The Wolverhampton & Dudley Breweries, PLC

Interim Report
2004

W&DB


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FINANCIAL HIGHLIGHTS

- Record underlying interim earnings per share of 30.5p, up 7.4%.

- Interim dividend raised by 10.1% to 12.0p.

- Underlying profit before taxation up 5.3% to £31.7 million (profit after goodwill and exceptionals up 10.3% to £28.9 million).

- Operating margin up 0.7% to 20.7%.

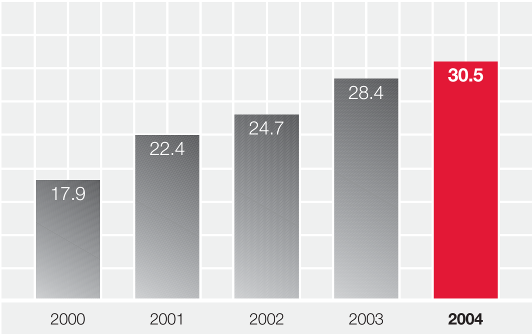
- The Union Pub Company like-for-like sales up 5.2%, with an 8.1% increase in the average annual EBITDA per pub.

- Pathfinder Pubs total like-for-like sales up 2.8%, with a 5.1% increase in the average annual EBITDA per pub.

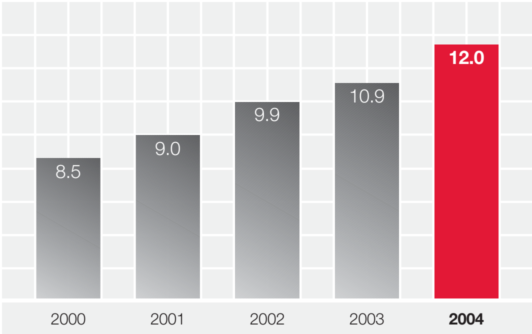
Unless otherwise stated all figures are quoted before goodwill and exceptional items

FIVE YEAR TREND

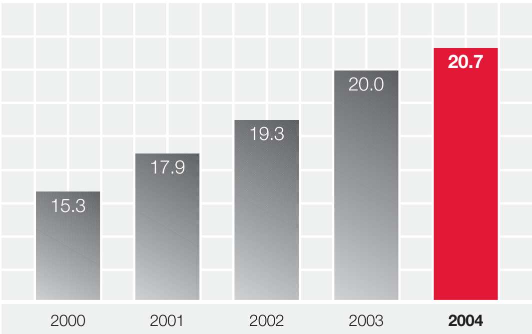
Earnings per share (p)



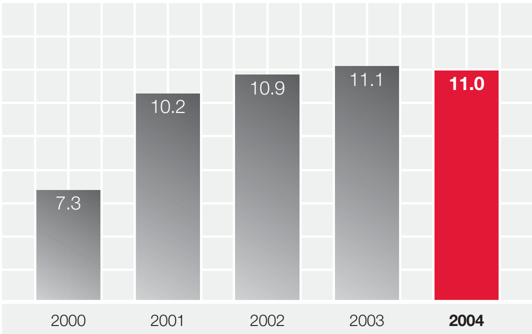
Dividend per share (p)



Operating margins (%)



Return on capital (%)



Earnings per share has been restated for FRS19 in 2000 and 2001

CHAIRMAN'S STATEMENT

I report a strong trading performance for the first half of the financial year. This performance reflects the stable nature of trade in our high quality community pubs, which are almost entirely freehold, and the growth we are delivering through the continuing improvement of our pub estate. The development of our existing community pubs through investment, together with the introduction of longer term leases for those tenanted pubs run by independent entrepreneurs, is now being complemented by the acquisition of pubs and new sites. Notwithstanding intense competition, we see good opportunities.

The details of the trading results and the development of the business are described in the Chief Executive's review and the Financial review.

