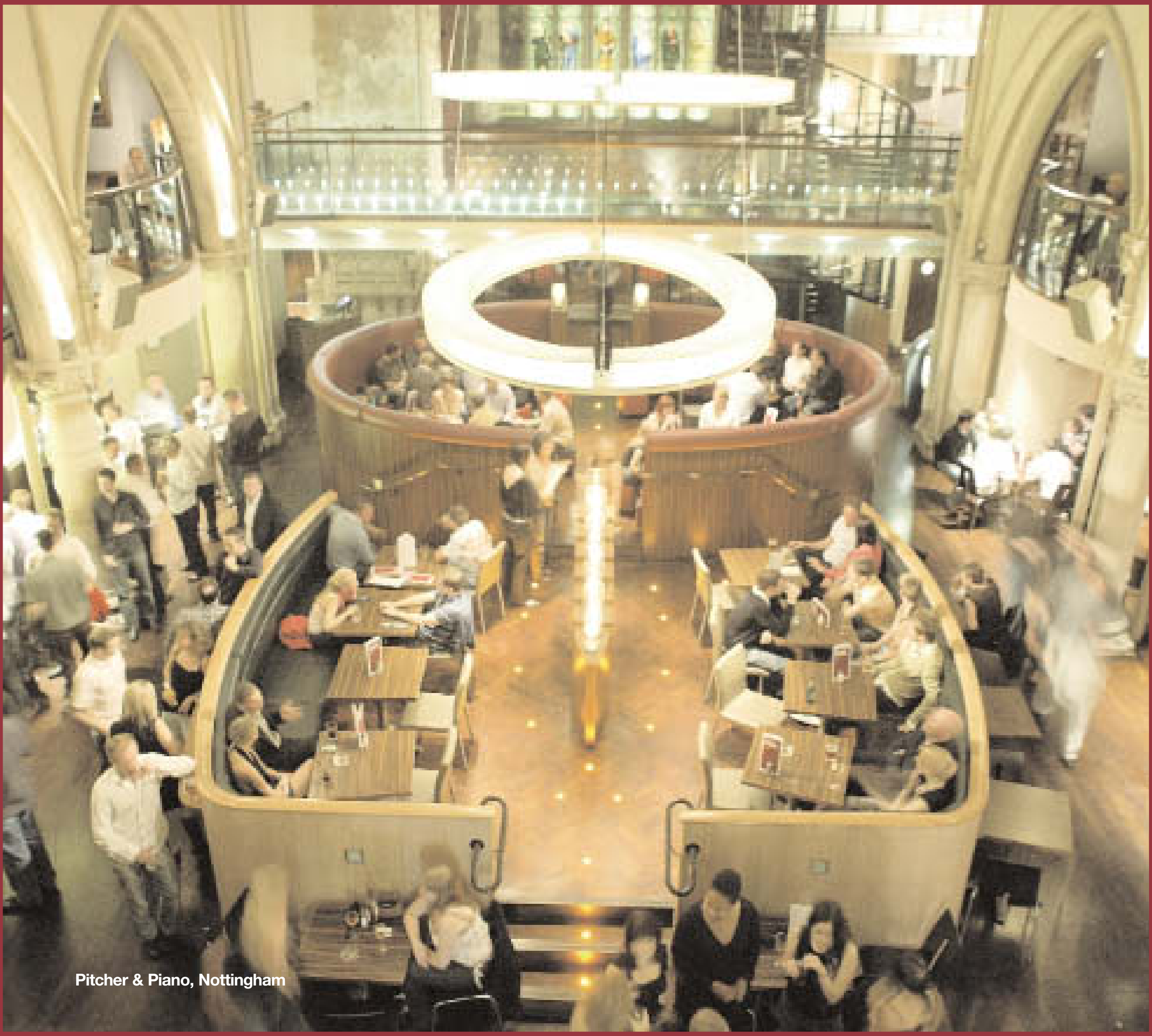
W&DB

The Wolverhampton
& Dudley Breweries, PLC
Annual report 2005



Pitcher & Piano, Nottingham

W&DB is at the heart of thriving local communities across the country with over 2,000 pubs offering a welcoming environment and good value.

Financial highlights

597.3 ↑16.3%
Turnover (£m)

135.4 ↑19.9%
Underlying* operating profit (£m)

90.1 ↑16.0%
Underlying* profit before tax (£m)

84.4 ↑11.3%
Underlying* earnings per share (p)

38.86 ↑10.0%
Dividend per share (p)

	2005	2004
Operating profit (£m)	**121.9**	100.9
Profit before tax (£m)	**47.9**	70.2
Earnings per ordinary share (p)	**44.3**	66.7

*The underlying results reflect the performance of the Group before goodwill and exceptional items. The Directors consider that these figures provide a useful indication of the underlying performance of the Group.

Pathfinder Pubs

- 15 million meals served during the year
- 115 million drinks sold in 2005

	2005	2004
Turnover (£m)	**317.4**	275.2
Underlying operating profit (£m)	**63.4**	54.6
Operating profit (£m)	**59.1**	45.4
Net assets (£m)	**691.6**	583.0
Number of pubs	**542**	513
Average weekly sales (£'000)	**12.0**	11.3

The Union Pub Company

- 150 capital investments during the year
- 90,000 promotions taken by tenants

	2005	2004
Turnover (£m)	**153.3**	118.2
Underlying operating profit (£m)	**65.2**	49.8
Operating profit (£m)	**59.6**	50.2
Net assets (£m)	**732.6**	452.8
Number of pubs	**1,748**	1,162

WDB Brands

- 100 million bottles filled during 2005
- 1.5 million equivalent pints delivered every day

	2005	2004
Turnover (£m)	**126.6**	120.3
Underlying operating profit (£m)	**18.2**	17.8
Operating profit (£m)	**17.4**	17.7
Net assets (£m)	**99.7**	84.8

Chairman's statement

David Thompson
Chairman

Strong results were achieved through the continuing implementation of our strategies to deliver organic growth, and the successful integration of acquisitions.

The Anglers, Walton On Thames

Chairman's statement

We have achieved strong results across the business, building upon the progress of the previous financial year. This performance demonstrates that our model and approach is well suited to the current trading environment, enabling us to manage cost pressures effectively and to meet increasing customer demand for good quality outlets and value for money. Our high quality, predominantly freehold estate of 2,290 pubs across England and Wales is a strong platform for our continued success.

Results

Turnover increased by 16.3% to £597.3 million (2004: £513.7 million) as a consequence of steady increases in like-for-like sales and the acquisitions of Burtonwood PLC, Jennings Brothers PLC and English Country Inns PLC during the financial year, and the acquisition of Wizard Inns Ltd in the prior year. Turnover and profit growth was achieved in each of our three trading divisions.

