W&DB

Annual report 2002

Directors' report

The Group conducts the following businesses: maltings, breweries, distribution of beer, wine and spirit merchants and pub management. The Company is not a close company within the meaning of the Income and Corporation Taxes Act of 1988, and there has been no change since the period end.

Review

The Directors' report should be read in conjunction with the Chairman's statement, the Chief Executive's review and the Financial review, which include information about the Group, the financial performance during the period, and likely developments.

Dividends

The final dividend proposed is 19.25p per ordinary share, making a total of 109.15p per ordinary share for the period ended 28 September 2002, and total preference share dividends of 7.0p per share. The loss transferred from reserves is (£55.7m) (2001: loss (£28.0m)) following the £97.4m dividends. The final dividend, as proposed and if approved, will be paid on 31 January 2003 to those shareholders on the register at close of business on 6 January 2003.

Policy and practice

Employment policies are based on the provision of appropriate training and career development of our staff. We seek to give equal opportunity and to consider carefully the recruitment of disabled people including those who become disabled during their employment. Job sharing continues to increase. Annual personal appraisals support skill development and commitment to the businesses.

Our communications aim is to increase the understanding and commitment of all our employees through regular briefings and in-house publications such as W&DB News.

Research and development is either by way of market research, or in conjunction with the Brewing Research Foundation International.

Environmental policy is determined by the Board. Performance against preset objectives is reviewed regularly by a sub-committee of the Board chaired by the Chief Executive. Environmental protection is implemented by conducting our operations in a way which complies with relevant environmental legislation in order to minimise risks of all forms of pollution and noise.

It is the Company's payment policy to follow the CBI's Prompt Payment Code for all suppliers. Copies of the code can be obtained from the registered office. Creditor days at the period end were 42 (2001: 45).

Charitable donations were £900 (2001: £3,315).

Directors

The present Directors are shown on page 21. All served throughout the period with the exception of Paul Inglett who was appointed on 11 March 2002 and Lord Hodgson who was appointed on 27 September 2002. A resolution proposing their election will be made at the annual general meeting on 24 January 2003. Derek Andrew and Peter Lipscomb retire by rotation, and, being eligible, offer themselves for re-election. Derek Andrew has a rolling two-year service contract. Peter Lipscomb does not have a service contract. Paddy Linaker retired on 27 September 2002. Jim Taylor and Martin Womack resigned on 16 October 2001 and 19 June 2002 respectively.

Interests of Directors

The interests of the Directors and their immediate families as at 28 September 2002 were:

	Ordinary shares			
	Beneficial		Non-beneficial	
Beneficial	**2002**	2001	**2002**	2001
Derek Andrew	**27,614**	25,705	**–**	–
Miles Emley	**8,812**	10,400	**–**	–
Ralph Findlay	**16,110**	15,000	**–**	–
Lord Hodgson appointed 27 September 2002	**1,680**	–	**–**	–
Paul Inglett appointed 11 March 2002	**6,942**	–	**–**	–
Peter Lipscomb	**5,000**	2,000	**–**	–
Stephen Oliver	**1,220**	400	**–**	–
David Thompson	**157,912**	137,416	**268,212**	300,266

The interests for 2001 have not been restated following the share consolidation on 28 January 2002.

In addition, Derek Andrew, Ralph Findlay, Paul Inglett and Stephen Oliver as Executive Directors are technically treated as having a beneficial interest in the total number of 775,423 ordinary shares (2001: 915,000) held in the ESOP.

The interests in share options are set out on page 28.

No Director had any material interest in any contract of the Group's business during or at the end of the period.

There has been no change in Directors' interests between 28 September 2002 and 9 December 2002.

Significant shareholdings

The Company has received notification of the following interests in 3% or more of its issued ordinary share capital as at 28 September 2002:

Ordinary shares	Number	%
Silchester International Investors Limited	7,883,690	10.7
Prudential plc	2,846,043	3.9
Schroder Investment Management Limited	2,596,967	3.5
Legal & General Investment Management	2,255,925	3.1

Preference shares	Number	%
Ionian Nominees Ltd A/C SCLPF	31,548	42.1
Medlock & Medlock Limited	6,750	9.0
George Mary Allison Limited	5,500	7.3
Mrs A Somerville	5,500	7.3
Mr P F Knowles A/C NPK	4,056	5.4
Mr A W R Medlock	3,657	4.9
R C Greg Nominees Limited A/C BLI	3,283	4.4
Mr A F Southall	2,855	3.8
Arbuthnot Latham (Nominees) Limited	2,500	3.3

The Directors have not been notified of any other significant shareholding between 28 September 2002 and 9 December 2002.

Repurchase of shares

At the extraordinary general meeting held on 8 July 2002 shareholders authorised the Company to make market purchases of its ordinary shares of 29.5p each.

Pursuant to this authority the Company has, on 11 July 2002, purchased 7.3m ordinary shares of 29.5p each, having a total nominal value of £2.1m representing 9.1% of the Company's issued share capital as at that date, for an aggregate amount of £49.5m.

This repurchase of shares was in line with the Company's objective of operating an efficient balance sheet and on delivering shareholder value.

Auditors

A resolution for the re-appointment of PricewaterhouseCoopers as Independent Auditors and to authorise the Directors to fix their remuneration will be proposed at the annual general meeting.

Annual general meeting special business

Resolution number 8 – authority to issue shares This resolution seeks renewal of the Directors' authority to allot unissued shares up to an aggregate nominal amount of £7,257,890, being one-third of the total ordinary share capital of the Company in issue as at 28 September 2002.

Resolution number 9 – disapplication of shareholders' pre-emption rights This resolution seeks renewal of the Directors' authority to issue ordinary shares up to an aggregate nominal amount of £1,088,683, being 5% of the total ordinary share capital of the Company in issue as at 28 September 2002, for cash without offering the shares first to existing shareholders by way of rights.

The authority contained in this resolution will terminate not later than 15 months after the passing of the resolution.

Resolution number 10 – purchase of own shares by the Company The Company's articles of association permit the purchase of the Company's own shares for cancellation, subject to the provisions of the Companies Acts. The Directors consider it desirable, and in the Company's interests, for shareholders to grant the Company authority to exercise this power, within certain limits, to enable it to purchase its own shares in the market. We undertake that the authority will only be exercised if we are satisfied that the purchase will result in an increase in earnings per share and is in the best interests of shareholders generally.

We propose an authority for the Company to purchase its own shares in the market, up to a total of 11,063,978 ordinary shares of 29.5p each, having an aggregate nominal value of £3,263,873, being 14.99% of the issued ordinary share capital of the Company as at 28 September 2002.

Recommendation

We consider that the resolutions to be proposed at the annual general meeting are in the best interests of the Company and it is our unanimous recommendation that you support these proposals as we intend to do in respect of our own holdings.

By order of the Board

Leslie Porter *Secretary*
9 December 2002

Board's report on remuneration

Composition and Terms of Reference of the Remuneration Committee

The Remuneration Committee is appointed by the Board and comprises Peter Lipscomb (Chairman), Miles Emley and Lord Hodgson, all of whom are independent Non-executive Directors, and with Ralph Findlay in attendance if required. The Committee is responsible for all elements of the Executive Directors' remuneration, and where appropriate Senior Executives, all contract terms, and any compensation arrangements arising from early termination of such contracts with due regard to both the Combined Code and the Directors' legal duty to mitigate their loss. The Committee is also responsible for the granting of share options under the rules of the Company's share option schemes.

Service contracts

David Thompson's two-year rolling contract was replaced by a new contract with effect from his appointment as a Non-executive Director on 25 January 2002. Notice under this new contract will reduce monthly on the 25th of each month settling at six-months' notice on 25 July 2003. Derek Andrew has had a two-year rolling contract since July 1987. Current policy is to offer one-year rolling contracts to Executive Directors and Ralph Findlay, Paul Inglett and Stephen Oliver all have a one-year rolling contract. The Non-executive Directors do not have a service contract and stand for election/re-election at intervals not exceeding three years.

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

Salaries and bonuses

Salaries for Executive Directors were reviewed on 1 October 2001 and 11 March 2002, and for Senior Executives on 1 April 2002. Bonus objectives for Executive Directors and Senior Executives for 2002 were set based on a combination of Company Profit Achievement and Personal Objectives with a maximum possible bonus of 50% and 35% respectively of basic salary, payable in December 2002. All such bonuses are non-pensionable. Bonus objectives for 2003 are currently under review.

Fees earned by Executive Directors outside their employment are not retained. David Thompson earned fees of £12,166 (2001: £60,953) whilst still an Executive Director of the Company, which were payable to the Company.

