING LIMITED

NOTES

20 Reserves

	Profit and loss account £m
At 30 September 2007	(1.9)
Loss for the financial period	(8.8)
Issue of intercompany convertible loan notes (note 16)	21.6
Actuarial loss (net of deferred tax)	(12.1)
Share-based payments	0.1
At 4 October 2008	(1.1)

21 Reconciliation of movement in shareholders' deficit

	53 weeks ended 4 October 2008 £m	52 weeks ended 29 September 2007 £m
(Loss)/profit for the financial period	(8.8)	2.6
Issue of intercompany convertible loan notes (note 16)	21.6	-
Actuarial (losses)/gains on retirement benefits	(16.8)	25.9
Movement on current/deferred tax relating to retirement benefits	4.7	(8.7)
Share-based payments	0.1	1.4
Net addition to shareholders' deficit	0.8	21.2
Opening shareholders' deficit	(1.9)	(23.1)
Closing shareholders' deficit	(1.1)	(1.9)

22 Pensions

Group Personal Pension Plan

New employees who join the Company are offered membership of the Marston's Group Personal Pension Plan. The Company paid contributions of £1.2m (2007: £0.8m) to Group Personal Pension Plans during the period.

Defined benefit scheme

The Company also participates in the Marston's PLC Pension and Life Assurance Scheme ("the Scheme"), which is closed to new members. All of the employees in the Scheme are employees of Marston's Trading Limited. The assets of the Scheme are administered by trustees in a fund independent from those of the Company.

The Company contribution was 25.0% of pensionable salaries throughout the period for workers included in Smart Pensions and 17.5% for those members who opted out of Smart Pensions (2007: 17.5%), following the recommendations of an independent qualified actuary. In addition lump sums totalling £15.4m were paid into the scheme before the period end. An allowance of £0.2m has been made for the 2007/08 PPF levy within the expenses of the Scheme and the Company contributions.

MARSTON'S TRADING LIMITED

NOTES

22 Pensions (continued)

Change in benefit obligation

	53 weeks ended 4 October 2008	52 weeks ended 29 September 2007
	£m	£m
Change in benefit obligation		
Benefit obligation at beginning of the year	340.2	298.2
Current service cost	3.3	2.7
Interest cost	19.4	17.2
Member contributions	0.3	1.3
Actuarial gains	(37.9)	(18.5)
Business combinations	-	52.9
Benefits paid	(13.6)	(13.6)
At end of the period	311.7	340.2

Analysis of defined benefit obligation

Plans that are wholly or partly funded	311.7	340.2
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Change in plan assets

Fair value of plan assets at beginning of the year	301.6	245.1
Expected return on plan assets	20.6	14.5
Actuarial gains/(losses)	(54.7)	8.9
Business combinations	-	34.9
Employer contribution	19.6	10.5
Member contributions	0.3	1.3
Benefits paid	(13.6)	(13.6)
Fair value of plan assets at end of the year	273.8	301.6

Funded status

Plans that are wholly or partly funded	(37.9)	(38.6)
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Net deficit in the scheme	(37.9)	(38.6)
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Associated deferred tax asset	10.6	12.9
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Net amount recognised	(27.3)	(25.7)
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Components of pensions cost

	53 weeks ended 4 October 2008	52 weeks ended 29 September 2007
	£m	£m
Current service cost	3.3	2.7
Interest cost	19.4	17.2
Expected return on plan assets	(20.6)	(14.5)
Total pension cost recognised in the profit and loss account	2.1	5.4
Actuarial (losses)/gains immediately recognised	(16.8)	27.4
Cumulative amount of actuarial losses immediately recognised	(44.9)	(28.1)

MARSTON'S TRADING LIMITED

NOTES

22 Pensions (continued)

Plan assets

The weighted-average asset allocation at the year-end was as follows:

	4 October 2008	29 September 2007
Equities/Properties	57.0%	59.4%
Bonds/Gilts	37.5%	33.5%
Cash/Other	5.5%	7.1%

	53 weeks ended 4 October 2008 £m	52 weeks ended 29 September 2007 £m
Actual return on plan assets	(34.1)	23.4