Underlying operating margin increased to 22.7% (2004: 22.0%). Our focus on good quality freehold community pubs and popular beer brands continues to provide us with operational flexibility and has enabled us to increase operating margins despite the continuing legislative and cost pressures faced by the industry.

Underlying profit before taxation increased by 16.0% to £90.1 million (2004: £77.7 million). After goodwill amortisation and exceptional items (including refinancing costs primarily relating to the associated redemption of debentures), profit before tax was £47.9 million (2004: £70.2 million). Underlying earnings per share increased by 11.3% to 84.4 pence per share (2004: 75.8 pence). Basic earnings per share after goodwill amortisation and exceptional items was 44.3 pence per share (2004: 66.7 pence).

These results were achieved through the continuing implementation of our strategies for delivering organic growth and the successful integration of acquisitions.

Dividend

The Board proposes a final dividend of 25.66 pence per share, which brings the total dividend for the year to 38.86 pence per share (2004: 35.32 pence), an increase of 10.0 % on the previous year. The Company has increased dividends by an average of over 10% per annum for a period of more than 30 years and continues to adopt a progressive dividend policy. The final dividend, if approved, will be paid on 31 January 2006 to those shareholders on the register at the close of business on 30 December 2005.

Refinancing

The Group refinanced its debt in August 2005, replacing existing debentures and bank debt with a £805 million securitisation and a £275 million bank facility. The new financing structure provides greater flexibility for acquisitions, increases the average maturity of the Group's debt and also reduces the cash interest cost of debt by some £5 million per year. A one-off contribution of £29 million was made to The Wolverhampton and Dudley Breweries, PLC final salary pension scheme in September 2005.

Legislation

The new licensing regime, which has transferred licensing responsibility to local authorities and enabled more flexible opening hours, became effective on 24 November 2005. In over 95% of cases we have asked for, and received consent to, a modest extension of existing hours. Having implemented the legislation, we are now focussed on realising maximum benefit from greater flexibility. The issue of smoking in public places, and therefore in pubs, is now high on the government's agenda. The government envisages that a partial ban in pubs will be introduced at some stage in 2007. The current proposals are summarised in the Chief Executive's review.

We believe that the impact of a ban will be greater on poorly located, uninvested pubs with limited trading opportunities. Our strategy in recent years has been to dispose of such pubs and invest in higher quality outlets where food is an important part of the sales mix. As a result, we believe that we are well placed to manage any impact on our business from this proposed legislation.

Employees

This year we welcomed to the Group employees from Burtonwood, Jennings and English Country Inns. The successful and fast integration of these acquisitions has contributed to our strong performance. I thank all those involved and also those who work in our pubs, breweries and support functions for their efforts during this year. The continuing success of the business is a testament to the talents and commitment of over 11,000 employees across the Group.

Outlook

The regulatory and cost issues affecting our industry have been challenging and remain so. We aim to continue to offset rising costs by improving productivity, partly facilitated by the flexibility afforded by our business model, which allows us to reduce costs by transferring smaller managed pubs to tenancy or lease.

Weaker consumer confidence has been widely reported, with rising energy costs, higher taxes and greater economic uncertainty putting pressure on discretionary spend. Against this backdrop, our focus on good community pubs and value for money is an appropriate strategy.

We have a strong balance sheet and relatively conservative gearing which enables us to consider acquisition opportunities as they arise in a consolidating sector and are confident about our prospects for the year.

David Thompson
Chairman

Chief Executive's review

Ralph Findlay
Chief Executive

Business development

Our results were achieved by continuing to manage cost pressures and improve operational efficiency, combined with an absolute focus on delivering quality and value to our customers. As a result, we were able to deliver good organic growth whilst acquiring businesses that met our acquisition criteria.

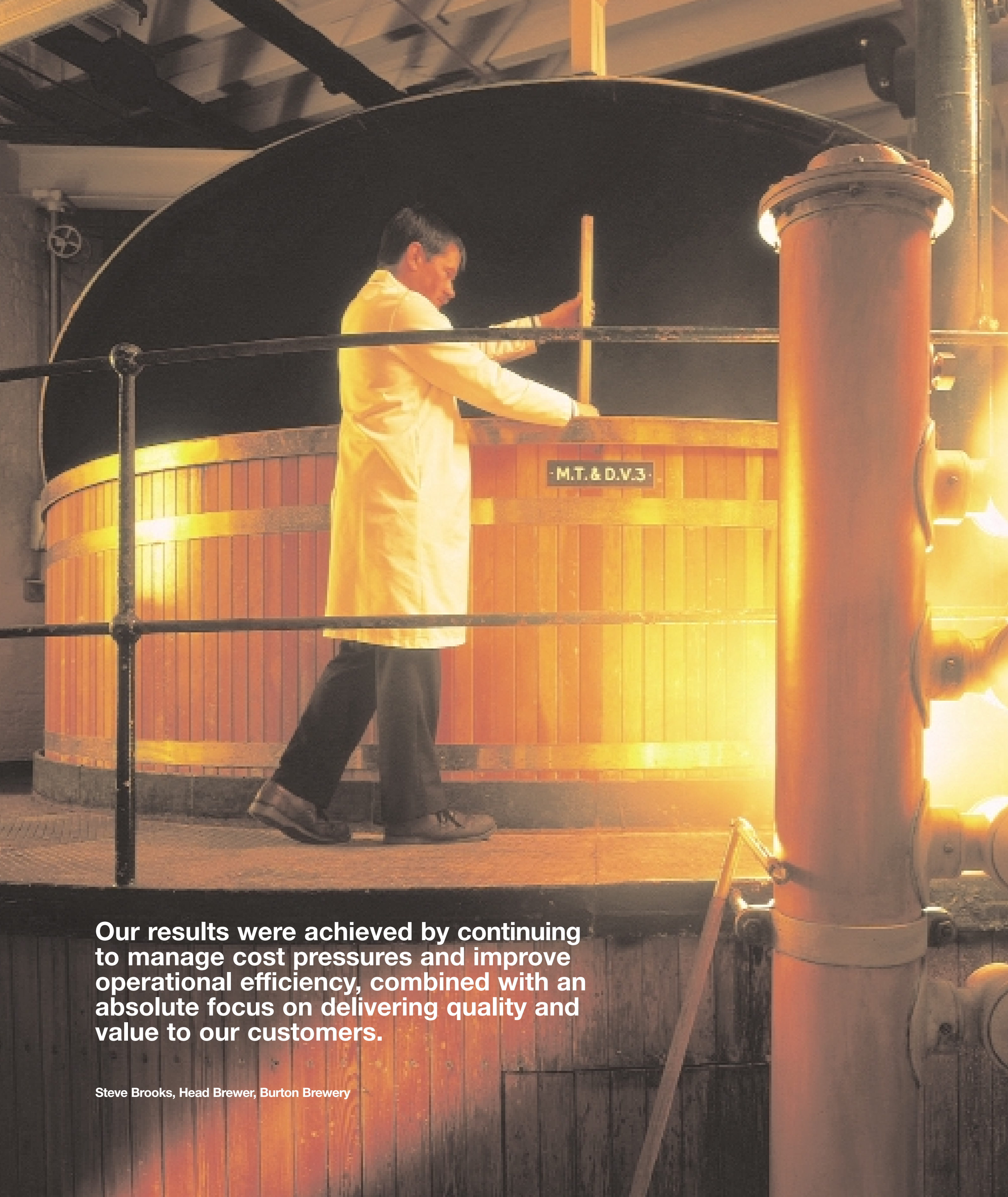
Acquisitions have contributed to this good financial performance. In June 2004 we acquired Wizard Inns, a managed pub estate of 63 pubs situated mainly in the South of England. In January this year, we completed the acquisition of Burtonwood, an operator of a good quality estate of 460 pubs situated mainly in the North-West of England and North Wales. In May we acquired Jennings, a North-West regional brewer, with a tenanted pub estate of 128 excellent pubs. In September we acquired English Country Inns which comprises 14 high quality managed food pubs.