Directors' share options

		Number of shares under option: 28 September 2002	29 September 2001 or on appointment	Option price p	Date of grant	Exercise period From	Exercise period To
Derek Andrew	Executive	–	2,000	467.5	16 Jan 92	15 Jan 97	15 Jan 02
		–	7,500	523.5	1 Jul 92	30 Jun 97	30 Jun 02
		–	500	459.0	22 Dec 92	21 Dec 97	21 Dec 02
		–	5,000	522.0	20 Jan 94	19 Jan 97	19 Jan 04
		20,000	20,000	544.0	14 Jun 94	13 Jun 97	13 Jun 04
		–	8,000	514.0	14 Dec 94	13 Dec 97	13 Dec 04
		8,500	8,500	581.0	2 Jan 96	1 Jan 99	1 Jan 06
		10,000	10,000	683.5	25 Feb 97	24 Feb 00	24 Feb 04
		10,000	10,000	458.5	1 Dec 97	30 Nov 00	30 Nov 04
		24,500	24,500	518.0	26 Jun 98	25 Jun 01	25 Jun 05
		100,000	100,000	325.5	30 May 00	29 May 03	29 May 07
	SAYE	**6,633**	6,633	277.0	30 Jun 00	31 Jul 07	31 Jan 08
Ralph Findlay	Executive	**15,000**	15,000	530.0	31 May 95	30 May 98	30 May 05
		10,000	10,000	581.0	2 Jan 96	1 Jan 99	1 Jan 06
		46,000	46,000	683.5	25 Feb 97	24 Feb 00	24 Feb 04
		–	3,000	458.5	1 Dec 97	30 Nov 00	30 Nov 04
		6,500	6,500	518.0	26 Jun 98	25 Jun 01	25 Jun 05
		100,000	100,000	325.5	30 May 00	29 May 03	29 May 07
	SAYE	**6,092**	6,092	277.0	30 Jun 00	31 Jul 05	31 Jan 06
Paul Inglett	Executive	–	4,000	616.0	1 Jul 92	30 Jun 95	30 Jun 02
		4,000	4,000	565.0	26 May 99	25 May 02	25 May 06
		8,000	8,000	371.5	27 Jun 00	26 Jun 03	26 Jun 07
	SAYE	**690**	690	499.5	1 Jul 97	31 Jul 02	31 Jan 03
		837	837	412.0	24 Jun 98	31 Jul 03	31 Jan 04
		1,474	1,474	457.5	24 Jun 99	31 Jul 04	31 Jan 05
		1,370	–	554.0	26 Jun 02	31 Jul 05	31 Jan 06
Stephen Oliver	Executive	–	11,358	524.87	29 Jan 96	28 Jan 99	28 Jan 06
		10,000	10,000	565.0	26 May 99	29 May 02	25 May 06
		20,000	20,000	325.5	30 May 00	29 May 03	29 May 07
	SAYE	**3,244**	–	554.0	26 Jun 02	31 Jul 09	31 Jan 10
David Thompson	Executive	–	14,500	467.5	16 Jan 92	15 Jan 97	15 Jan 02
		–	5,000	523.5	1 Jul 92	30 Jun 97	30 Jun 02
		–	5,000	522.0	20 Jan 94	19 Jan 97	19 Jan 04
		–	32,500	544.0	14 Jun 94	13 Jun 97	13 Jun 04
		39,000	39,000	581.0	2 Jan 96	1 Jan 99	1 Jan 06
		7,000	7,000	458.5	1 Dec 97	30 Nov 00	30 Nov 04
		7,000	7,000	518.0	26 Jun 98	25 Jun 01	25 Jun 05
		15,000	15,000	541.0	23 Dec 99	22 Dec 02	22 Dec 06
		180,000	180,000	325.5	30 May 00	29 May 03	29 May 07
	SAYE	–	1,839	424.0	3 Jul 95	31 Jul 02	31 Jan 03
		6,633	6,633	277.0	30 Jun 00	31 Jul 07	31 Jan 08

Directors' emoluments

The emoluments of the Directors for their services as Directors of the Company and its subsidiaries for the period ended 28 September 2002 were:

	Salary/fees £	Bonus £	Benefits £	Compensation £	**Total 2002 £**	Total 2001 £
Derek Andrew	185,000	27,750	11,542	–	**224,292**	279,748
Miles Emley	25,000	–	–	–	**25,000**	18,000
Ralph Findlay	250,000	37,500	16,516	–	**304,016**	365,595
Lord Hodgson (from 27 September 2002)	192	–	–	–	**192**	–
Paul Inglett (from 11 March 2002)	79,808	21,000	9,682	–	**110,490**	–
Paddy Linaker (to 27 September 2002)	24,904	–	–	–	**24,904**	18,000
Peter Lipscomb	30,000	–	–	–	**30,000**	22,417
Stephen Oliver	150,000	15,000	16,594	–	**181,594**	108,567
Jim Taylor (to 16 October 2002)	13,333	–	780	–	**14,113**	12,713
David Thompson	147,115	12,500	15,411	337,500	**512,526**	386,746
Martin Womack (to 19 June 2002)	118,269	–	4,307	–	**122,576**	102,904
	1,023,621	113,750	74,832	337,500	**1,549,703**	1,314,690
Contribution to pension scheme (see page 30)					**106,598**	95,112
					1,656,301	1,409,802

David Thompson has been paid £300,000 as compensation for voluntarily giving up his two-year rolling contract and £37,500 as a special pension augmentation payment, following his appointment as a Non-executive Director on 25 January 2002.

The fees relating to the services of Miles Emley and Lord Hodgson were paid to St Ives plc and Johnson Brothers & Co Limited respectively.

On 20 December 2001 Derek Andrew exercised executive share options as follows:

2,000 ordinary shares at 467.5p; 500 ordinary shares at 459.0p; 8,000 ordinary shares at 514.0p; 5,000 ordinary shares at 522.0p; and 7,500 ordinary shares at 523.5p. He sold, in the open market on 20 December 2001, 16,119 ordinary shares at 570.0p per share. He has retained the balance of 6,881 shares.

On 7 February 2002 Ralph Findlay exercised an executive option over 3,000 ordinary shares at 458.5p when the bid share price was 591.0p. He has retained these shares.

On 27 June 2002 Paul Inglett exercised an executive option over 3,000 ordinary shares at 616.0p when the bid share price was 635.0p. He has retained these shares. On 30 June 2002 an executive option over 1,000 ordinary shares at 616.0p granted on 1 July 1992 lapsed.

On 3 January 2002 David Thompson exercised executive share options as follows:

14,500 ordinary shares at 467.5p; 5,000 ordinary shares at 523.5p; 5,000 ordinary shares at 522.0p; and 32,500 ordinary shares at 544.0p, when the bid share price was 545.0p. He has retained these shares. On 20 August 2002 he exercised an SAYE option over 1,839 ordinary shares at 424.0p per share when the bid price per ordinary share was 585.0p. He has retained these shares.

On 18 January 2002 Stephen Oliver exercised an executive option over 11,358 ordinary shares at 524.87p per share, which he sold in the open market on 18 January 2002 when the bid price was 600.0p per share.

Executive share options are awarded by the Remuneration Committee at the prevailing market rate on the date of grant to selected employees as a means of long-term incentive. Options are exercisable upon the achievement of stated performance criteria.

The exercise of executive share options granted under the 1994 and 1997 Schemes is subject to the Company achieving growth in earnings per share in excess of the growth in the retail price index by an average of 2.0% per year.

The mid-market ordinary share price range during the year was 465.0p to 718.5p with an average price of 602.5p.

The mid-market ordinary share price on 28 September 2002 was 583.5p.

Directors' pensions

Pension benefits earned by the Directors (note 1)

	Company's pension contributions £	Directors' contributions in the year (note 2) £	Increase in accrued scheme pension during the year (note 3) £ pa	Accumulated total accrued pension at year end (note 4) £ pa
Derek Andrew	29,655	12,719	4,474	74,870
Ralph Findlay	13,825	12,720	2,156	16,474
Paul Inglett	9,203	3.990	1,000	16,782
Stephen Oliver	20,393	9,482	2,893	21,203
David Thompson	23,066	6,346	1,936	106,858

Notes to pension benefits

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

2 These relate to the contributions paid or payable in the year.

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

4 The increase for Paul Inglett is over the period 11 March 2002 to 28 September 2002 as he became a Director during the year. The increase for David Thompson is over the period 1 October 2001 to 25 January 2002 when he ceased to be an Executive Director.

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

6 During the year a funded unapproved arrangement was set up on a money purchase basis. Ralph Findlay's and Stephen Oliver's promise in the unfunded unapproved arrangement was removed and an additional contribution was made to the funded arrangement in compensation.

7 The accumulated accrued pensions from the approved scheme at the year end 1 October 2001 are shown below for comparison.

	Approved accrued scheme pension at 1 October 2001 £
Derek Andrew	69,219
Ralph Findlay	14,079
Paul Inglett	–
Stephen Oliver	18,004
David Thompson	105,662

The following additional information relates to Directors' pensions:

(a) Normal retirement age: 60.

(b) On death before retirement a lump sum is payable, equal to the Director's contributions. However, some or all of this lump sum may be used to provide a statutory minimum spouse's pension. On death after retirement the spouse's pension payable is two-thirds of the pension which the member was receiving at the date of death.

(c) Early retirement can be taken from age 50 provided the Company gives its consent. The accrued pension will then be reduced to take account of its early payment.

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

(e) David Thompson became a Non-executive Director as at 25 January 2002.

(f) There are no discretionary benefits.

Martin Womack participated in the Group Personal Pension Plan (GPPP). The Company contributions to this Plan amounted to £10,456 during the year.

Ralph Findlay participated in an unfunded unapproved retirement benefit scheme (UURBS) from 13 January 1998 to 15 August 2001. The amount charged in the profit and loss account in respect of the UURBS has been included within contributions to the pension schemes above. The UURBS was replaced by a funded unapproved scheme (FURBS) from 15 August 2001 with past service UURBS being bought out by contributions to the FURBS spread over five years from 1 October 2001. The first such payment of £93,750 was made on 1 October 2001, together with £62,500 to meet the tax liability created. The total commitment of £468,750 has been charged to the profit and loss account in the current year. The Company contribution to the FURBS for the period ending 28 September 2002 was £75,000.

Stephen Oliver participated in an UURBS from 1 September 2000 to 15 August 2001. The amount charged in the profit and loss account in respect of the UURBS has been included within contributions to the pension schemes above. The UURBS was replaced by a FURBS from 15 August 2001 with past service UURBS being bought out by a contribution to the FURBS of £29,500 on 1 October 2001 together with £19,667 to meet the tax liability created. The Company contribution to the FURBS for the period ending 28 September 2002 was £32,500.

Paul Inglett participated in a FURBS from 11 March 2002 to 28 September 2002. The Company contribution to the FURBS was £15,167.

Pension arrangements

During the year the Company operated a final salary pension scheme and a GPPP.

During the year the Company contributed 13.6% of the pensionable payroll in respect of the W&DB section, 9.1% in respect of the Marston section and 11.0% in respect of the Mansfield section for the period to 1 December 2001. With effect from 1 December 2001, the Company contributed 16.5% of pensionable payroll for all members. Members contributed in accordance with the Rules. All employees in the Company final salary pension schemes have death-in-service life assurance cover to the value of between two and four times pensionable salary.