Weighted average assumptions used to determine benefit obligations at:

	4 October 2008	29 September 2007
Discount rate	6.6%	5.8%
Rate of compensation increase	4.1%	3.8%
Rate of increase of pensions in payment - 5% LPI	3.4%	3.1%
Rate of increase of pensions in payment - 2.5% LPI	2.3%	2.3%
Rate of increase of pensions in deferment	3.4%	3.1%
Inflation	3.4%	3.1%

Weighted average assumptions used to determine net pension cost for:

	53 weeks ended 4 October 2008
Discount rate	5.80%
Expected long-term return on plan assets	6.80%
Rate of compensation increase	3.80%
Rate of increase of pensions in payment - 5% LPI	3.10%
Rate of increase of pensions in payment - 2.5% LPI	2.25%
Rate of increase of pensions in deferment	3.10%

To develop the expected long-term rate of return on assets assumption, the company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes (excluding corporate bonds) in which the portfolio is invested and the expectations for future returns of each asset class. The expectation for future return for corporate bonds was based on the current level of expected returns for the scheme's portfolio of corporate bonds. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 6.8% assumption.

Weighted average life expectancy for mortality tables used to determine benefit obligations at:

	4 October 2008		29 September 2007	
	Male	Female	Male	Female
Member aged 65 (current life expectancy)	20.5 years	23.4 years	20.5 years	23.4 years
Member aged 45 (life expectancy at age 65)	22.2 years	25.0 years	22.2 years	25.0 years

MARSTON'S TRADING LIMITED

NOTES

22 Pensions (continued)

Five year history

	2008	2007	2006	2005
Benefit obligation at end of the period	£311.7m	£340.2m	£298.2m	£240.0m
Fair value of plan assets at end of the period	£273.8m	£301.6m	£245.1m	£199.8m
Deficit	£(37.9)m	£(38.6)m	£(53.1)m	£(40.2)m
Difference between actual and expected return on scheme assets:				
Amount	£(54.7)m	£8.9m	£6.2m	£15.1m
Percentage of scheme assets	20%	3%	3%	8%
Experience gains and (losses) on scheme liabilities:				
Amount	-	-	10.1m	-
Percentage of scheme liabilities	-	-	3%	-

The contribution expected to be paid during the financial period ending 3 October 2009 amounts to £14.1m from the employer and £0.2m from employees.

23 Share-based payments

During the period there were three classes of equity-settled employee share incentive plans outstanding, granting rights to shares in the parent company, Marston's PLC:

- 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.
- 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 certain performance criteria in relation to earnings per share.
- Long Term Incentive Plan (LTIP). Under this scheme nil cost options are granted that will only vest provided the participant satisfies a minimum shareholding requirement and certain performance conditions relating to earnings per share are met.

The tables below summarise outstanding options that were issued after 7 November 2002.

SAYE:	Number of shares		Weighted average exercise price	
	53 weeks ended 4 October 2008	52 weeks ended 29 September 2007	53 weeks ended 4 October 2008	52 weeks ended 29 September 2007
	m	m	p	p
Outstanding at beginning of period	2.3	2.1	235.8	195.0
Granted	1.9	0.5	172.0	370.0
Exercised	(0.3)	(0.1)	140.4	161.9
Expired	(0.7)	(0.2)	276.5	220.1
Outstanding at end of period	3.2	2.3	193.0	235.8
Exercisable at end of period	0.3	-	198.1	-
Range of exercise prices	129.3p to 370.0p	99.8p to 370.0p		
Weighted average remaining contractual life (years)	3.5	3.1		

MARSTON'S TRADING LIMITED

NOTES

23 Share-based payments (continued)

ESOP:	Number of shares		Weighted average exercise price	
	53 weeks ended 4 October 2008	52 weeks ended 29 September 2007	53 weeks ended 4 October 2008	52 weeks ended 29 September 2007
	m	m	p	p
Outstanding at beginning of period	0.1	0.2	151.0	151.0
Exercised	-	(0.1)	151.0	151.0
Outstanding at end of period	0.1	0.1	151.0	151.0
Exercisable at end of period	0.1	0.1	151.0	151.0
Exercise price	151.0p	151.0p		
Weighted average remaining contractual life (years)	2.9	3.8		