These acquisitions are consistent with our strategy to invest in good quality freehold community pubs. We have clear financial targets for acquisitions: they must be earnings enhancing and must deliver a return on capital above the weighted average cost of capital for the Group as a whole.

A significant contributing factor to the success of these acquisitions is the realisation of synergy benefits. The combined cost savings achieved for these three acquisitions exceed £8 million per year, mainly from reduced overheads and better purchasing terms. One of the reasons that we were able to exceed our original targets for cost savings is our well-established integration process ensuring the swift absorption of the acquired businesses into the Group.

The development of the businesses acquired also contributes to the achievement of return on capital targets. By the end of 2006 we plan to have refurbished 40% of the Wizard Inns estate. We have also acquired the freehold interests of four Wizard Inns leasehold properties. Within the Burtonwood estate, around 100 tenants are currently agreeing terms for our 21-year 'Open House' leases. We have broadened the range of beers available to Burtonwood and Jennings customers and have extended the distribution of Jennings beers across the rest of the estate.

The success of these acquisitions is also due to the operational flexibility afforded by the integrated model, with benefits to each of our trading divisions. We are able to integrate both managed



Our results were achieved by continuing to manage cost pressures and improve operational efficiency, combined with an absolute focus on delivering quality and value to our customers.

Steve Brooks, Head Brewer, Burton Brewery

The development of pubs as places to enjoy a meal with family and friends has been beneficial to the pub market

Howarth Old Hall, West Yorkshire

and tenanted pubs and achieve wider distribution of our beers.

The strength of our balance sheet and relatively conservative gearing will allow us to consider further acquisitions when the opportunity arises, or to return further capital to shareholders. The successful refinancing of the Group's debt through a £805 million securitisation has further increased our financial capacity, as well as reducing future interest payments and extending the maturity of our debt.

Licensing

Although the implementation of new licensing legislation has been time consuming and costly, the great majority of our pubs are now able to take advantage of more flexible opening hours, and in practice most are likely to open for one or two extra hours on two to three nights per week. We expect that the impact of the new legislation will be modestly beneficial.

Smoking

The potential ban on smoking in public places will have an impact on the pub sector. The outline proposals distinguish between pubs which serve food, in which customers will not be allowed to smoke, and those which do not serve food, in which customers will be allowed to smoke, and it is proposed that the ban will not apply to private members clubs. The potential for separate 'smoke-rooms' will remain the subject of consultation. The timetable for implementation has been brought forward from 2008 to 2007.

The development of pubs as places to enjoy a meal with family and friends has been beneficial to the pub market and has raised standards for customers. The proposals as presented will require pub operators to choose between having a broad based appeal or to cater for a predominantly drinking and smoking customer base.

We are preparing for the possibility that a ban may eventually be universal, and are introducing smoke-free pubs where there is clear demand. We now have 15 smoke-free pubs in the Pathfinder Pubs estate – all pubs with a significant food trade – and have seen satisfactory results. Our experience indicates that well invested and well located pubs which have a significant food trade will not be materially affected by a smoking ban. In both managed and tenanted pubs our investment plans are targeted at the further development of food offers and making outside trading areas more attractive. Over 80% of our pubs have such outside trading areas. These plans, together with the fact that we have already disposed of over 900 less well-positioned pubs in recent years, should allow us to minimise the risks and maximise opportunities to our competitive advantage.

The Union Pub Company
- 1,748 leased and tenanted pubs
(2004: 1,162 pubs)

Turnover increased by 29.7% to £153.3 million, including a £30.2 million contribution from Burtonwood and Jennings. Like-for-like sales increased by 2.8%. Underlying operating margin increased by 0.4% to 42.5%, and underlying operating profit increased by 30.9% to £65.2 million.

These strong results benefited from the acquisition of Burtonwood, which included 420 tenanted pubs, and Jennings, which included 128 tenanted pubs. Both of these estates represent an excellent geographical fit, the North-West being adjacent to our core trading area.

The Burtonwood estate offers considerable scope for development. The estate is almost entirely freehold and represented by community pubs with tenants on short term agreements. There has been strong interest from Burtonwood tenants in our 21-year 'Open House' lease, which is assignable, offers high discounts and has contributed to our good performance since its introduction in 2003. We have also seen strong demand for the wider range of products we are able to offer Burtonwood tenants, and in particular for our range of Marston's and Banks's beers.

The performance of the core estate, which excludes acquisitions, has been good despite the considerable resources invested by both licensees and our staff in implementing the new licensing legislation. The estate now includes over 700 pubs let on longer term leases, the majority of which are 'Open House' 21-year agreements. We expect that demand from Burtonwood tenants will increase the total to over 1,000 within three years.

We invested £26.4 million last year, including £9.0 million acquiring 23 individual pubs and £17.4 million on our existing pubs. This refurbishment expenditure includes 260 development schemes designed to broaden the pub offer – involving improvements to kitchens, pub gardens and trading areas, tailored with the proposed smoking legislation in mind.

We aim to provide the maximum possible support to our tenant and lessee partners. This includes monitoring daily ordering patterns so that we can identify opportunities to improve performance, and the dedication of 39 Business Development Managers each with fewer than 50 pubs across the estate – a lower ratio than most of our competitors, allowing more support to advise on trading issues and the development of our customers' offers.