The Company introduced the GPPP for new entrants with effect from 29 September 1997 to which it contributes 7.0% of pensionable salary and members contribute a minimum of 3.5% of their pensionable salary. Membership of the GPPP includes death-in-service life assurance cover to the value of between two and four times pensionable salary.

During the year, the Group operated a final salary pension scheme for employees who joined the Scheme prior to 29 September 1997. The funds of the Scheme are administered by Trustees and are separate from the Group. A valuation of the Scheme was carried out on 1 October 2000. This resulted in a long-term Company contribution rate of 16.5% of members' total earnings. The increase from 13.6% in the 1 October 1998 valuation was mainly due to increased life expectancy and falling investment returns.

The assumptions that have the most significant effect on the funding position of the Scheme are those relating to the differences between the long-term rate of return on investments and the rates of increase in earnings. The 2000 valuation for the Scheme assumed that investment returns over the long-term would exceed salary growth by 2.5% per annum. The market value of the Scheme assets was £184.2m, which was sufficient to cover 98% of members' accrued benefits, after allowing for future increases in earnings at the long-term rate.

A provision of £3.1m (2001: £2.8m) is included in creditors representing the cumulative excess of pension costs charged to the profit and loss account over the Company contributions paid.

Non-executive Directors' fees

The fees for the Non-executive Directors are set by the Board. The current basic fees were set on 1 October 2001. The Non-executive Directors do not receive any benefits or pension contributions from the Company.

Compliance with Greenbury

The Company complies with the recommendations relating to remuneration committees made by the Greenbury study group on Directors' remuneration, now incorporated in Section A of the best practice provisions annexed to the Financial Services Authority Listing Rules. In formulating its remuneration policy, the Committee gives full consideration to Section B of the best practice provisions annexed to the Financial Services Authority Listing Rules.

P. W. Lipscomb

Peter Lipscomb OBE *Chairman, Remuneration Committee*
9 December 2002

Corporate governance

Statement of compliance with the provision of the Combined Code

W&DB is committed to achieving high standards of corporate governance and to integrity and high ethical standards in all its business activities. The Board considers that it has complied with Section 1 of the Combined Code throughout the period, and to the date of the report, with the following exceptions:

- the Nominations Committee is formed on an ad hoc basis whenever required; and
- Derek Andrew has a two-year rolling service contract. David Thompson's two-year rolling service contract has been replaced by a new contract settling at six months' notice on 25 July 2003. Both are described in the Board's report on remuneration.

Structure

The Board comprises four Non-executive Directors, one of whom is Chairman, and four Executive Directors. The Non-executive Directors all possess a wide range of skills and experience, and all exercise independent judgement with the exception of David Thompson who, because of his past experience as a long-serving Executive Director, cannot be considered independent. Peter Lipscomb, Deputy Chairman, has been appointed the senior independent Non-executive Director. His experience and business interests ensure his independence from management.

The Board meets 12 times each year in the normal course of business and additionally as required. It has a formal schedule of matters reserved to it for approval ensuring that it considers strategic, financial, organisational and compliance matters with timely information provided in advance of each meeting. All Directors receive within their Board papers details of the Group's performance against budget and individual reports from the Chief Executive, Finance Director and Divisional Managing Directors. The Board also receives formal presentations from Senior Executives on a regular basis, which provides an opportunity for formal discussions with senior managers. There is a clear division of roles and responsibilities between the Chairman and the Chief Executive.

The Executive Committee, comprising the four Executive Directors, meets weekly. The Board is briefed on the decisions reached by the Committee including those involving risk management and health and safety issues.

All Directors have access to the advice and services of the Company Secretary and also to independent legal advice. On appointment to the Board all Executive Directors receive appropriate training; all Directors receive a full induction programme covering briefings and meetings with Divisional Directors and Senior Management.

All Directors are subject to election by shareholders at the first opportunity following appointment and to re-election at intervals not exceeding three years. Non-executive Directors are appointed for terms of three years.

The Board considers that all Directors bring an individual judgement to the Board's deliberations in respect of strategy, performance, resources, key appointments and standards of conduct. All Non-executive Directors are considered by the Board to be free from any business or other relationship which could interfere with the exercise of their judgement.

The Audit Committee comprises Miles Emley (Chairman), Lord Hodgson, with effect from his appointment on 27 September 2002, Paddy Linaker, until his retirement on 27 September 2002, and Peter Lipscomb. It monitors the relationship with the Auditors, agrees their scope of work and fees and reviews the results of the full year audit and the interim results each year. It also assesses annually the cost effectiveness, objectivity and independence of the Auditors.

The Remuneration Committee comprises Peter Lipscomb (Chairman), Miles Emley, Lord Hodgson, with effect from his appointment on 27 September 2002, and Paddy Linaker until his retirement on 27 September 2002, with Ralph Findlay in attendance if required. It is responsible for agreeing contract terms, remuneration and benefits, including bonuses, for Executive Directors and where appropriate, Senior Executives. It is also responsible for the granting of share options under the Company's share option schemes.

The Nominations Committee comprises David Thompson (Chairman), Miles Emley, Ralph Findlay and Peter Lipscomb. It met twice during the year for the appointments of Lord Hodgson and Paul Inglett.

Communication

W&DB recognises the importance of maintaining a strong relationship with its shareholders as a key priority with the annual report and interim statement as the principal media used, as well as regular institutional presentations, covering reports on trading and market conditions and strategy. W&DB also maintains a website to provide up-to-date information on its operations and brands. All Company announcements are available on this site together with slides for analysts' presentations.

The annual general meeting, which is regularly attended by approximately 300 shareholders, provides an important forum for communicating directly with shareholders and the opportunity for shareholders to raise questions with the Board. At the annual general meeting the Chairman announces the results of proxy voting on each resolution after it has been dealt with on a show of hands.

Internal control

W&DB, as required by the Listing Rules of the Financial Services Authority, has complied with the Combined Code provisions on internal control. The Executive Directors examine, and report to the Board as necessary, the procedures required to implement in full the guidance on internal control produced by the Turnbull Committee. In addition, the Board has taken account of the Association of British Insurers guidelines on socially responsible investment and in this respect has been registered on the FTSE4Good index.

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

There is a weekly review by the Executive Directors, and annually by the Board, of the risks faced by the Group. These cover financial, operational and risk management issues – day-to-day control is implemented by Divisional Management Teams which report to Divisional Managing Directors.

There is a continuous process for identifying, evaluating and managing the risks facing the Group at the weekly Executive Directors' meetings and at monthly briefing meetings with the Senior Executive management group. Risk and litigation issues are also reviewed regularly by the Chief Executive and the Company Secretary.

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

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

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

The Group's system of internal controls can only manage rather than eliminate the risk of failure to achieve business objectives and can, therefore, only provide reasonable and not absolute assurance against material misstatement or loss.

Health and safety

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

Auditors

PricewaterhouseCoopers have expressed their willingness to be re-appointed as Independent Auditors of the Group.

Going concern

The Directors are confident, having reviewed the Group's budget for the 52 weeks to 27 September 2003 and relevant plans beyond that date, that the Group and the Company have adequate resources to continue in operation for the forseeable future. This review included an analysis of business operating plans, proposed capital expenditure and associated cash flow projections. It also included a comparison of results and ratios within the Group's committed borrowing facilities. It is therefore considered appropriate to adopt the going concern basis in preparing the financial statements.

By order of the Board

Leslie Porter *Secretary*
9 December 2002

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis.

The Directors consider that they have complied fully with the above requirements in preparing the financial statements on pages 36 to 59.

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

Leslie Porter *Secretary*
9 December 2002

Independent Auditors' report to the members of The Wolverhampton & Dudley Breweries, PLC

We have audited the financial statements which comprise the Group profit and loss account, the balance sheets, the Group cash flow statement, the statement of total Group recognised gains and losses and related notes. We have also examined the amounts disclosed on pages 27 to 31 relating to Directors' emoluments and Directors' share options which form part of the Board's report on remuneration.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority. This opinion has been prepared for and only for the Company's members 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 if, in our opinion, the Directors' report is not consistent with the financial statements, if 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 or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' report, Chairman's statement, Chief Executive's review, Financial review, W&DB – Part of the community, serving the community report, and the Corporate governance statement.

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

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 judgements 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 of the state of affairs of the Company and the Group at 28 September 2002 and of the profit and cash flows of the Group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Pricewaterhouse Coopers

PricewaterhouseCoopers *Chartered Accountants and Registered Auditors*
Birmingham
9 December 2002

Group profit and loss account

for the 52 weeks ended 28 September 2002	Notes	2002 Before exceptionals £m	2002 Exceptional items £m	2002 Total £m	2001 restated Before exceptionals £m	2001 restated Exceptional items £m	2001 restated Total £m
Turnover – continuing operations	2	505.6	–	505.6	565.4	–	565.4
Trading expenses	3	(396.5)	(4.4)	(400.9)	(450.4)	(22.3)	(472.7)
Operating profit before goodwill amortisation		109.1	(4.4)	104.7	115.0	(22.3)	92.7
Goodwill amortisation	3	(7.2)	(6.1)	(13.3)	(8.3)	(13.7)	(22.0)
Total operating profit – continuing operations		101.9	(10.5)	91.4	106.7	(36.0)	70.7
Fixed asset disposals	4	–	2.4	2.4	–	(17.1)	(17.1)
Profit on ordinary activities before interest		101.9	(8.1)	93.8	106.7	(53.1)	53.6
Interest	6	(35.1)	–	(35.1)	(38.9)	(1.7)	(40.6)
Profit on ordinary activities before taxation		66.8	(8.1)	58.7	67.8	(54.8)	13.0
Profit on ordinary activities before taxation		66.8			67.8		
Add back goodwill amortisation		7.2			8.3		
Profit on ordinary activities before taxation and goodwill amortisation		74.0			76.1		
Taxation	7	(22.0)	5.0	(17.0)	(23.1)	6.9	(16.2)
Profit on ordinary activities after taxation		44.8	(3.1)	41.7	44.7	(47.9)	(3.2)
Dividends paid and proposed	10			(97.4)			(24.8)
Loss for the period transferred from reserves	22			(55.7)			(28.0)
Basic earnings per share	11			50.2p			(3.4p)
Basic earnings per share before the effect of goodwill amortisation and exceptional items	11			62.6p			56.7p
Diluted earnings per share	11			49.6p			(3.4p)
Diluted earnings per share before the effect of goodwill amortisation and exceptional items	11			61.9p			56.3p