Earnings and dividend

Earnings per share before goodwill and exceptional items increased by 7.4% to 30.5 pence per share. This increase has been driven by a 5.3% increase in profit before taxation, goodwill and exceptional items, a slightly lower effective tax rate and a modest reduction in the average number of shares in issue. 700,000 shares were bought back in October 2003 at a cost of £4.7 million, and 735,000 shares were bought back during the first half of last year at a cost of £4.0 million.

Basic earnings per share (after goodwill and exceptional items) increased by 16.4% to 27.0 pence per share.

The Board has declared an interim dividend of 12.0 pence per share (2003: 10.9 pence) payable on 25 June 2004 to shareholders on the register on 4 June 2004. This is an increase of 10.1% and represents a continuation of the progressive dividend policy that we have pursued consistently over many years.

Prospects

The legislative environment affecting our business is continually changing. Earlier this month The Trade and Industry Select Committee of the House of Commons announced an inquiry into the nature of the relationship between pub companies and their tenants and lessees. Whilst the outcome of this review is uncertain, we will include in our response to the inquiry the fact that we were the first tenanted operator to introduce the idea of an independent 'rent panel' to ensure a fair rent setting process, and the first to introduce 'plain English' agreements that make tenant obligations very clear at the outset. We offer tenants and lessees amongst the highest level of discounts in the market. We have agreed terms on 420 'Open House' leases since inception of the product only eighteen months ago, illustrating that we offer a product which tenants want.

Through its representative trade bodies the industry is also developing constructive proposals to the challenges posed by the Government's Alcohol Harm Reduction Strategy, and the issue of smoking in pubs.

Recent trading has been satisfactory, with like-for-like sales to date in line with those reported for the half-year. Margins have continued to be ahead of last year, and the outlook for the year as a whole is in line with our expectations.

This good performance reflects the development of our pub estate through refurbishment and new leases. We plan to increase momentum by using the strong cash flow from the business to invest in acquiring pubs and new development sites. We will continue to maintain an efficient capital structure through our progressive dividend policy and share buy-backs, if appropriate. In addition, we are alert to the opportunities for acquisitions in the sector as it consolidates. We are selective however, requiring that such opportunities complement and strengthen our business and generate a satisfactory return on capital.

David Thompson Chairman

CHIEF EXECUTIVE'S REVIEW

The business has performed strongly during the first half-year. Underlying sales growth across our pub estates was accompanied by a 0.7% increase in operating margin to 20.7%, a 5.3% increase in profit before tax to £31.7 million, and a 7.4% increase in earnings per share to 30.5 pence per share (all stated before goodwill and exceptional items). After taking goodwill and exceptional items into account, profit before tax increased by 10.3% to £28.9 million and earnings per share increased by 16.4% to 27.0 pence per share.

Underlying operating margins, operating profit and return on capital increased in each of our three trading divisions. This performance demonstrates that we have good underlying trading momentum. It has been achieved despite significant increases in certain costs outside our direct control. In particular, last September we highlighted costs associated with the implementation of licensing reform, a 7.1% increase in the minimum wage from October 2003, and increased company pension contributions. We stated that, despite these cost increases, we aimed to maintain margins through further investment in our pubs and beer brands and increased efficiencies. The operational advantages we derive from operating three distinct pub and brand businesses have allowed us to achieve that objective in the first half-year, demonstrating that our structure enables us to manage our assets flexibly.

Last year we set ourselves very clear growth targets for each division. These targets are principally based on investment in our estate combined with the profitable acquisition of new pubs and sites for development, and I am pleased with progress made to date, as described below.

The Union Pub Company

Our tenanted and leased pub division comprised 1,132 pubs as at 27 March 2004. Subsequent to the half-year end, 24 smaller managed pubs have transferred from Pathfinder Pubs.

The division performed strongly in the first half-year. Like-for-like sales were 5.2% ahead of last year, operating margin increased 3.6 percentage points to 42.9%, and operating profit increased by 6.6% to £24.3 million, with an 8.1% increase in the average annual EBITDA (earnings before interest, tax, depreciation and amortisation) per pub. We have continued to make excellent progress in extending 21-year leases across the estate, despite the introduction of a new stamp duty tax by the Government in early December 2003. We now have 420 21-year leases with terms agreed, which is ahead of our target. These have contributed significantly to our trading performance by attracting lessees committed to long term business development.