Case Study - The Union Pub Company

Catering for individual needs

In recognising that food is a massive growth area for pubs, we appointed a catering development manager to help licensees maximise the opportunities.

Since starting in 2004, Ben Bartlett, a former British BBQ champion who achieved an admirable second in the recent World BBQ Championships, has devised numerous catering tools designed to help boost business and worked onsite with almost 150 pubs to develop their menus.

And it's not all about earning a quick buck from low-cost high margin food, as Ben explains: "We use high quality menu designs which are personalised to include a pub's own regional dishes made from fresh local produce."

One innovation is 'Active Ingredients', Ben's comprehensive menu-maker and catering solutions pack which offers licensees a framework for starting food or progressing their offering and includes a menu designer, GP calculator, legal forms and supplier information.

During the year we continued to invest across the business to ensure that we provide the maximum possible support to our tenants and lessee partners across the estate.

Philip Jackson and Yolande Rankin, licensees at the Leopard Inn, Burton




Pathfinder Pubs
– 542 managed pubs (2004: 513 pubs)

Turnover increased by 15.3% to £317.4 million, including a £12.7 million contribution from Burtonwood managed pubs and English Country Inns. Underlying operating margin increased by 0.2 % to 20.0 %, and underlying operating profit increased by 16.1 % to £63.4 million.

Total like-for-like sales increased by 2.8%, a good performance achieved against strong comparatives which benefited from Euro 2004. Excluding this year's acquisitions, average sales per week across all Pathfinder Pubs is now £12,000 per pub. We will continue to improve the quality of the estate by a combination of investment in new sites and acquisitions and through our significant pub refurbishment programme.

The organic development of Pathfinder Pubs through new site development, pub acquisition and refurbishment is the cornerstone of our retail strategy. During the year, total capital investment in managed pubs was £56.2 million, representing £18.5 million on new site development, £31.0 million on pub refurbishment and £6.7 million on acquiring the freehold interests of leasehold assets.

While the process of finding new sites and obtaining planning and licensing consents is time consuming and painstaking, it does generate superior returns and provides scope for development through freeholds or long leaseholds rather than short leaseholds. This year we opened eight new pubs, all serving food and offering high levels of service and amenity.

We manage our community pubs as individual outlets rather than brands and see little value in branding in this segment of the market. This approach helps to keep costs down and is a contributing factor to our high operating margins.

Investment in pub refurbishment is also generating good returns. We completed 52 major refurbishment schemes, including a number of former Wizard Inns pubs – the Bell & Compass in Charing Cross, London, the Anglers in Walton On Thames and the Café Maximo Bar in Norwich – now converted to a Pitcher & Piano. Pitcher & Piano, now comprising

Case Study - Pathfinder Pubs

Customer focus through to retail offer

Headed by Sharon Rehbock, the development team's focus is to concentrate on current business opportunities whilst assessing future trends and the impact of proposed legislation. As an example, Simon Taylor, Development Manager, and his team work to develop new ideas and improve our customer appeal by interpreting the latest customer research and turning those insights into great pubs.

A key part of our strategy is to recruit and retain the best managers in the business. Judy Jones, Induction and Training Manager, has developed a programme that has a hugely encouraging track record in training, appointing and retaining candidates, with over 80% of trainees appointed to their own pub within 9 months of joining us.

Ralph Findlay and Derek Andrew pictured with Retail Manager of the Year, Jon Brown from the Copt Oak, Markfield at the Pathfinder Retail Awards 2005, Ragley Hall, Alcester.

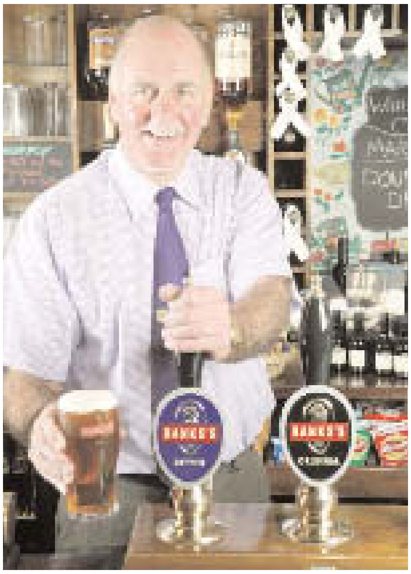
25 bars, has seen a significant improvement in trading performance following refurbishments this year in Nottingham, Bristol, Tunbridge Wells and two in London. We also opened a new Pitcher & Piano at Southampton Marina. This coming year will see further developments in London, Swansea, Leeds, York, Harrogate and Reading, as well as the conversion of a former Wizard Inns pub site and two more new openings.

In our community pub estate, we have continued to enhance performance through the refurbishment of existing pubs as 'Bostin' Locals', 'Service That Suits' and other operating formats, depending upon the location of the pub. This investment has contributed to significant growth in food sales across the estate, with like-for-like sales growth averaging 7.2% per annum over the last four years, and food sales now accounting for around 30% of total retail turnover.

The achieved cash return on incremental investment in pub refurbishment has consistently been above 20%, and there remains considerable development potential in the Wizard Inns and English Country Inns estates.

We expect Pathfinder Pubs' operating margins to reduce slightly in the coming year through higher operating costs, mainly related to Sky TV and energy prices. As a consequence, operating costs will increase by approximately £7 million. We have recently transferred 19 smaller pubs to The Union Pub Company and will continue to reduce costs elsewhere.

Pitcher & Piano, Nottingham



WDB Brands

Turnover increased by 5.2% to £126.6 million. Underlying operating margin was 14.4% (2004: 14.8%), and underlying operating profit increased by 2.2% to £18.2 million.

Total volumes brewed, excluding non-owned brands, increased by 5.2%, including a 14.8% increase in premium ale. This strong performance was driven by growth in free trade, in sales to other pub companies and in sales to the off trade. Within premium ale, Marston's Pedigree and Old Empire contributed to our strong performance, whilst standard ale - our range of other Marston's, Mansfield, Jennings and Banks's beers - also performed well.

WDB Brands has a reputation for being passionate about ale. We concentrate on marketing and distributing high quality English ales, and as a result of winning the contract to brew Draught Bass on behalf of InBev UK we are now the largest brewer of cask beer in the country.

We brew Marston's beers, including the famous Marston's Pedigree, at the Burton Brewery using the traditional Burton Union system – hence our claim that Marston's Pedigree is a unique beer. This year we re-opened the Burton brewhouse after a £2 million investment to modernise the brewery, which will reduce costs and improve our environmental performance.