Group cash flow statement

for the 52 weeks ended 28 September 2002	Notes	2002 £m	2002 £m	2001 £m	2001 £m
Cash inflow from operating activities	23		**135.7**		133.1
Returns on investments and servicing of finance					
Interest received		**1.4**		2.1	
Interest paid		**(34.0)**		(39.7)	
Arrangement cost of new bank facilities		**(2.2)**		(0.5)	
Net cash outflow from returns on investments and servicing of finance			**(34.8)**		(38.1)
Taxation			**(16.8)**		(13.5)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(46.3)**		(32.1)	
Sale of tangible fixed assets		**42.2**		62.8	
Decrease in trade and other loans		**16.8**		32.6	
Net cash inflow for capital expenditure and financial investment			**12.7**		63.3
Equity dividends paid			**(99.7)**		(22.9)
Cash (outflow)/inflow before use of liquid resources and financing			**(2.9)**		121.9
Financing					
Issue of ordinary share capital		**5.6**		0.3	
Purchase of ordinary share capital		**(49.5)**		–	
Debt due within one year		**(140.2)**		(40.3)	
Capital element of finance lease payments		**(0.6)**		(0.6)	
Debt due beyond one year – bank loan		**158.1**		(45.0)	
Net cash outflow from financing			**(26.6)**		(85.6)
(Decrease)/increase in cash in the period			**(29.5)**		36.3
Reconciliation of net cash flow to movement in net debt					
(Decrease)/increase in cash in the period		**(29.5)**		36.3	
Cash (inflow)/outflow from (increase)/decrease in debt		**(17.3)**		85.9	
Change in debt resulting from cash flows	24		**(46.8)**		122.2
Non-cash movements	24		**(0.1)**		(0.1)
Movement in net debt in the period			**(46.9)**		122.1
Net debt at 30 September 2001	24		**(450.0)**		(572.1)
Net debt at 28 September 2002	24		**(496.9)**		(450.0)

Statement of total Group recognised gains and losses

for the 52 weeks ended 28 September 2002	Notes	2002 £m	2001 restated £m
Profit/(loss) on ordinary activities after taxation		**41.7**	(3.2)
Total recognised gains/(losses) relating to the period		**41.7**	(3.2)
Prior year adjustment	20	**(12.0)**	
Total recognised gains/(losses) since last annual report		**29.7**	

Group note of historical cost profits and losses

for the 52 weeks ended 28 September 2002	Notes	2002 £m	2001 restated £m
Profit on ordinary activities before taxation		**58.7**	13.0
Realisation of property revaluation gains of previous years	22	**5.2**	7.7
Difference between the historical cost depreciation charge and the actual depreciation charge for the period calculated on the revalued amount	22	**0.8**	1.0
Historical cost profit for the period on ordinary activities before taxation		**64.7**	21.7
Historical cost loss for the period after taxation and dividends		**(49.7)**	(19.3)

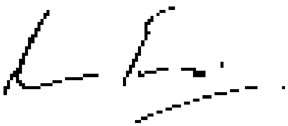
Reconciliation of movements in Group shareholders' funds

for the 52 weeks ended 28 September 2002	Notes	2002 £m	2001 restated £m
Profit/(loss) on ordinary activities after taxation		**41.7**	(3.2)
Dividends	10	**(97.4)**	(24.8)
Loss for period transferred to reserves		**(55.7)**	(28.0)
New share capital subscribed		**5.6**	0.3
Purchase of own share capital		**(49.5)**	–
Contribution to QUEST	21	**(0.1)**	–
Net reduction to shareholders' funds		**(99.7)**	(27.7)
Opening shareholders' funds (originally £561.6m before subtracting prior year adjustment of £12.0m)		**549.6**	577.3
Closing shareholders' funds		**449.9**	549.6

Balance sheets

as at 28 September 2002	Notes	Group 2002 £m	Group 2001 restated £m	Company 2002 £m	Company 2001 restated £m
Fixed assets					
Intangible assets	*12*	**117.2**	130.5	**–**	–
Tangible assets	*13*	**892.3**	920.5	**596.2**	614.3
Investments	*14*	**32.5**	49.3	**6.0**	6.0
		1,042.0	1,100.3	**602.2**	620.3
Current assets					
Stocks	*15*	**13.0**	14.0	**–**	–
Debtors	*16*	**34.5**	34.3	**568.8**	618.6
Cash at bank and in hand		**14.6**	44.1	**46.5**	77.1
		62.1	92.4	**615.3**	695.7
Creditors – amounts falling due within one year	*17*	**(171.5)**	(259.7)	**(359.8)**	(440.4)
Net current (liabilities)/assets		**(109.4)**	(167.3)	**255.5**	255.3
Total assets less current liabilities		**932.6**	933.0	**857.7**	875.6
Creditors – amounts falling due after more than one year	*18*	**(467.6)**	(368.9)	**(403.7)**	(302.9)
Deferred tax provision	*8*	**(15.1)**	(14.5)	**(2.2)**	(2.2)
		449.9	549.6	**451.8**	570.5
Capital and reserves					
Equity share capital	*21*	**21.8**	23.6	**21.8**	23.6
Non-equity share capital	*21*	**0.1**	0.1	**0.1**	0.1
Called up share capital	*21*	**21.9**	23.7	**21.9**	23.7
Share premium account	*22*	**204.5**	199.2	**204.5**	199.2
Revaluation reserve	*22*	**155.9**	161.9	**155.9**	161.7
Capital redemption reserve	*22*	**5.3**	3.2	**5.3**	3.2
Capital reserve	*22*	**–**	0.4	**–**	0.4
Profit and loss account	*22*	**62.3**	161.2	**64.2**	182.3
Shareholders' funds including non-equity interests of £0.1m (2001: £0.1m)		**449.9**	549.6	**451.8**	570.5
Capital employed		**449.9**	549.6	**451.8**	570.5

The financial statements on pages 36 to 59 were approved by the Board on 9 December 2002 and were signed on its behalf by:



Ralph Findlay *Chief Executive*
9 December 2002

Notes to the accounts

1 Accounting policies

(a) Accounting convention
The accounts have been prepared under the historical cost convention, as modified by the revaluation of certain freehold and leasehold properties, in accordance with applicable accounting standards.

The Group has adopted FRS 19, "Deferred Tax", in these accounts. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. Restatement details are presented in note 20 to these accounts.

The Group continues to follow the transitional arrangements permitted by FRS 17, "Retirement Benefits", and the additional disclosures are presented in note 5 to these accounts.

(b) Basis of consolidation
The Group accounts include the assets, liabilities and results for the period of the Company and its subsidiary undertakings.

(c) Turnover and other operating income
Turnover comprises sales, rents receivable from licensed properties and other trading income of the Group, exclusive of intra-Group transactions and VAT. Other operating income comprises mainly rents from unlicensed properties.

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

(e) Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the period-end balance sheet date, which give rise to an obligation to pay more or less tax in the future. Timing differences are differences between the Group's taxable profits and profits as stated in the accounts. Deferred tax assets and liabilities are not discounted, and assets are only recognised where probable.

(f) Tangible fixed assets
(i) Freehold and leasehold properties are stated at valuation or at cost. Plant, furnishings, equipment and other similar items are stated at cost.

(ii) Freehold buildings are depreciated on a straight line basis over 50 years.

(iii) Other tangible fixed assets are depreciated on a straight line basis at rates calculated to provide for the cost of the assets over their anticipated useful lives. Leasehold properties are depreciated over the lower of the lease period or 50 years and other tangible assets over periods ranging from three to 15 years. Own labour directly attributable to projects is capitalised.

Valuation of properties
Trading properties are revalued professionally by independent valuers on a five-year rolling basis. In previous years, trading properties were valued on a three-year rolling basis. The Directors have reviewed the accounting policies and considered it more appropriate to revalue properties every five years rather than three years. In the Directors' opinion, this change has no material impact on the financial statements. When a valuation or expected proceeds are below current carrying value the asset concerned is reviewed for impairment. Impairment losses are charged either to the revaluation reserve to the extent that a previous gain has been recorded, or to the profit and loss account.

(g) Fixed asset disposals
Profit on fixed asset disposals is net sale proceeds less carrying value of the assets.

(h) Pensions
Pension costs for the Group's Final Salary Pension Scheme are charged to the profit and loss account so as to spread the cost of pensions over the average working life of employees, in accordance with the recommendations of qualified actuaries. Variations from the regular cost are spread over the average remaining service lives of the employees.

Pension costs for the Group's GPPP are charged to the profit and loss account in the period incurred.

(i) ESOP
The assets of the trust are recognised as fixed asset investments until the shares have been vested unconditionally to specific employees. Any permanent diminution in the value of the shares is recognised immediately as a charge to the profit and loss account.

1 Accounting policies continued

(j) Goodwill
Goodwill arising on consolidation 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 goodwill and make appropriate adjustments to reflect the disposal of certain of the assets to which it relates. Where goodwill is impaired the charge is taken to the profit and loss account.

(k) 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 as creditors. The finance charge element of rentals is charged to the profit and loss account as incurred.

(l) Financial instruments
The financial costs of debt instruments are held at cost and are charged to the profit and loss account over the term of the debt at a constant rate on the carrying amount.