LTIP:	Number of shares		Weighted average exercise price	
	53 weeks ended 4 October 2008	52 weeks ended 29 September 2007	53 weeks ended 4 October 2008	52 weeks ended 29 September 2007
	m	m	p	p
Outstanding at beginning of period	1.7	2.0	-	-
Granted	1.0	0.4	-	-
Exercised	(0.4)	(0.5)	-	-
Expired	(0.3)	(0.2)	-	-
Outstanding at end of period	2.0	1.7	-	-
Exercisable at end of period	-	-	-	-
Exercise price	-	-	-	-

LTIP options are exercisable until the retirement date of the holder.

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:

	53 weeks ended 4 October 2008	52 weeks ended 29 September 2007
Dividend yield %	5.5	3.2
Expected volatility %	24.9 to 29.4	19.2 to 21.9
Risk free interest rate %	5.4 to 5.8	5.6 to 5.8
Expected life of rights		
SAYE	3 to 7 years	3 to 7 years
ESOP	3 years	3 years
LTIP	3 years	3 years

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 53.6p (2007: 133.3p). The fair value of options granted during the period in relation to the LTIP was 147.0p (2007: 408.0p).

The weighted average share price for options exercised over the period was 205.1p (2007: 407.7p). The total charge for the period relating to employee share-based payment plans was £0.1m (2007: £1.4m), all of which related to equity-settled share-based payment transactions.

MARSTON'S TRADING LIMITED

NOTES

23 Share-based payments (continued)

The table below summarises outstanding options that were issued prior to 7 November 2002 which have therefore not been charged to the profit and loss account:

	SAYE				ESOP			
	Number of shares		Weighted average exercise price		Number of shares		Weighted average exercise price	
	53 weeks ended 4 Oct 2008	52 weeks ended 29 Sep 2007	53 weeks ended 4 Oct 2008	52 weeks ended 29 Sep 2007	53 weeks ended 4 Oct 2008	52 weeks ended 29 Sep 2007	53 weeks ended 4 Oct 2008	52 weeks ended 29 Sep 2007
	m	m	p	p	m	m	p	p
Outstanding at beginning of period	0.1	0.8	124.9	89.3	0.2	0.4	130.7	117.8
Exercised	-	(0.7)	102.1	83.2	-	(0.2)	135.6	98.3
Expired	-	-	138.5	103.7	-	-	129.5	-
Outstanding at end of period	0.1	0.1	138.5	124.9	0.2	0.2	140.9	130.7
Exercisable at end of period	-	-	-	-	0.2	0.2	140.9	130.7
Weighted average share price at date of exercise			318.1	375.1			205.2	454.7
Range of exercise prices	138.5p	61.8p to 138.5p			129.0p to 143.4p	129.0p to 143.4p		
Weighted average remaining contractual life (years)	1.2	1.8			2.8	3.4		

The LTIP was introduced in January 2004.

24 Disposals

On 22 November 2007 certain assets and liabilities and the associated trade were sold to Marston's PLC. These disposals are summarised below.

	Total £m
Tangible fixed assets	2.7
Debtors	1.9
Creditors: amounts falling due within one year	(1.0)
Provisions	(0.2)
Total net assets transferred	3.4

The above assets and liabilities were transferred to Marston's PLC for a total consideration of £3.4m, generating a profit on disposal of £nil.

25 Ultimate parent undertaking

The Company's immediate and ultimate parent undertaking and controlling party is Marston's PLC, which is the parent undertaking of the smallest and largest group to consolidate the financial statements of Marston's Trading Limited. Copies of the Group financial statements can be obtained from the Company Secretary, Marston's House, Brewery Road, Wolverhampton, WV1 4JT.