The performance of Marston's Pedigree benefited from new packaging for its cans and bottles, giving the product greater shelf impact, and from the continuation of the 'Marston's Don't Compromise' marketing campaign – currently showing on satellite and terrestrial television. A more recent initiative is the launch of 'CaskForce', an incentive scheme aimed at driving improved beer quality based around cellar training. The campaign will run until June 2006 when the prize will be a year's free rent for the winning licensee.

Case Study - Marston s

Marston's Don't Compromise

In the autumn of 2002 Peter Jackson, WDB Brands' Marketing Director, launched Marston's Pedigree's 'uncompromising' approach to life on posters and buses across the country. This one word summed up not only Pedigree's character but that of the whole Marston's range of beers.

Tina Martin and Hayley Aldous worked on the latest manifestation of this positioning: the hard hitting 'Marston's Don't Compromise' campaign was launched in autumn 2005. This brings to life the attitude of the entire Marston's team. Press adverts feature the experience of Steve Brooks, the Marston's brewmaster; the determination of beer quality technicians in trade, led by Jim Bligh, to ensure that only perfect pints are served to customers; and the unique nature of Burton well water. Posters challenge drinkers to 'give a damn' and to 'go the extra mile' in search of a Marston's pint. Steve Benton, Channel Marketing Controller, manages the 'CaskForce' initiative which rewards loyalty and brings beer handling training straight into 500 pubs. All of these things are designed to continue Pedigree's drive to the number one spot in premium ale.

This is just part of W&DB's marketing plans. Peter's team of 15 people is responsible for the development of effective consumer and customer campaigns in all business sectors from pubs to supermarkets.

The approach of his team is best summed up in the third 'Marston's Don't Compromise' poster: 'raise your game'!

The performance of standard ales has also been strong. We achieved good growth in Marston’s Smooth, which was launched in 2004 as Marston’s FC, and the Banks’s and Mansfield brands performed well with more localised marketing campaigns. The ‘Banks’s Seven Wonders’ campaign won ‘Best PR Campaign at the Drinks Business Awards 2005’, and generated excellent local coverage for the brand. Additionally, our timing in producing Marston’s Ashes Ale, a limited edition bottled beer, could not have been better.

The beer market generally, however, remains challenging with UK ale volumes declining by 6.4% last year. We outperformed the market by 11.6%, which is a consequence of ale being the focus of the WDB Brands business, continuing marketing support for our brands, dedication to beer quality and service and a great brand range.

Having acquired Jennings – ‘the Lakeland Brewery’ - we see considerable opportunity to extend distribution of the Jennings range of ales, which have a strong heritage and a unique provenance, and to continue to increase our market share of the ale market.

Current trading

Whilst weaker consumer confidence has produced more subdued trading conditions since the year-end, like-for-like sales are marginally positive against strong comparables in both pub divisions and our performance overall is in line with our expectations, margins remaining firm and costs well controlled.

Ralph Findlay
Chief Executive

Financial review

Paul Inglett
Finance Director

Trading overview

	Turnover		Underlying operating profit (note 2)		Margin	
	2005 £m	2004 £m	**2005 £m**	Restated 2004 £m	**2005 %**	Restated 2004 %
Pathfinder Pubs	**304.7**	275.2	**61.3**	54.6	**20.1**	19.8
The Union Pub Company	**123.1**	118.2	**53.5**	49.8	**43.5**	42.1
WDB Brands	**124.0**	120.3	**18.0**	17.8	**14.5**	14.8
Central costs	–	–	**(9.7)**	(9.3)	**(1.6)**	(1.8)
Continuing operations	**551.8**	513.7	**123.1**	112.9	**22.3**	22.0
Acquisitions	**45.5**	–	**12.3**	–	**27.0**	–
Group	**597.3**	513.7	**135.4**	112.9	**22.7**	22.0

2005 has been a year of real progress, with the financial performance and strength of the Group significantly increased as a result of notable achievements in three main areas:

- A strong performance in the underlying business, driven by good like-for-like sales and improved margins.
- Acquisitions which have been integrated ahead of schedule and delivered synergy savings in excess of original targets.
- A refinancing which has reduced annual cash interest costs by £5 million per year and provided greater financial flexibility.

Underlying profit before taxation increased by 16.0% to £90.1 million (2004: £77.7 million). After goodwill amortisation and exceptional items (including refinancing costs primarily relating to the associated redemption of debentures), profit before tax was £47.9 million (2004: £70.2 million). Underlying earnings per share increased by 11.3% to 84.4 pence per share (2004: 75.8 pence). Basic earnings per share after goodwill amortisation and exceptional items was 44.3 pence per share (2004: 66.7 pence).

Changes to segmental analysis

One of the consequences of refinancing was a review of the arrangements for inter-divisional transfer terms and the allocation of overheads between the divisions. In order to ensure that products are supplied from WDB Brands to both our pub divisions on an arms length market basis, we have adjusted inter-divisional transfer terms to reflect current comparable contracts with major national account customers. This has increased the profit in both Pathfinder Pubs and The Union Pub Company by £1.0 million and correspondingly reduced the profit in WDB Brands by £2.0 million. There is no change to the underlying Group profitability and the comparative 2004 divisional profits have been restated by similar amounts.

Following a detailed review of the central overhead structure, we have reallocated certain central overheads to the trading divisions. This has reduced central overheads in the year by £8.5 million, with corresponding increases in Pathfinder Pubs of £4.8 million, The Union Pub Company of £2.1 million and WDB Brands of £1.6 million. The 2004 comparative divisional profits have been restated by similar amounts.

Both of the adjustments referred to above are considered to reflect better the true profitability of each division and should allow better comparability with our peer group of companies in the sector.

Improved margins

The underlying operating margin of the Group improved by 0.7% to 22.7% despite significant cost increases. These increases have mainly impacted Pathfinder Pubs and include increases of 7.8% in the national minimum wage, £2.5 million in utility costs and £0.8 million in Sky TV costs.

Acquisitions

Burtonwood was acquired on 6 January 2005 for £167.8 million, including acquisition costs and £33.8 million of net debt (before any fair value adjustments). The acquisition was funded from existing bank facilities and the issue of 3.9 million new shares at a market value of £42.7 million. The Burtonwood tangible fixed assets have subsequently been independently valued at £185.4 million. Negative goodwill arising as a result of the acquisition was £5.5 million (see note 27).

Jennings was acquired on 20 May 2005 for £72.9 million, including acquisition costs and £24.4 million of net debt (before any fair value adjustments). The acquisition was funded entirely from existing bank facilities. The Jennings tangible fixed assets have subsequently been independently valued at £66.5 million. Goodwill arising as a result of the acquisition was £8.8 million (see note 28).

English Country Inns was acquired on 15 September 2005 for £13.4 million (see note 29).