2 Segmental analysis

	2002			2001 restated		
	Turnover £m	**Operating profit £m**	**Net assets £m**	Turnover £m	Operating profit £m	Net assets £m
Pathfinder Pubs	**278.0**	**56.9**	**452.3**	328.7	64.2	512.6
The Union Pub Company	**97.2**	**42.6**	**300.6**	89.0	40.1	264.1
W&DB Brands	**130.4**	**22.1**	**97.3**	147.7	22.1	118.9
Central costs	**–**	**(12.5)**	**15.1**	–	(11.4)	11.4
	505.6	**109.1**	**865.3**	565.4	115.0	907.0
Goodwill and exceptionals	**–**	**(17.7)**	**117.2**	–	(44.3)	130.5
Debt, tax, dividends and ESOP	**–**	**–**	**(532.6)**	–	–	(487.9)
	505.6	**91.4**	**449.9**	565.4	70.7	549.6

	2002			2001 restated		
	Operating profit after goodwill and exceptionals £m	**Goodwill and exceptionals £m**	**Goodwill asset £m**	Operating profit after goodwill and exceptionals £m	Goodwill and exceptionals £m	Goodwill asset £m
Pathfinder Pubs	**54.0**	**2.9**	**36.3**	55.3	8.9	39.3
The Union Pub Company	**38.3**	**4.3**	**25.7**	37.7	2.4	30.0
W&DB Brands	**16.5**	**5.6**	**9.5**	11.8	10.3	13.3
Central costs	**(17.4)**	**4.9**	**45.7**	(34.1)	22.7	47.9
	91.4	**17.7**	**117.2**	70.7	44.3	130.5

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

Notes to the accounts

3 Trading expenses

	2002 £m	2001 restated £m
Change in stocks of finished goods and work in progress	**0.1**	0.3
Own work capitalised	**0.8**	0.3
Other operating income	**4.9**	3.2
Raw materials, consumables and excise duties	**(182.9)**	(216.5)
Depreciation	**(28.9)**	(30.6)
Employee costs	**(107.6)**	(124.0)
Operating lease charges	**(7.6)**	(7.7)
Other operating charges	**(80.4)**	(99.0)
Income from fixed asset investments	**0.7**	1.3
	(400.9)	(472.7)
Amounts written off goodwill:		
Goodwill amortisation	**(7.2)**	(8.3)
Goodwill impairment following fixed asset disposals	**(6.1)**	(13.7)
	(414.2)	(494.7)

Fees paid to PricewaterhouseCoopers:	2002 £m	2001 £m
Audit fees, including £0.1m (2001: £0.1m) in respect of the Company	**0.2**	0.2
Other fees	**0.8**	1.1

4 Exceptional items

	2002 £m	2001 restated £m
Charged against operating profit (within trading expenses)		
Costs of reorganisation and restructuring of brewery and management operations	**3.4**	13.2
Defence costs	**–**	9.1
Cost of share capital consolidation and purchase of own shares	**1.0**	–
Goodwill impairment following fixed asset disposals	**6.1**	13.7
	10.5	36.0
Non-operating items		
Fixed asset disposals:		
(Profit)/loss on disposals of fixed assets	**(4.7)**	6.8
Provision for loss on disposal of fixed assets	**2.3**	10.3
	(2.4)	17.1
Interest		
Bank arrangement fees	**–**	1.7
	8.1	54.8

4 Exceptional items continued

The exceptional tax credit relating to fixed asset disposals is £1.7m. Of the £10.5m exceptional items charged within trading expenses, £2.1m relates to employee costs and £2.3m relates to other operating charges.

Further details regarding exceptional items are given in the Financial review on page 20. The provision for loss on disposal of fixed assets has been presented within Fixed asset disposals. The comparatives reflect the current year's classification.

5 Staff costs and Directors' emoluments

	2002 £m	2001 restated £m
Wages and salaries	**96.7**	112.6
Social security costs	**6.4**	7.3
Pension costs	**4.5**	4.1
	107.6	124.0

The average number of employees was:	**2002**	2001
Full-time	**5,185**	5,676
Part-time	**7,384**	9,914

During the year, the Group operated a Final Salary Pension Scheme for employees who joined the Scheme prior to 29 September 1997. The funds of the Scheme are administered by trustees and are separate from the Group. A valuation of the Scheme was carried out as at 30 September 2000 by an independent actuary. The Group contribution rate is 16.5% of members' total earnings.

The assumptions that have the most significant effect on the funding position of the Scheme are those relating to the differences between the long-term rate of return on investments and the rates of increase in earnings. The 2000 valuation for the Scheme assumed that investment returns over the long term would exceed salary growth by 2.5% per annum and price inflation of 2.5% per annum. The market value of the Scheme assets was £184.2m, which was sufficient to cover 98% of members' accrued benefits, after allowing for future increases in earnings at the long-term rate.

The Group contribution rate recommended by the actuaries rose from 13.6% to 16.5% from 1 October 2001. The Scheme was closed to new entrants on 29 September 1997. A Group Personal Pension Plan (defined contribution scheme) has been made available to eligible employees since that date.

A provision of £3.1m (2001: £2.8m) is included in creditors representing the cumulative excess of pension costs charged to the profit and loss account over the Group contributions paid.

Notes to the accounts

5 Staff costs and Directors' emoluments continued

FRS 17, "Retirement Benefits"

The Group operates a defined benefit scheme. An actuarial valuation for the purposes of FRS 17 was carried out at 30 September 2001 and, at 28 September 2002 by a qualified independent actuary. The major assumptions used by the actuary were:

	28 September 2002 % per annum	30 September 2001 % per annum
Discount rate	**5.5**	6.0
Rate of increase in salaries	**3.5**	3.5
Rate of increase in deferred pensions	**2.5**	2.5
Rate of increase in pensions in payment, where related to inflation	**2.5**	2.5
Inflation assumption	**2.5**	2.5

The assets in the Scheme and the expected rates of return were:

	Long-term rate of return expected at 28 September 2002 %	**Value at 28 September 2002 £m**	Long-term rate of return expected at 30 September 2001 %	Value at 30 September 2001 £m
Equities	**7.0**	**90.8**	7.5	111.8
Bonds	**5.5**	**22.1**	6.0	27.0
Other	**4.5**	**5.1**	6.0	4.8
Total market value of assets		**118.0**		143.6
Present value of Scheme liabilities		**(209.6)**		(174.8)
Shortfall in Scheme assets		**(91.6)**		(31.2)
Related deferred tax asset at 30%		**27.5**		9.4
Pension shortfall		**(64.1)**		(21.8)

The Company paid total contributions of £3.6m (2001: £3.4m) to the Scheme during the year. As the Scheme is closed to new entrants, it is expected that the costs of benefits will steadily rise in the future, as the average age of members increases.

If the above pension shortfall was recognised in the financial statements, the Group's net assets and profit and loss reserve would be as follows:

	28 September 2002 £m	30 September 2001 restated £m
Net assets before pension shortfall	**449.9**	549.6
Reversal of SSAP 24 provision (net of deferred tax)	**2.1**	2.0
Pension shortfall	**(64.1)**	(21.8)
Net assets after pension shortfall	**387.9**	529.8
Profit and loss reserve before pension shortfall	**62.3**	161.2
Reversal of SSAP 24 provision (net of deferred tax)	**2.1**	2.0
Pension shortfall	**(64.1)**	(21.8)
Profit and loss reserve after pension shortfall	**0.3**	141.4

5 Staff costs and Directors' emoluments continued

The following amounts would have been recognised in the performance statements in the period to 28 September 2002 under the requirements of FRS 17:

	2002 £m
Operating profit:	
Current service cost	2.3
Past service cost	–
Total operating charge	2.3
Other finance income:	
Expected return on pension scheme assets	10.2
Interest on pension scheme liabilities	(10.4)
Net return	(0.2)
Statement of total recognised gains and losses (STRGL)	
Actual return less expected return on pension scheme assets	(35.3)
Experience gains and losses arising on the Scheme liabilities	(7.9)
Changes in assumptions underlying the present value of Scheme liabilities	(18.3)
Actuarial loss recognised in the STRGL	(61.5)
Movement in shortfall during the period	
Shortfall in Scheme at the beginning of the period	(31.2)
Movement in the period:	
Current service cost	(2.3)
Contributions	3.6
Past service costs	–
Other finance costs	(0.2)
Actuarial loss	(61.5)
Shortfall in Scheme at the end of the period	(91.6)

Details of experience gains and losses for the period to 28 September 2002	2002
Difference between the expected and the actual return on Scheme assets:	
Amount	(£35.3m)
Percentage of Scheme assets	(29.9%)
Experience gains and losses on Scheme liabilities:	
Amount	(£7.9m)
Percentage of the present value of Scheme liabilities	(3.8%)
Total amount recognised in the STRGL:	
Amount	(£61.5m)
Percentage of Scheme liabilities	(29.3%)

Directors' emoluments are set out in the Board's report on remuneration on pages 27 to 31.

Notes to the accounts

6 Interest and similar items

	2002 £m	2001 £m
Bank interest payable	**20.7**	25.5
Debenture interest payable	**16.1**	16.2
Unwinding of premium	**(2.4)**	(2.9)
Other interest payable	**0.2**	0.1
Bank arrangement costs	**1.0**	1.7
Interest receivable	**(0.5)**	–
	35.1	40.6

7 Taxation

	2002		2001 restated	
	£m	£m	£m	£m
The charge to the profit and loss account comprises:				
Current tax:				
Corporation tax on profits of the year	**21.1**		17.9	
Adjustment in respect of prior years	**(4.7)**		(2.5)	
		16.4		15.4
Deferred taxation		**0.6**		0.8
		17.0		16.2

The tax for the period is lower (2001: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 £m	2001 £m
Profit on ordinary activities before taxation	**58.7**	13.0
Profit on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30% (2001: 30%)	**17.6**	3.9
Effects of:		
Adjustments to tax in respect of prior year	**(4.7)**	(2.5)
Costs not deductible for tax purposes	**4.0**	13.8
Pension cost charge in excess of pension cost relief	**0.1**	0.1
Capital allowances in excess of depreciation	**0.3**	1.0
Other timing differences	**(0.9)**	(0.9)
	16.4	15.4

8 Deferred taxation provision

	Group 2002 £m	Group 2001 restated £m	Company 2002 £m	Company 2001 restated £m
The amount provided in respect of deferred taxation is as follows:				
Excess of capital allowances over accumulated depreciation	**21.1**	21.4	**2.3**	2.3
Other timing differences	**(5.1)**	(6.1)	**(0.1)**	(0.1)
Accrued pension costs	**(0.9)**	(0.8)	**–**	–
	15.1	14.5	**2.2**	2.2

	Group £m	Company £m
At 30 September 2001 as previously reported	(2.1)	(0.1)
Prior year adjustment	16.6	2.3
At 30 September 2001 as restated	14.5	2.2
Transfer from profit and loss account	0.6	–
At 28 September 2002	15.1	2.2

No account has been taken of the liability to tax if freehold and leasehold properties were to be disposed of at their balance sheet amounts, unless by the balance sheet date, there is a binding commitment to sell the asset and it is unlikely that any gain will be rolled over. 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.