Investment in existing pubs is an important element of our plan to continually improve the average quality of the estate. In the first half-year we invested £3.9 million in upgrading pubs prior to leasing them, and a further £4.4 million on refurbishments.

We have made good progress towards our aim of acquiring 30 tenanted or leased pubs per year. We have exchanged or completed contracts to buy 11 pubs, with negotiations for a further 9 at an advanced stage. These acquisitions are all within our established trading areas in the Midlands and in the North of England.

In addition, we sold 10 tenanted pubs either as going concerns or as sites for development. These disposals contributed £2.6 million to total Group disposal proceeds of £6.5 million and achieved a profit to book value.

Pathfinder Pubs

Our managed pub division comprised 473 pubs as at 27 March 2004. The estate includes high quality, freehold community pubs and 27 Pitcher & Piano bars.

Like-for-like turnover was 2.8% ahead of last year including all pubs in the estate, and 0.1% up on an uninvested basis. The uninvested basis excludes those pubs where more than £20,000 has been invested since October 2003. Growth continues to be driven primarily through our proven 'Bostin' Local' and 'Service That Suits' investment programme.

Operating margin increased by 0.2 percentage points to 19.5%, and operating profit increased by 0.4% to £23.5 million, with a 5.1% increase in the average annual EBITDA per pub. This good performance was achieved through tight control of costs, better systems and investment. Although the national minimum wage increased by 7.1% last October, productivity improvements meant that labour costs as a percentage of turnover increased by just 0.3%.

The improved management information we now have, following the successful implementation of electronic point of sale ('EPOS') equipment last year, has helped to offset the sales mix effect of the growth of lower margin food sales. Overall, gross margin was ahead of last year.

Our investment plans for our pubs are also on track. We now have 96 'Bostin' Locals' and 26 'Service That Suits' pubs, having completed 30 major refurbishments in the first half-year. These refurbishments of existing pubs provide a contemporary community pub environment with a strong emphasis on value, service and food. We have achieved an average cash return on incremental capital comfortably above 20%, which is our target return. We expect to complete a further 15 refurbishments in the second half-year and plan 40 more in the next financial year.

Our new build programme is also underway, with 5 community pub sites under development and a further 30 under negotiation, including sites in Kent, Folkestone, Southampton, Ipswich and Cambridgeshire. Typically, the sites we are buying are freehold and are at the heart of new housing developments. We aim for 20 openings next year.

We have also invested £1.7 million in refurbishing the Pitcher & Piano bars at Trafalgar Square, Bishopsgate and Newcastle, following successful re-openings at Fulham, Islington and Birmingham last summer. Although the closure of these large bars has a short-term impact on like-for-like sales, average increases in turnover on reopening are in excess of 30%. Three further refurbishments are planned for the second half-year.

WDB Brands

Turnover was £56.8 million compared to £60.0 million last year. Adjusting for the impact of ending a large low margin supply contract last year, underlying turnover increased by 0.2%. Operating margin increased by 1.0 percentage point to 16.0%, and operating profit increased by 1.1% to £9.1 million.

Over the past four years, £122 million of capital has been withdrawn from this division, and return on capital has doubled over the same period. Our objective is now to achieve profitable growth in turnover, and for our key brands to outperform the market.

There are clear signs that our increased focus on marketing and product innovation is beginning to have an impact. The launch of Marston's Old Empire last year has been followed by steady growth, with the brand performing particularly well in the off-trade.

Recent additions to our portfolio include Marston's FC, a smooth beer with more taste, and Red Brick Brewery Fresh Beer, an unpasteurised short shelf-life bottled beer. Our low calorie beer, Low C has been relaunched both in bottle and draught as Resolution, the lowest carbohydrate beer on the market.