Estate revaluation surplus

75% of our pub estate was revalued in 2004 resulting in a net £169.5 million gain with the remaining 25% revalued in this financial year. This has produced a further net gain of £58.5 million - equivalent to an average 27% increase compared to book values.

Refinancing and pensions

The Group completed a major refinancing on 9 August 2005 replacing its debentures and bank debt with a £805 million securitisation of 70% of our managed and tenanted estate and a new £275 million bank facility.

The new debt structure has reduced the cash interest cost by £5 million per annum and more than doubled the average debt maturity to 16 years, whilst maintaining operational flexibility and significantly increasing our debt capacity.

As previously indicated, a one-off contribution of £29 million was made in September 2005 to The Wolverhampton & Dudley Breweries, PLC final salary pension scheme, reducing the deficit of this scheme together with the combined Burtonwood and Jennings schemes on a FRS 17 basis to £44.9 million (£31.4 million after tax).

The overall effect of these transactions will be to reduce interest charged in the profit and loss account by approximately £1.5 million per year. This includes the £5 million cash saving from refinancing, interest on the one-off pension contribution of £29 million, and the fact that historical non-cash debenture fair value accounting adjustments have been eliminated following the refinancing.

Balance sheet flexibility

Net debt increased by £311.3 million to £871.7 million primarily as a result of the acquisitions of Burtonwood and Jennings and the recent refinancing of the Group's debt. The Group remains conservatively financed relative to the pub sector in general with interest cover of 3.0 times. The new £275 million bank facility put in place following the refinancing had headroom of £153 million at the year-end.

Taxation

The underlying rate of taxation (before goodwill and exceptional items) increased marginally from 29.2% in 2004 to 29.4% in 2005.

Exceptional items and goodwill

There was a total of £30.2 million of goodwill amortisation and exceptional items after tax in the year mainly as a result of refinancing. The main elements were:

- Exceptional restructuring costs relating to the Burtonwood and Jennings acquisitions of £4.7 million.
- Exceptional costs of the refinancing of £32.7 million mainly relating to the redemption of the debentures which had coupons at rates significantly above market rates. It should be noted that these costs would have been crystallised on the balance sheet in 2006 as a consequence of moving to IFRS.
- Goodwill impairment following fixed asset disposals and amortisation of £8.2 million.
- Profit on fixed asset disposals of £4.0 million.
- A tax credit of £12.0 million. We have received the full cash benefit of this tax credit in the first quarter of 2006.

International Financial Reporting Standards (IFRS)

The annual report for the year to 1 October 2005 will be the last prepared under UK accounting standards. The Group's first results reported under IFRS will be the interim results for 2005/06. In March 2006 we will publish further information including the 2005 results and balance sheet restated.

Preparations for adoption have continued throughout the year and the Board remains confident that procedures have been put in place to enable a smooth transition from UK accounting standards.

Following adoption of IFRS, the principal changes in accounting treatment are expected to be for deferred taxation, pensions, share based payments, financial instruments, goodwill and accrued dividends.

There will be no impact on the Group's cash flows or debt covenants, however there will be some changes in the presentation and format of the financial statements.

P. Inglett

Paul Inglett
Finance Director

Directors

Ralph Findlay FCA (44) †
Chief Executive

Joined the Company in 1994 and appointed to the Board and Finance Director in 1996, Chief Executive in 2001.

Derek Andrew MBE (50)
Managing Director, Pathfinder Pubs

Joined the Company in 1980 and appointed to the Board in 1994.

Stephen Oliver (47)
Managing Director, The Union Pub Company

Joined the Company in 1999, on the acquisition of Marston's, and appointed to the Board in 2001.

Paul Inglett FCMA (39)
Finance Director

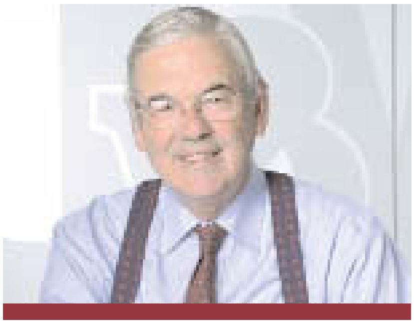
Joined the Company in 1992, on the acquisition of Camerons, and appointed to the Board in 2002.

Alistair Darby (39)
Managing Director, WDB Brands

Joined the Company in 1997 and appointed to the Board in 2003.

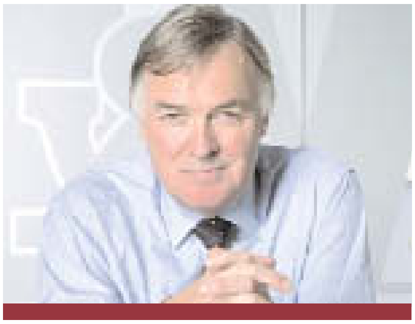
David Thompson (51) †
Chairman, Non-executive Director

Joined the Company in 1977 and appointed to the Board in 1980, Managing Director in 1986, Chairman in 2001. Director of Persimmon PLC, Warburtons Limited, Tribal Group PLC and various investment trusts including Caledonian Investments Ltd. Chief Executive of Ragleth Ltd which owns Anglia Maltings (Holdings) Ltd.



Peter Lipscomb OBE (66)* †
Deputy Chairman, Non-executive Director

Appointed in 2000. Former Managing Director of Guinness Great Britain and Deputy Managing Director of Guinness Brewing Worldwide.



Miles Emley (56)* †
Non-executive Director

Appointed in 1998. Chairman of St. Ives PLC. Former Director of N M Rothschild & Sons Limited and UBS Phillips & Drew.

Robin Hodgson – The Lord Hodgson of Astley Abbotts CBE (63)* †
Non-executive Director

Appointed in 2002. Chairman of Carbo PLC, Rostrum Group Limited and Johnson Brothers & Co Limited and a Director of the Staffordshire Building Society. Former Chairman and founder of Granville Baird Group Limited, Chairman of dominick hunter PLC, Deputy Chairman and founder of Community Hospitals PLC and Director of the Securities and Futures Authority.

Anne-Marie Brennan
Company Secretary

Joined the Company in 1997 and appointed Company Secretary in 2004.

*Member of the Remuneration and Audit Committees

†Member of the Nomination Committee

Corporate and social responsibility

Our People

The Group remains committed to treating all of its people in a "FIT" manner, something that underpins all of its employee policies. "FIT" encapsulates three fundamental behaviours that apply throughout the Group.

Fairness – Any action, decision or policy adopted within the Group should be both equitable and reasonable. It should not result in one particular group of employees gaining an unjustified advantage or benefit at the expense of another.

Integrity – If a commitment is made it should be kept. If it cannot be delivered or circumstances change so that an alternative course of action is appropriate this should be clearly explained.