9 Profit after taxation

As permitted by the Companies Act 1985 a separate profit and loss account for the Company has not been prepared. The profit after taxation dealt within the accounts of the Company was £22.7m (2001: £31.8m).

10 Dividends

	2002 £m	2001 £m
Ordinary shares		
Interim paid 9.90p per share net (2001: 9.00p)	**8.0**	8.4
Final proposed 19.25p per share net (2001: 17.50p)	**14.1**	16.4
Total dividends (excluding special dividend) 29.15p per share net (2001: 26.50p)	**22.1**	24.8
Special dividend paid 80.00p per share net (2001: nil)	**75.3**	–
Total dividend on ordinary shares 109.15p per share net (2001: 26.50p)	**97.4**	24.8
Preference shares		
Interim dividend paid 3.00p per share net (2001: 3.00p)	**–**	–
Final proposed 4.00p per share net (2001: 4.00p)	**–**	–
Dividend on preference shares 7.00p per share net (2001: 7.00p net) total £5,250 (2001: £5,250)	**–**	–
Total dividends	**97.4**	24.8

Notes to the accounts

11 Earnings per ordinary share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period, excluding those held in the Employee Share Ownership Plan (ESOP, see note 14) which are treated as cancelled.

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.

Supplementary earnings per share figures are presented. These exclude the effects of exceptional items and goodwill amortisation. The Directors consider that the supplementary figures provide a useful additional indication of performance.

	2002			2001 restated		
	Earnings £m	**Weighted average number of shares m**	**Per share amount p**	Earnings £m	Weighted average number of shares m	Per share amount p
Basic earnings per share	**41.7**	**83.1**	**50.2**	(3.2)	93.5	(3.4)
Effect of dilutive options	**–**	**0.9**	**–**	–	0.6	–
Diluted earnings per share	**41.7**	**84.0**	**49.6**	(3.2)	94.1	(3.4)
Supplementary earnings per share figures						
Basic earnings per share	**41.7**	**83.1**	**50.2**	(3.2)	93.5	(3.4)
Effect of:						
Exceptional items	**3.1**		**3.7**	47.9		51.2
Goodwill amortisation	**7.2**		**8.7**	8.3		8.9
Basic earnings per share before goodwill amortisation and exceptional items	**52.0**	**83.1**	**62.6**	53.0	93.5	56.7
Diluted earnings per share	**41.7**	**84.0**	**49.6**	(3.2)	94.1	(3.4)
Effect of:						
Exceptional items	**3.1**		**3.7**	47.9		50.9
Goodwill amortisation	**7.2**		**8.6**	8.3		8.8
Diluted earnings per share before goodwill amortisation and exceptional items	**52.0**	**84.0**	**61.9**	53.0	94.1	56.3

12 Intangible assets

Group	Goodwill £m
Cost	
At 30 September 2001 as previously reported	172.1
Prior year adjustment	5.5
At 30 September 2001 as restated	177.6
At 28 September 2002	**177.6**
Amortisation	
At 30 September 2001 as previously reported	46.2
Prior year adjustment	0.9
At 30 September 2001 as restated	47.1
Goodwill impairment following fixed asset disposals	6.1
Amortisation for the period	7.2
At 28 September 2002	**60.4**
Net book value	
At 28 September 2002	**117.2**
At 29 September 2001 as restated	130.5

Following the disposal of certain fixed assets, an impairment review of the remaining goodwill was undertaken resulting in an impairment charge of £6.1m (2001 restated: £13.7m) to reduce it to its estimated realisable value.

13 Tangible fixed assets

		Leasehold properties				
Group	Freehold properties £m	Over 50 years unexpired £m	Under 50 years unexpired £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation						
At 30 September 2001	739.9	34.1	30.2	52.0	234.3	1,090.5
Additions	8.3	0.5	0.2	2.5	28.1	39.6
Transfers	(1.0)	(0.2)	1.2	–	–	–
Disposals	(32.4)	(0.5)	(0.5)	(29.2)	(91.5)	(154.1)
At 28 September 2002	**714.8**	**33.9**	**31.1**	**25.3**	**170.9**	**976.0**
Depreciation						
At 30 September 2001	18.1	0.4	3.5	29.5	118.5	170.0
Charge for the period	4.2	0.4	1.7	3.2	19.4	28.9
Provision for loss on disposal	1.4	–	–	0.9	–	2.3
Disposals	(6.1)	(0.3)	(0.1)	(25.7)	(85.3)	(117.5)
At 28 September 2002	**17.6**	**0.5**	**5.1**	**7.9**	**52.6**	**83.7**
Net book value						
At 28 September 2002	**697.2**	**33.4**	**26.0**	**17.4**	**118.3**	**892.3**
At 29 September 2001	721.8	33.7	26.7	22.5	115.8	920.5

Notes to the accounts

13 Tangible fixed assets continued

Company	Freehold properties £m	Leasehold properties: Over 50 years unexpired £m	Leasehold properties: Under 50 years unexpired £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation						
At 30 September 2001	578.4	23.5	27.7	–	–	629.6
Additions	8.3	0.5	0.2	–	–	9.0
Transfers	(0.9)	0.4	0.5	–	–	–
Disposals	(26.2)	–	–	–	–	(26.2)
At 28 September 2002	**559.6**	**24.4**	**28.4**	**–**	**–**	**612.4**
Depreciation						
At 30 September 2001	11.7	0.2	3.4	–	–	15.3
Charge for the period	3.1	0.3	1.6	–	–	5.0
Transfers	–	–	–	–	–	–
Disposals	(4.1)	–	–	–	–	(4.1)
At 28 September 2002	**10.7**	**0.5**	**5.0**	**–**	**–**	**16.2**
Net book value						
At 28 September 2002	**548.9**	**23.9**	**23.4**	**–**	**–**	**596.2**
At 29 September 2001	566.7	23.3	24.3	–	–	614.3

Group and Company	Group **2002** **£m**	Group 2001 £m	Company **2002** **£m**	Company 2001 £m
Cost or valuation of properties comprises:				
Valuation	**313.8**	333.6	**313.8**	333.5
At cost	**466.0**	470.6	**298.6**	296.1
	779.8	804.2	**612.4**	629.6

At 2 October 1999, Chesterton International plc, Chartered Surveyors, revalued the Group's breweries and maltings on the basis of depreciated replacement cost. The remainder of the Group's estate was also revalued on 2 October 1999 by Christie & Co, Chartered Surveyors, on the basis of open market value for existing use.

At 22 December 1999, Chesterton International plc, Chartered Surveyors, revalued the Mansfield brewery and maltings on the basis of depreciated replacement cost. The remainder of the Mansfield estate was also revalued on 22 December 1999 by Christie & Co, Chartered Surveyors, on the basis of open market value for existing use.

The Directors have reviewed and performed an interim valuation of the full estate and as a result have made provision for loss on disposal of £2.3m.

Cost at 28 September 2002 includes £4.4m (2001: £nil) of assets in the course of construction.

Capital expenditure authorised and committed but not provided in the accounts was £2.0m (2001: £1.5m). If the freehold and leasehold properties had not been revalued, the historical net book value would be £600.7m (2001: £627.0m).

14 Fixed asset investments

Group	Own shares £m	Trade loans £m	Investments £m	Other loans £m	Total £m
At 30 September 2001	4.7	44.3	0.3	–	49.3
Additions	–	4.0	0.2	0.4	4.6
Disposals, repayments and provisions	–	(20.8)	(0.4)	(0.2)	(21.4)
At 28 September 2002	**4.7**	**27.5**	**0.1**	**0.2**	**32.5**

Company	Own shares £m	Subsidiary undertakings £m	Investments £m	Other loans £m	Total £m
At 30 September 2001	4.7	1.0	0.3	–	6.0
Additions	–	–	0.2	0.4	0.6
Disposals, repayments and provisions	–	–	(0.4)	(0.2)	(0.6)
At 28 September 2002	**4.7**	**1.0**	**0.1**	**0.2**	**6.0**

The market value of listed investments held at 28 September 2002 was £4.5m (2001: £4.4m) including own shares held.

The principal subsidiary companies are:

	Country of registration	Nature of business	Number of shares held	% held	Class of share
Wolverhampton & Dudley Breweries (Trading) Limited	England	Pub retailer	1,000	100	Ordinary £5 shares
W. & D. PLC	England	Holding company	50,000	100	Ordinary £1 shares
W&DB (Finance) PLC	England	Holding company	50,000	100	Ordinary £1 shares
Pitcher & Piano Limited	England	Holding company	343,750	100	Ordinary £1 shares
Banks's Brewery Insurance Limited	Guernsey	Insurance	1,000,000	100	Ordinary £1 shares
Mansfield Brewery Limited	England	Property company	5,250	100	Ordinary £1 shares
Mansfield Brewery Trading Limited	England	Property company	5,250,000	100	Ordinary £1 shares

Details of the principal operating subsidiaries by type of business are set out above. A complete list of subsidiary undertakings is available at the Company's registered office. All subsidiaries have been included in the consolidated financial statements.