In the premium sector, Marston's Pedigree has performed well, with the brand's share of the key on-trade market increasing by 0.8% in the twelve months to March 2004. In standard ale, which includes the Banks's and Mansfield brands, our share was 5.6% of the UK market against 5.8% a year ago. This was influenced by mix changes within our own tied estate, and in particular the growth of lager, minerals, wines and spirits following range improvements made last year. We have substantially completed the major new countermount investment in Banks's and our 'built not to last' campaign has been well received. Our performance in the off-trade was in line with expectations, with core brand volumes 5.6% ahead of last year and with firmer pricing.

The performance of the market continues to reflect long-established trends including consumers switching to lager from ale, and drinking more at home. Our strategy to grow the business is, therefore, based upon establishing a leading position in supplying pub companies and the independent free trade with high quality brands and high levels of service, and in strengthening our position in the off-trade through marketing and product innovation.

Outlook

As the Chairman reports, current trading is satisfactory and in line with our expectations.

We have very clear plans to generate organic growth in each of our business divisions. In The Union Pub Company, we will continue to increase the number of longer-term leases in our estate, and aim to acquire 30 pubs per year. In Pathfinder Pubs, we aim to complete at least 40 major refurbishments this year and next, and to develop 20 new sites per year. In WDB Brands, we aim to increase our trade with pub companies and the off-trade through continuing investment in our brands and greater consumer insight.

We believe that community pubs offering good value will enable us to generate growth through investment, whether on a site-by-site basis or through acquisition. We have a high quality portfolio of assets providing an excellent platform from which to continue to implement our strategy of profitable growth.

Ralph Findlay Chief Executive

FINANCIAL REVIEW

TRADING OVERVIEW

	Turnover 2004 £m	Turnover 2003 £m	Underlying operating profit* 2004 £m	Underlying operating profit* 2003 £m	Margin 2004 %	Margin 2003 %	Annualised return on capital 2004 %	Annualised return on capital 2003 %
Pathfinder Pubs	**120.4**	121.2	**23.5**	23.4	**19.5**	19.3	**11.5**	11.4
The Union Pub Company	**56.7**	58.0	**24.3**	22.8	**42.9**	39.3	**13.2**	13.1
WDB Brands	**56.8**	60.0	**9.1**	9.0	**16.0**	15.0	**20.9**	20.1
Central costs	**-**	-	**(8.4)**	(7.3)	**(3.6)**	(3.1)	**-**	-
Group	**233.9**	239.2	**48.5**	47.9	**20.7**	20.0	**11.0**	11.1

* see note 2 to the accounts

Turnover and profit

We achieved good like-for-like sales growth in both pub divisions. Group turnover was 2.2% below last year as a consequence of the loss of retail turnover from managed to lease transfers, a small reduction in the average number of pubs trading in 2004, and the impact of ending a large low margin supply contract in WDB Brands.

Underlying operating profit increased by 1.3% despite a £1.1 million increase in central costs, mainly as a result of higher pension costs.

Margins

Underlying operating margins increased in all trading divisions and for the Group as a whole, despite the anticipated significant increases in central costs noted above and a 7.1% increase in the national minimum wage from October 2003. This margin increase reflects improvements in pricing and mix, the benefits of selling low returning assets and a focus on higher margin business.

Return on capital

Return on capital improved in all three trading divisions, although the Group return was 0.1% below last year due to the impact of increased central costs. We continue to maximise return on capital through the management of our property portfolio by selling assets with low returns and pubs with higher alternative use values, and by remaining alert to the opportunities of transferring smaller managed pubs to lease.

Earnings per share

Underlying earnings per share increased by 7.4% to 30.5 pence per share, driven by a 5.3% increase in profit before taxation, and benefiting from a slightly lower effective tax rate (basic earnings per share was 27.0 pence, an increase of 16.4%). The interim dividend increase of 10.1% to 12.0 pence per share is well supported by earnings growth, which ensures dividend cover is maintained in excess of two times.