Transparency – Wherever there is the freedom to do so, the Group should act in a manner that is open to the scrutiny of our employees and the wider community.

The Chief Executive takes responsibility for all people related matters, which are then delegated through the other Executive Board Directors and the Group's Director of Human Resources. The Group also publishes a full Equal Opportunities Policy and a Public Interest Disclosure ("Whistleblowing") Policy, both of which are available on the Group's website, www.wdb.co.uk.

Listening to our people
This year we have introduced a new employee magazine called "The Word" which is sent to over 11,000 employees and Group pensioners keeping them updated on Group events and providing an opportunity to record and celebrate employee achievements. Well attended roadshows and conference presentations are increasingly seen as an integral part of how we operate and this year for the first time, the annual Pathfinder Roadshow, succeeded in getting the entire head office and pub management team (some 860 employees) under one roof.

The Group has a long history of excellent relationships with its trade unions, both for consultative and collective bargaining arrangements. Employee representatives have a significant and recognised role to play in developing our business and we intend to continue to encourage such participation. Our confidential employee attitude survey, which provides significant support for the qualitative feedback we obtain, remains an important part of our employee feedback process. Last year we reported that our results had shown a significant improvement when compared with previous years. This year's results continue to show the high scores have been maintained and in places improved upon.

The Group operates a free Employee Assistance Programme providing confidential support for employees 24 hours a day, 365 days a year.

Diversity & work/life balance
The majority of our people work on a part time basis to suit their personal circumstances. We seek to develop inclusive pubs and work places and recognise the benefits of employing teams that fully reflect the local communities within which we operate.

Pathfinder Pubs is a member of the Employers' Forum on Disability. During the year we have continued accessibility audits at our outlets and made significant investment in changes that make our pubs more accessible to customers and employees with a disability.

Many within our head office and supply chain teams have been with us for more than 25 years and we recognise this loyalty and commitment with long service awards for both 25 and 40 years service. Last year we extended this arrangement to our pub based staff, offering similar recognition at 15, 25 and 40 years service.

This year we have extended our food discount "Pathfinder Privilege" scheme, which offers employees and Group pensioners 20% off their food bill in most Pathfinder Pubs, to include hotel accommodation.

Developing all of our people
The Group operates a whole range of development activities designed to encourage anyone who wants to develop within the business to do so. This year we have seen the rollout of the Keyholder Programme designed to encourage staff within Pathfinder's pubs to obtain the skills to ultimately manage their own outlet. We are also in the process of reviewing and updating our development programmes for head office and supply chain staff and these revised programmes will be launched in the New Year.

The Group has been continually accredited with the prestigious Investor in People standard since 1995 and has won a number of National Training Awards over the same period.

Protecting our environment

The Board determines the Group environmental policy and the Environmental Committee, chaired by the Finance Director, is responsible for policy implementation.

Environmental management
The Group uses structured environmental management systems and processes that allow it to:

- Adopt economic production processes, which minimise environmental impact.
- Continue to aim for prevention of pollution at source.
- Provide appropriate training so that employees are able to exercise personal responsibility in preventing harm to the environment.
- Contribute to every aspect of environmental protection.
- Provide facilities for environmental auditing.

Corporate and social responsibility

Regular environmental audits are conducted at our production sites. Resulting action points are addressed during the year. The Group is currently being assessed for Integrated Pollution Prevention Control (IPPC) accreditation from the Environment Agency on our qualifying production sites. The award recognises the best use of available techniques for energy and waste management.

Energy

The Group's aim is to minimise energy consumption by its continued use of measuring and monitoring techniques and by setting challenging targets for energy reduction to ensure continuous improvement in environmental performance.

We continue to collate and analyse statistics related to the Climate Control Levy, energy usage and effluent production to compare production sites and provide targets for general improvement initiatives. The results are also used to assist in the determination of capital investment projects, update future energy targets and they form part of the post investment evaluation.

Pathfinder Pubs has expanded its programme of monitoring energy usage per square metre from its "Bostin' Local" sites to all of its operating formats. In addition to this Pathfinder Pubs are the first pub operator to work on a joint project with the Carbon Trust to actively explore opportunities for carbon emission reduction.

Low energy lighting is already installed in all back-of-house areas and following a successful trial Pathfinder Pubs have now introduced low energy lighting into the vast majority of its front-of-house pub estate, an exercise that should be completed by January 2006. The Union Pub Company are now actively exploring ways that they can use the knowledge gained for the benefit of their tenants and lessees.

Water use

Last year we reported that we had instructed an independent energy management group to undertake detailed surveys at our prime usage sites with a view to recommending ways of reducing usage. We have now completed water risk assessments in all of our Pathfinder pubs and monitoring procedures are being introduced on a rolling basis. We also continue to work closely with Severn Trent Water to meet stringent standards for disposal of our effluent.

Grease & cooking oil

We dispose of grease in a responsible manner. Whilst some used cooking oil is collected and disposed of by a waste contractor who then recycles the material, much of the need for disposal has now been removed with the introduction at many pubs of "grease guzzlers". This patented system uses enzyme technology to break down fats on site.

Asbestos

Our pub estate has now completed its asbestos audit programme and appropriate systems and controls are in place.

Health and safety

The Board and health and safety

The Group has a Health and Safety Policy, endorsed by the Board and used throughout the Group. The Group Health & Safety Manager reports to the Board twice a year, giving detailed statistics on health and safety issues and the progress made in improving our performance where required. These reports also outline planned health and safety initiatives and comments on potential future developments and challenges.

Health and safety – practical application and employee involvement

Relevant health and safety information and guidance forms a part of every employee's induction process, and many managers have been trained in risk assessment techniques. All of our production and head office locations have active health and safety committees, involving both managers and employees, which meet regularly and are co-ordinated by the Group Health and Safety Manager. We also now have a similar committee for Pathfinder Pubs.

Within Pathfinder Pubs, all pubs undergo health and safety audits by an external contractor and the measures by which we judge a satisfactory outcome are continually reviewed and raised. Each pub receives a comprehensive health and safety manual for use as a source of information, guidance and training together with a set of compliance documentation that has been widely praised by Environmental Health Officers.

In The Union Pub Company tenants and lessees are provided with the opportunity to receive health and safety training, and can also obtain examples of best practice for use within their pubs.

Managing risk

Recognising the growing importance of managing risk within a dynamic environment, the Group has appointed both a Director of Treasury and Risk and a Group Risk Manager. These new roles aim to help line management identify risks within the business and then develop strategies to remove or mitigate them.