In the period ended 3 October 1998 the Group established an Employee Share Ownership Plan (ESOP). Included within fixed asset investments is £4.7m (2001: £4.7m) relating to the purchase of 0.8m (2001: 0.9m) ordinary shares of 29.5p (2001: 25p) each of which are held in the ESOP, pursuant to the Company's Executive Share Option Schemes. The trustee of the ESOP is the Company's wholly owned subsidiary, Banks's Brewery Insurance Limited. The market value of the shares shown above as at 28 September 2002 is £4.5m (2001: £4.4m).

As at 28 September 2002, share options totalling 0.5m are outstanding to the members of the Executive Share Option Schemes over the shares in the trust. The options are exercisable at prices between 518p and 565p per share between 2002 and 2011. The Directors' interests in the shares in the trust are disclosed in the Directors' report. Dividends on the shares have been waived by the trust.

Notes to the accounts

15 Stocks

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Raw materials and consumables	**5.2**	5.9	**–**	–
Work in progress	**0.4**	0.6	**–**	–
Finished goods	**7.4**	7.5	**–**	–
	13.0	14.0	**–**	–

16 Debtors

Amounts falling due within one year	Group 2002 £m	Group 2001 restated £m	Company 2002 £m	Company 2001 restated £m
Trade debtors	**23.4**	23.2	**–**	–
Amounts due from Group undertakings	**–**	–	**566.9**	617.5
Other debtors	**0.9**	1.1	**–**	–
Prepayments and accrued income	**10.2**	10.0	**1.9**	1.1
	34.5	34.3	**568.8**	618.6

17 Creditors

Amounts falling due within one year	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Bank loans	**57.5**	140.0	**57.5**	140.0
Loan stock	**0.1**	0.1	**0.1**	0.1
Other loans	**0.1**	0.2	**–**	–
Trade creditors	**32.6**	23.2	**–**	–
Finance leases	**0.3**	0.6	**–**	–
Amount due to Group undertakings	**–**	–	**277.8**	273.9
Corporation tax	**11.2**	11.6	**3.0**	5.6
Other taxation and social security	**14.9**	13.4	**–**	–
Other creditors	**13.1**	22.4	**–**	–
Dividends	**14.1**	16.4	**14.1**	16.4
Accruals and deferred income	**27.6**	31.8	**7.3**	4.4
	171.5	259.7	**359.8**	440.4

18 Creditors

Amounts falling due after more than one year	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Bank loans	**235.6**	135.0	**235.6**	135.0
Other loans	**–**	0.2	**–**	–
Other creditors	**14.1**	15.7	**–**	–
Finance leases	**–**	0.3	**–**	–
Debenture loans	**217.9**	217.7	**168.1**	167.9
	467.6	368.9	**403.7**	302.9

Other creditors' maturity profile is as follows: due between one and two years £2.0m (2001: £2.5m), two and five years £5.1m (2001: £6.0m) and greater than five years £7.0m (2001: £7.2m).

19 Financial instruments

Financial instruments
The Group's financial instruments, other than derivatives, comprise debentures, preference shares, bank borrowings (loans and overdrafts), other loans, finance leases and cash. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors that arise directly from its operations, which have not been included in the following disclosures.

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

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

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The Board regularly reviews and agrees policies for managing each of these risks and they are summarised below.

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

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

Liquidity risk
The Group's policy is to ensure continuity of funding and in particular to ensure that debt requirements for the medium term are available through committed facilities. In addition, having regard to the longevity of the Group's assets, secured debentures are regarded as being suitable debt instruments.

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

Currency risk
The Group has no material exposure to currency rate risk.

Notes to the accounts

19 Financial instruments continued

Interest rate risk profile of financial liabilities

The interest rate risk profile of the Group's financial liabilities after taking account of interest rate swaps was:

	2002 Floating rate financial liabilities £m	2002 Fixed rate financial liabilities £m	2002 Total £m	2001 Floating rate financial liabilities £m	2001 Fixed rate financial liabilities £m	2001 Total £m
Debentures and loan stock	–	218.0	218.0	–	217.7	217.7
Revolving credit facility and bridging loan	90.1	–	90.1	50.0	108.0	158.0
Term loans	18.0	185.0	203.0	–	117.0	117.0
Other loans	–	0.1	0.1	–	0.5	0.5
Finance leases	–	0.3	0.3	–	0.9	0.9
Preference shares	–	0.1	0.1	–	0.1	0.1
	108.1	403.5	511.6	50.0	444.2	494.2

The effect of the Group's interest rate swaps and other hedging instruments is to treat £185m (2001: £225.0m) of borrowings in the table above as fixed. Floating rate borrowings bear interest on LIBOR. The Group's debentures are secured by a floating charge in favour of the Law Debenture Trust Corporation Plc, over the whole of the undertaking, property and assets of the Company, both present and future.

	2002 Fixed rate financial liabilities Weighted average interest rate %	2002 Fixed rate financial liabilities Weighted average period for which rate is fixed Years	2001 Fixed rate financial liabilities Weighted average interest rate %	2001 Fixed rate financial liabilities Weighted average period for which rate is fixed Years
Sterling	7.15	10	6.69	10

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities was as follows:

	2002 Group £m	2002 Company £m	2001 Group £m	2001 Company £m
Due within one year	58.0	57.5	140.9	140.1
Due between one and two years	58.6	58.6	43.0	–
Due between two and five years	177.0	177.0	92.5	–
After five years	218.0	168.2	217.8	167.9
	511.6	461.3	494.2	308.0

An amount of £90.0m (2001: £58.0m) has been drawn under a revolving credit facility expiring in 2004. It has been categorised as repayable between two and five years.

19 Financial instruments continued

Financial assets

The Group held the following financial assets:

Sterling	2002 £m	2001 £m
Cash	**14.6**	44.1
Trade loans	**27.5**	44.3
	42.1	88.4

In common with other major brewers the Group makes trade loans to publicans who purchase our beers. The interest rate terms of loan and supply terms for beer purchases are all inter-related and vary between customers. The benefit of trade loans should therefore not be viewed solely in terms of interest rates. The interest rate profile of trade loans was as follows:

	2002 £m	2001 £m
Fixed	**7.6**	12.9
Floating	**19.9**	31.4
	27.5	44.3

The fixed rate trade loans had a weighted average interest rate of 0.96% (2001:1.32%) and a weighted average period of 11 years (2001:13 years). The reference rate for floating rate trade loans is mainly UK base rates.

Borrowing facilities

The Group has the following undrawn committed borrowing facilities available:

	2002 £m	2001 £m
Expiring after two years	**84.0**	102.0

Fair values of financial assets and liabilities

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities:

	2002		2001	
Primary financial instruments held or issued to finance the Group's operations	Book value £m	Fair value £m	Book value £m	Fair value £m
Debentures and loan stock	**218.0**	**294.9**	217.7	273.1
Revolving credit facility and bridging loan	**90.1**	**92.3**	158.0	163.4
Term loans	**203.0**	**208.7**	117.0	119.4
Other loans	**0.1**	**0.1**	0.5	0.7
Finance leases	**0.3**	**0.3**	0.9	1.2
Preference shares	**0.1**	**0.5**	0.1	0.4
Cash	**(14.6)**	**(14.6)**	(44.1)	(44.1)
	497.0	**582.2**	450.1	514.1
Derivative financial instruments held to manage interest costs				
Interest rate swaps	**–**	**(11.7)**	–	(4.0)
Forward start swaps	**–**	**–**	–	(11.1)

Notes to the accounts

19 Financial instruments continued

The fair values of the interest rate swaps and forward start swaps which have no book value have been determined by reference to prices available from the markets on which the instruments involved are traded. Trade loans are excluded from the fair value table as they are linked to customer supply terms. All other fair values have been calculated by discounting cash flows at prevailing interest rates.

Hedges
As explained above, the Group's policy is to hedge interest rate risk using interest rate swaps. Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised.

Unrecognised gains and losses on instruments used for hedging are as follows:

	Unrecognised losses £m
Losses on hedges at 30 September 2001	(15.1)
Arising in the period	3.4
Losses on hedges at 28 September 2002	(11.7)
of which:	
Expected to be recognised within one year	(5.6)
Expected to be recognised in greater than one year	(6.1)

Other instruments
Additional disclosure on financial instruments is made in the Financial review on page 20.

Throughout the year the Group adhered to the financial instruments policy given by the Board.

20 Prior year adjustment – FRS 19, "Deferred Tax"

Group
The effect of the change in the Group's accounting policy to adopt FRS 19 was as follows:

	£m
Increase in deferred tax provision at 30 September 2001	**(16.6)**
Increase in goodwill (intangible assets) at 30 September 2001	**4.6**
Reduction in profit and loss reserve at 30 September 2001	**12.0**

The Group has assessed the deferred tax position of acquisitions undertaken in previous years. The previous fair values attributed to deferred tax on acquisitions have been restated for the effect of implementing the Group's new accounting policy for deferred tax in accordance with FRS 19. The effect of increasing the deferred tax provision at 30 September 2001 for FRS 19 is consequently attributed between goodwill (net of subsequent amortisation) to the extent it related to prior year acquisitions, and the profit and loss reserve.

The effect of the change in policy on the profit and loss account for the year ended 28 September 2002 was to decrease tax by £0.3m (2001: £0.7m), increase goodwill amortisation by £0.4m (2001: £0.4m), and decrease profits for the financial year by £0.1m (2001: £0.3m increase).

Company
The effect on the Company of adopting FRS 19 was to increase the deferred tax provision at 30 September 2001 by £2.3m, with a corresponding reduction to its profit and loss reserve. There was no effect on the Company's profit and loss account for the year ended 28 September 2002 (2001: £nil).