Cash flow

The net cash inflow from operating activities increased by 4.0% to £57.2 million. Disposals of low returning assets realised further cash inflows of £6.5 million from the disposal of 14 pubs and some unlicensed property, with an additional reduction of £1.8 million in the Free Trade loan book.

As a result of higher capital investment described below, net debt has increased by £14.6 million since the year-end. Balance sheet gearing, as at the 27 March 2004, was 103.4%.

Capital expenditure

Capital expenditure increased by £12.7 million to £31.6 million, reflecting a significant uplift in the greenfield site development programme in Pathfinder Pubs, and the acquisition of 11 pubs by The Union Pub Company. Of the total, £14.1 million was invested in Pathfinder Pubs, £12.0 million in The Union Pub Company (including £3.7 million on acquisitions), £3.9 million in WDB Brands and £1.6 million on IT systems and the unlicensed estate.

Treasury

The financial gearing of the Company remains relatively conservative compared to the sector average. On a rolling 12 month basis, interest cover was 3.3 times, whilst debt to EBITDA was 3.5 times.

The current low interest rate environment has been exploited through an increase in the proportion of debt fixed by the use of interest rate swaps. We now have £210 million of interest rate swaps in place, which expire from September 2007 onwards. Around 90% of the Group's net debt including debentures of £220 million is either fixed or hedged.

New bank facility

We completed a successful bank refinancing towards the end of March 2004, putting in place a new five year £420 million facility. This will reduce interest costs, and will provide additional headroom of around £150 million, to enable us to either take advantage of acquisition opportunities or to make further returns to shareholders. In addition, the new financial covenants are less onerous and provide a greater degree of flexibility.

Property revaluation

Approximately 75% of our estate will be revalued this year on a 5-year rolling basis of valuation. In line with the recent trends in the market, early indications suggest there will be reasonable valuation uplifts for freehold managed and tenanted pubs, which should more than offset any reduced values for leasehold high street properties.

Taxation

The underlying rate of taxation (before goodwill and exceptional items) reduced from 31.2% in 2003 to 30.3% in 2004. This reduction reflects the release of various provisions following the agreement of prior year computations, which will also benefit the second half of this year.

Exceptional items and goodwill

Goodwill amortisation and impairment in the half-year amounted to £3.7 million.

There was a net exceptional profit excluding goodwill of £1.2 million. This comprised a profit of £0.9 million on the sale of fixed assets, which largely relate to the disposal of pubs with higher alternative use values, and a taxation credit of £0.3 million.

Accounting policies

The Group has adopted UITF 38 'Accounting for ESOP Trusts'. Details are presented in note 8 to the accounts. There have been no other changes to our accounting policies since last year's annual report.

Summary

The underlying performance of the business remains strong, with margins and return on capital having increased in all three trading divisions. This performance, along with the flexibility of our financing structure, gives us confidence to take advantage of any consolidation opportunities that may arise in the sector, or to return cash to shareholders.

Paul Inglett Finance Director

GROUP PROFIT AND LOSS ACCOUNT (UNAUDITED)

for the 26 weeks ended 27 March 2004

	26 weeks to 27 March 2004			26 weeks to 29 March 2003			52 weeks to 27 September 2003
	Before goodwill and exceptionals £m	**Goodwill and exceptionals £m**	**Total £m**	Before goodwill and exceptionals £m	Goodwill and exceptionals £m	Total £m	Total £m
Turnover - continuing operations	**233.9**	**-**	**233.9**	239.2	-	239.2	490.5
Trading expenses	**(185.4)**	**(3.7)**	**(189.1)**	(191.3)	(3.5)	(194.8)	(394.0)
Operating profit - continuing operations	**48.5**	**(3.7)**	**44.8**	47.9	(3.5)	44.4	96.5
Fixed asset disposals	**-**	**0.9**	**0.9**	-	(0.4)	(0.4)	(1.8)
Profit on ordinary activities before interest	**48.5**	**(2.8)**	**45.7**	47.9	(3.9)	44.0	94.7
Interest	**(16.8)**	**-**	**(16.8)**	(17.8)	-	(17.8)	(35.1)
Profit on ordinary activities before taxation	**31.7**	**(2.8)**	**28.9**	30.1	(3.9)	26.2	59.6
Taxation	**(9.6)**	**0.3**	**(9.3)**	(9.4)	0.1	(9.3)	(21.1)
Profit on ordinary activities after taxation	**22.1**	**(2.5)**	**19.6**	20.7	(3.8)	16.9	38.5
Dividends paid and proposed			**(8.7)**			(7.9)	(23.3)
Retained profit for the period			**10.9**			9.0	15.2