21 Share capital (Group and Company)

	Authorised				Issued and fully paid			
	2002		2001		**2002**		2001	
	Number m	**Value £m**	Number m	Value £m	**Number m**	**Value £m**	Number m	Value £m
Preference shares of £1 each (non-equity)	**0.1**	**0.1**	0.1	0.1	**0.1**	**0.1**	0.1	0.1
Ordinary shares of 29.5p (2001: 25p) each (equity)	**120.0**	**30.0**	120.0	30.0	**73.8**	**21.8**	94.5	23.6
Closing balance		**30.1**		30.1		**21.9**		23.7

Ordinary share capital movements during the period were:

	Number m	Value £m
At 30 September 2001	94.5	23.6
Allotted under share option schemes	1.1	0.3
Allotted to QUEST	–	–
Share consolidation	(14.5)	–
Purchase of own shares	(7.3)	(2.1)
At 28 September 2002	**73.8**	**21.8**

A total of 1.1m ordinary shares were issued during the 52-week period ended 28 September 2002 pursuant to the exercise of Executive and SAYE share options at exercise prices ranging from 277p to 616p. The aggregate consideration in respect of these exercises was £5.6m.

Ordinary shares of 34,756 were subscribed for by the Company's Qualifying Share Ownership Trust (QUEST), at market value of £0.2m. These shares were allocated to employees in satisfaction of options exercised under the Group's SAYE Share Option Scheme. The Company provided £0.1m to the QUEST for this purpose. The cost of this contribution has been transferred by the Company directly to the profit and loss account reserve.

During January 2002, the Company consolidated its ordinary shares, whereby 95.1m ordinary shares of 25p each were consolidated into 80.6m shares of 29.5p. A special dividend (note 10) was paid at that time.

In July 2002 the Company purchased 7.3m of its ordinary shares each having a nominal value of 29.5p (representing 9% of the Company's issued share capital at that time) for consideration of £49.5m, at cost of 675p per share. The purchase consideration was taken from the profit and loss account reserve. The Company's share capital has been reduced by the nominal value of the shares purchased and the capital redemption reserve correspondingly increased.

The 0.1m preference shares of £1 each carry the right to a fixed preferential dividend. They participate in the event of a winding-up and carry the right to attend and to vote at general meetings of the Company.

As at 28 September 2002 there were 2.1m (2001: 3.5m) executive share options outstanding at prices from 325.5p to 683.5p per share exercisable between 2002 and 2012 and 1.1m (2001: 1.2m) SAYE options outstanding at prices from 277p to 554p per share exercisable between 2002 and 2010. See page 28 for details of Directors' share options.

Notes to the accounts

22 Reserves

	Group: Share premium account £m	Group: Revaluation reserve £m	Group: Capital redemption reserve £m	Group: Capital reserve £m	Group: Profit and loss account £m	Company: Share premium account £m	Company: Revaluation reserve £m	Company: Capital redemption reserve £m	Company: Capital reserve £m	Company: Profit and loss account £m
At 30 September 2001 as previously reported	199.2	161.9	3.2	0.4	173.2	199.2	161.7	3.2	0.4	184.6
Prior year adjustment	–	–	–	–	(12.0)	–	–	–	–	(2.3)
At 30 September 2001 as restated	199.2	161.9	3.2	0.4	161.2	199.2	161.7	3.2	0.4	182.3
Premium arising on issue of shares	5.3	–	–	–	–	5.3	–	–	–	–
Purchase of own shares	–	–	2.1	–	(49.5)	–	–	2.1	–	(49.5)
Disposal of properties	–	(5.2)	–	–	5.2	–	(5.2)	–	–	5.2
Capital reserve transfer	–	–	–	(0.4)	0.4	–	–	–	(0.4)	0.4
Transfer of additional depreciation charge on revalued properties	–	(0.8)	–	–	0.8	–	(0.6)	–	–	0.6
Contribution to QUEST	–	–	–	–	(0.1)	–	–	–	–	(0.1)
Loss for the period	–	–	–	–	(55.7)	–	–	–	–	(74.7)
At 28 September 2002	**204.5**	**155.9**	**5.3**	**–**	**62.3**	**204.5**	**155.9**	**5.3**	**–**	**64.2**

23 Reconciliation of operating profit to net cash inflow from operating activities

	2002 £m	2001 restated £m
Total operating profit	**91.4**	70.7
Goodwill amortisation	**7.2**	8.3
Income from fixed asset investments	**(0.7)**	(1.3)
Depreciation charge	**28.9**	30.6
Loss on sale of fixed assets	**–**	0.3
Pension cost provision	**0.3**	0.2
Decrease in stocks	**1.0**	5.5
(Increase)/decrease in debtors	**–**	4.7
Increase/(decrease) in creditors	**1.1**	(4.1)
Exceptional cost with no cash impact	**6.5**	18.2
Net cash inflow from operating activities	**135.7**	133.1

24 Analysis of net debt

	2002 £m	Cash flow £m	Non-cash flow £m	2001 £m
Cash at bank	**14.6**	(29.5)	–	44.1
Debt due within one year				
Loan stock	**(0.1)**	–	–	(0.1)
Bank loans	**(57.5)**	140.0	(57.5)	(140.0)
Other loans	**(0.1)**	0.2	(0.1)	(0.2)
Finance leases	**(0.3)**	0.6	(0.3)	(0.6)
	(58.0)	140.8	(57.9)	(140.9)
Debt due after one year				
Bank loans	**(235.6)**	(158.1)	57.5	(135.0)
Other loans	**–**	–	0.2	(0.2)
Finance leases	**–**	–	0.3	(0.3)
Debentures	**(217.9)**	–	(0.2)	(217.7)
	(453.5)	(158.1)	57.8	(353.2)
	(496.9)	(46.8)	(0.1)	(450.0)

25 Operating lease commitments

At 28 September 2002 the Group was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings		Other	
	2002 £m	2001 £m	2002 £m	2001 £m
Leases which expire:				
Within one year	**–**	–	**0.3**	0.2
Within two to five years	**0.1**	0.1	**1.1**	1.1
After five years	**5.4**	5.9	**–**	–
	5.5	6.0	**1.4**	1.3

Five-year record

	2002 £m	2001 restated £m	2000 restated £m	1999 restated £m	1998 restated £m
Turnover					
Continuing operations	**505.6**	565.4	468.8	281.7	285.7
Acquisitions	**–**	–	130.0	133.8	–
Total	**505.6**	565.4	598.8	415.5	285.7
Profit before goodwill amortisation and exceptional items	**74.0**	76.1	65.0	46.7	42.8
Exceptional items	**(10.5)**	(37.7)	(34.6)	(41.8)	(0.9)
Fixed asset disposals	**2.4**	(17.1)	4.6	0.7	0.1
Goodwill amortisation	**(7.2)**	(8.3)	(7.3)	(1.3)	–
Profit before taxation	**58.7**	13.0	27.7	4.3	42.0
Taxation	**(17.0)**	(16.2)	(14.4)	(11.5)	(12.4)
Profit/(loss) after taxation	**41.7**	(3.2)	13.3	(7.2)	29.6
Capital employed	**449.9**	549.6	575.6	458.4	376.4
Earnings/(loss) per ordinary share	**50.2p**	(3.4p)	15.0p	(11.0p)	47.0p
Goodwill amortisation	**8.7p**	8.9p	8.3p	2.0p	–
Fixed asset disposals	**(2.9p)**	18.3p	(5.2p)	(1.1p)	(0.2p)
Exceptional items	**6.6p**	32.9p	33.5p	59.3p	1.1p
Earnings per ordinary share before goodwill amortisation and exceptional items	**62.6p**	56.7p	51.6p	49.2p	47.9p
Dividend per ordinary share	**29.2p**	26.5p	24.0p	22.6p	20.6p
Retail price index	**108.0**	106.2	104.4	101.1	100.0
Earnings per share growth	**106.7**	(7.2)	31.9	(23.4)	100.0
Earnings per share before goodwill amortisation and exceptional items	**130.7**	118.4	107.7	102.7	100.0
Dividend growth	**141.7**	128.6	116.5	109.7	100.0

Equivalent market prices on 31 March 1982

Preference shares	34.5p per £1 share
Ordinary shares	94.5p per 25p share

The five-year record has been restated for FRS 19, "Deferred Tax", which has been adopted in 2002.

The 1999 and 1998 profit and loss information has been restated to include a notional depreciation charge to facilitate comparison, after FRS 15 was introduced in 2000.

Dividend per ordinary share and dividend growth presented above excludes the special dividend of 80.0p per ordinary share in 2002.

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Shareholder information

Financial calendar

Current financial period ended	28 September 2002
Next financial period ends	27 September 2003

Announcements

Half-year results	23 May 2003
Full-year results	3 December 2003

Dividend payment dates

Preference shares

Final dividend	31 December 2002
Interim dividend	27 June 2003

Ordinary shares

Final dividend	31 January 2003
Interim dividend	27 June 2003

Debenture interest payment dates

£20m 11½% Mansfield debenture stock 2010	31 March 2003 30 September 2003
£15m 10¼% debenture stock 2012	31 March 2003 30 September 2003
£125m 6½% debenture stock 2019	31 December 2002 30 June 2003
£30m 7¼% debenture stock 2027	31 December 2002 30 June 2003
£30m 6.875% Mansfield debenture stock 2028	28 February 2003 31 August 2003

Annual general meeting

24 January 2003

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Stockbrokers
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HSBC Securities, Vintners Place, 68 Upper Thames Street, London EC4V 3BJ

Total number of shares held by all shareholders

Holding range	Number of holders	Number of shares held	% of active shares held
1–100	2,457	106,617	0.14
101–500	2,263	597,204	0.81
501–1,000	1,142	852,174	1.15
1,001–2,000	864	1,230,511	1.67
2,001–5,000	658	2,018,755	2.74
5,001–50,000	500	7,308,859	9.90
50,001–100,000	65	4,731,407	6.41
100,001+	97	56,963,535	77.18
Total	8,046	73,809,062	100.0

Community spirit, great food, award winning ales, traditional pubs,
Banks's ales, great locals, family entertainment, Marston's Pedigree, quality
ingredients, good value, top brands, Mansfield beers, dedication, simple,
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simple, straightforward a mmunity spirit, great food,
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