Earnings per share

	26 weeks to 27 March 2004	26 weeks to 29 March 2003	52 weeks to 27 September 2003
Basic earnings per share	**27.0p**	23.2p	53.0p
Basic earnings per share before goodwill and exceptionals	**30.5p**	28.4p	68.9p
Diluted earnings per share	**26.7p**	22.9p	52.5p
Diluted earnings per share before goodwill and exceptionals	**30.1p**	28.0p	68.3p

There were no other recognised gains or losses in current or prior periods.

GROUP CASH FLOW STATEMENT (UNAUDITED)

for the 26 weeks ended 27 March 2004

	26 weeks to 27 March 2004		26 weeks to 29 March 2003 restated		52 weeks to 27 September 2003 restated	
	£m	**£m**	£m	£m	£m	£m
Net cash inflow from operating activities		**57.2**		55.0		130.9
Returns on investments and servicing of finance						
Interest received	**0.4**		0.3		0.6	
Interest paid	**(21.6)**		(19.8)		(35.4)	
Arrangement cost of new bank facilities	**(2.0)**		-		-	
Net cash outflow from returns on investments and servicing of finance		**(23.2)**		(19.5)		(34.8)
Taxation		**(10.4)**		(8.5)		(19.2)
Capital expenditure and financial investment						
Purchase of tangible fixed assets	**(31.6)**		(18.9)		(47.9)	
Sale of tangible fixed assets	**6.5**		11.2		21.0	
Decrease in trade loans and other investments	**1.8**		2.4		3.0	
Net cash outflow for capital expenditure and financial investment		**(23.3)**		(5.3)		(23.9)
Equity dividends paid		**(15.4)**		(14.1)		(22.0)
Cash (outflow)/inflow before financing		**(15.1)**		7.6		31.0
Financing						
Issue of ordinary share capital	**2.6**		0.3		2.4	
Purchase of ordinary share capital for cancellation	**(4.7)**		(4.0)		(7.5)	
Net sale of own shares from share trust	**0.9**		0.1		2.4	
Capital element of finance lease payments	**-**		(0.2)		(0.3)	
Advance/(repayment) of bank loans	**22.4**		(13.3)		(36.7)	
Net cash inflow/(outflow) from financing		**21.2**		(17.1)		(39.7)
Increase/(decrease) in cash in the period		**6.1**		(9.5)		(8.7)

Reconciliation of net cash flow to movement in net debt

Increase/(decrease) in cash in the period	**6.1**		(9.5)		(8.7)	
Cash (inflow)/outflow from (increase)/decrease in debt	**(20.4)**		13.5		37.0	
Change in debt resulting from cash flows		**(14.3)**		4.0		28.3
Non-cash movements		**(0.3)**		(0.1)		(0.1)
Movement in net debt in the period		**(14.6)**		3.9		28.2
Net debt at 28 September 2003		**(468.7)**		(496.9)		(496.9)
Net debt at 27 March 2004		**(483.3)**		(493.0)		(468.7)

The comparative cash flows have been restated, as explained in note 8.

GROUP BALANCE SHEET (UNAUDITED)

as at 27 March 2004

	27 March 2004 £m	29 March 2003 restated £m	27 September 2003 restated £m
Fixed assets			
Intangible assets	**105.0**	113.7	108.7
Tangible assets	**903.6**	888.4	889.9
Investments	**23.0**	25.4	24.8
	1,031.6	1,027.5	1,023.4
Current assets			
Stocks	**13.4**	13.6	12.5
Debtors	**39.5**	36.2	37.2
Cash at bank and in hand	**16.0**	5.1	11.9
	68.9	54.9	61.6
Creditors - amounts falling due within one year	**(109.7)**	(165.2)	(183.2)
Net current liabilities	**(40.8)**	(110.3)	(121.6)
Total assets less current liabilities	**990.8**	917.2	901.8
Creditors - amounts falling due after more than one year	**(506.9)**	(451.2)	(428.1)
Deferred tax provision	**(16.5)**	(15.4)	(16.0)
Net assets	**467.4**	450.6	457.7
Capital and reserves			
Equity share capital	**21.5**	21.6	21.5
Non-equity share capital	**0.1**	0.1	0.1
Called-up share capital	**21.6**	21.7	21.6
Share premium account	**209.5**	204.9	207.1
Revaluation reserve	**152.3**	154.9	153.4
Capital redemption reserve	**5.9**	5.5	5.7
Profit and loss account	**78.1**	63.6	69.9
Shareholders' funds including non-equity interests of £0.1m (2003: £0.1m)	**467.4**	450.6	457.7
Capital employed	**467.4**	450.6	457.7

The comparative balance sheets have been restated, as explained in note 8.

1 Basis of preparation of accounts

There have been no changes to our accounting policies since last year's annual report, with the exception that the Group has adopted UITF 38 'Accounting for ESOP Trusts'. Details are presented in note 8 to the accounts. The comparative figures have been restated accordingly.

The financial information for the year ended 27 September 2003 is extracted from audited financial statements for that year which have been delivered to the Registrar of Companies. The auditors' report was unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985. The auditors have neither audited nor reviewed the interim accounts.

2 Segmental analysis

	27 March 2004			29 March 2003		
	Turnover £m	Operating profit before goodwill and exceptionals £m	Net assets £m	Turnover £m	Operating profit before goodwill and exceptionals £m	Net assets restated £m
Pathfinder Pubs	120.4	23.5	410.2	121.2	23.4	411.7
The Union Pub Company	56.7	24.3	369.1	58.0	22.8	347.5
WDB Brands	56.8	9.1	87.2	60.0	9.0	89.7
Central costs	-	(8.4)	15.1	-	(7.3)	16.0
	233.9	48.5	881.6	239.2	47.9	864.9
Goodwill and exceptionals	-	(3.7)	105.0	-	(3.5)	113.7
Debt, tax and dividends	-	-	(519.2)	-	-	(528.0)
	233.9	44.8	467.4	239.2	44.4	450.6

	27 March 2004			29 March 2003		
	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	22.4	1.1	32.8	22.3	1.1	35.2
The Union Pub Company	23.3	1.0	22.7	21.9	0.9	24.8
WDB Brands	8.5	0.6	6.9	8.5	0.5	9.0
Central costs	(9.4)	1.0	42.6	(8.3)	1.0	44.7
	44.8	3.7	105.0	44.4	3.5	113.7

3 Goodwill and exceptionals

	27 March 2004 £m	29 March 2003 £m
Trading expenses		
Goodwill amortisation	3.4	3.4
Goodwill impairment following fixed asset disposals	0.3	0.1
	3.7	3.5

4 Taxation

The taxation charge for the 26 weeks ended 27 March 2004 is calculated by applying an estimate of the effective tax rate for the year ending 2 October 2004.

	27 March 2004 £m	29 March 2003 £m	27 September 2003 £m
Current tax	**8.8**	9.0	20.2
Deferred tax	**0.5**	0.3	0.9
	9.3	9.3	21.1

5 Interim dividends

An interim dividend of £8.7m, being 12.0p per ordinary share and 3.0p per preference share has been proposed and will be paid on 25 June 2004 to those shareholders on the registers at the close of business on 4 June 2004.

6 Earnings per share

	27 March 2004			29 March 2003		
	Earnings £m	Weighted average no. of shares m	Per share amount p	Earnings £m	Weighted average no. of shares m	Per share amount p
Basic earnings per share	**19.6**	**72.5**	**27.0**	16.9	73.0	23.2
Diluted earnings per share	**19.6**	**73.4**	**26.7**	16.9	73.8	22.9
Supplementary earnings per share figures						
Basic earnings per share before goodwill and exceptionals	**22.1**	**72.5**	**30.5**	20.7	73.0	28.4
Diluted earnings per share before goodwill and exceptionals	**22.1**	**73.4**	**30.1**	20.7	73.8	28.0

Basic earnings per share is calculated by dividing the profit after tax by the weighted average number of shares in issue during the period excluding those held in the Employee Share Ownership Plan.

Diluted earnings per share is calculated by adjusting the basic earnings per share to assume the notional exercise of the weighted average number of ordinary share options outstanding during the period. The effect of dilutive options is to increase the weighted average number of shares by 0.9m (2003: 0.8m).

Supplemental earnings per shares figures are presented to exclude the effects of goodwill and exceptionals. The Directors consider that the supplementary figures provide a useful additional indication of performance.

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

	27 March 2004 £m	29 March 2003 £m	27 September 2003 £m
Total operating profit	**44.8**	44.4	96.5
Goodwill amortisation	**3.4**	3.4	6.9
Income from fixed asset investments	**(0.3)**	(0.2)	(0.5)
Depreciation charge	**15.8**	15.2	30.3
(Decrease)/increase in pension cost provision	**(0.8)**	0.2	(0.1)
(Increase)/decrease in stocks	**(0.9)**	(0.6)	0.5
(Increase)/decrease in debtors	**(4.2)**	(2.1)	(3.0)
(Decrease)/increase in creditors	**(0.9)**	(5.4)	(1.3)
Exceptional costs with no cash impact	**0.3**	0.1	1.6
Net cash inflow from operating activities	**57.2**	55.0	130.9

8 Reconciliation of movements in shareholders' funds

	27 March 2004 £m	29 March 2003 restated £m	27 September 2003 restated £m
Profit on ordinary activities after taxation	**19.6**	16.9	38.5
Dividends	**(8.7)**	(7.9)	(23.3)
Profit for period transferred to reserves	**10.9**	9.0	15.2
Proceeds of ordinary share capital issued	**2.6**	0.4	2.7
Purchase of own shares for cancellation	**(4.7)**	(4.0)	(7.5)
Net sale of own shares from share trust	**0.9**	0.1	2.4
Contribution to QUEST	**-**	(0.1)	(0.3)
Net addition to shareholders' funds	**9.7**	5.4	12.5
Opening shareholders' funds	**457.7**	445.2	445.2
Closing shareholders' funds	**467.4**	450.6	457.7

The prior period adjustment relates to adoption of UITF 38 'Accounting for ESOP Trusts', which requires investments in own shares to be included in share capital and reserves. Opening shareholders' funds for the 26 weeks to 27 March 2004, were originally £460.0m before subtracting the prior year adjustment of £2.3m. Closing shareholders' funds at 29 March 2003 and 27 September 2003 were previously reported as £455.2m and £460.0m respectively. In addition, the cash inflow arising from the net sale of own shares by the share trust has been reclassified from 'Capital expenditure and financial investment' to 'Financing'.

9 The Interim report was approved by the Board on 21 May 2004.

10 Copies of this report have been sent to shareholders and are available to the public on request from: The Company Secretary, The Wolverhampton & Dudley Breweries, PLC, PO Box 26, Park Brewery, Wolverhampton, WV1 4NY.

The Wolverhampton & Dudley Breweries, PLC

PO Box 26
Park Brewery
Wolverhampton
WV1 4NY
Registered No. 31461
Telephone 01902 711811