A responsible attitude towards alcohol

Quality products, excellent service, a safe and relaxed environment and well maintained pubs will always create a positive experience for customers and we firmly believe that, if managed responsibly, they contribute to the overall quality of life within our local communities.

Our promotional material carries a clear and concise message encouraging the responsible consumption of alcohol. Marston's Pedigree was the first beer brand to include a responsible drinking message in its television advertising and an ongoing programme is underway with the packaging of our own brewed products involving the use of both a responsible drinking message and the recording of the alcohol unit value of the product.

Corporate and social responsibility

Our training programmes for our retail staff include significant elements designed to assist their determination of when it would be inappropriate to serve a customer and how to take positive steps to ensure that difficult situations are handled in a calm, safe and considered manner. Within The Union Pub Company we run a customised drinks and drugs awareness programme through Telford College which our lessees and tenants are encouraged to attend. Having been chosen as Most Responsible On Trade Retailer (Pub Company) at the Responsible Drinks Retailing Awards 2004 run by the Morning Advertiser, The Union Pub Company continues to lead the field in this area.

The Company is a member of the British Beer and Pub Association (BBPA), providing the Chair for the Midlands Section for the last four years. Pathfinder Pubs and The Union Pub Company are both associate members of The Portman Group and are committed to complying with the provisions of its Code of Practice. Full details of this Code can be found on The Portman Group website either directly or via the link from the Group's own website, www.wdb.co.uk.

Support for alcohol awareness and education programmes
By focusing on educating young people, the Group believes that it can help them to establish a responsible attitude to alcohol and socialising in a safe and considerate manner. Examples of our commitment include:

- This year we funded extra resource for a local college to provide advice, and guidance to students on safe socialising.
- We also provided funding for Staffordshire County Youth Service enabling them to give their teenage Peer Health Advisors alcohol awareness training. The outcome was that over 1,000 young people received advice and support from this initiative and it is likely that this will be repeated this year.

We are keen to explore opportunities to support wider responsible drinking initiatives and we are talking to representatives of Wolverhampton City Council about providing support for a potential local launch of the very successful Best Bar None Campaign aimed at responsible retailing within pubs. Having been launched in Manchester, this initiative is rapidly gaining national exposure. We continue to be the only drinks industry member of Wolverhampton's multi-agency Alcohol Taskforce set up to develop the policy for local implementation of the Government's National Alcohol Harm Reduction Strategy.

Smoking in pubs

In October of this year the Government announced plans to introduce a smoking ban from 2007 in all work places including pubs that sell food, but excluding those that do not sell food. Whilst noting these developments the Group remains committed to introducing improvements prior to these dates and stands by the pledges made in last year's annual report, namely:

- We will continue to increase our use and upgrade our existing air extraction facilities for the benefit of everyone in our pubs.
- We will continue to increase the percentage of our floor space that is 'no smoking'.
- We will, as a minimum, comply with our commitment to ban smoking at the bar and within back office areas by the end of 2005. We will also ensure that 20% of our trading area will be smoke-free by this time, rising to 80% over time.

We have increased the number of our smoke-free pubs within Pathfinder Pubs to 15 and we will continue to increase this number where our customers indicate a preference. We have also undertaken a comprehensive upgrade of our outdoor areas, with a particular emphasis on quality patio and garden areas that will allow our smoking customers to continue to enjoy all of our products and services.

Within The Union Pub Company we have sought the views of our tenants and lessees and the vast majority have also sought the views of their customers. Again work has been done to improve outside amenities and this will continue.

All our sites now display the appropriate signage in accordance with the Clean Air Charter. We will continue to monitor developments in this area but remain confident that the breadth of our customer offer will enable us to provide a quality experience for our customers once the legislation is implemented in its final form.

In the community

The Group is committed to being an active and positive contributor to the communities it serves. The Group's Corporate & Social Responsibility (CSR) Committee meets at least quarterly, under the stewardship of the Finance Director.

Charitable donations
Each year our licensed retail managers, pub staff and tenants raise significant amounts of money for many different charitable causes through local pub based activity and contributions from the Pathfinder Local Heroes Foundation. Donations from the Foundation are funded directly from contributions made by employees within its' head office function, which totalled £28,957 during the year. These contributions are then matched by the Company. During the year these combined efforts have raised more than £80,000, including a substantial sum for the Tsunami relief appeal.

In addition to providing prizes and administrative support for the charitable activities of their tenants and lessees, The Union Pub Company raises money for nominated charities and WDB Brands makes hundreds of prize donations for charitable activities run by its free trade customers.

Our employees also run their own W&DB Employee Charity Fund, which we are proud to support. This fund is run by employees for employees and since its inception has raised well over £150,000 for local causes. In the last twelve months the Fund has made donations

Corporate and social responsibility

totalling some £6,500 to a range of good causes nominated by our employees. In support of this the Group runs Give As You Earn arrangements for employees enabling them to make tax-efficient donations to this, or any other registered charity of their choice. The administration charges for running this scheme are borne by the Group, thereby ensuring that employees' donations are given in their entirety to good causes.

Ethical purchasing

As a responsible employer we have a duty to support and encourage a responsible purchasing policy for all of our goods and services. As a minimum, all of our purchasing professionals abide by the Chartered Institute of Purchasing and Supply's (CIPS) Professional Code of Ethics Statement. This Code requires purchasing professionals to have due regard for their responsibilities in respect of a whole range of issues and full details of the Code can be found on the CIPS web site or follow the link on our own Group website, www.wdb.co.uk.

Directors' report

The Directors present their annual report and audited financial statements for the financial year ended 1 October 2005. This represents a 52 week period compared to a 53 week period for the previous financial year.

Principal activities and business review
The Group's principal activities are operating managed, tenanted and leased public houses, brewing beer and wholesaling beer, wines and spirits.

A review of activities and the financial performance during the period together with an assessment of likely future developments are presented in the Chairman's statement, the Chief Executive's review and the Financial review.

Results and dividends
The profit for the period after taxation amounted to £33.4 million (2004: £48.4 million). The dividend on the cumulative preference shares was £5,250 (2004: £5,250). The directors propose a final dividend of 25.66p per ordinary share which, when added to the interim dividend of 13.2p, makes a total of 38.86p per ordinary share for the period ended 1 October 2005. The final dividend, as proposed and if approved, will be paid on 31 January 2006 to those shareholders on the register at close of business on 30 December 2005.

Policy and practice
The commitment and ability of our employees are key factors in achieving the Group's objectives. We seek to give equal opportunities in employment and ensure that all employees receive fair treatment irrespective of sex, religion, ethnic origin or disability including those who become disabled during their employment. Employment policies are based on the provision of appropriate training, and annual personal appraisals support skill and career development. The Company operates a Save As You Earn share option scheme open to all employees on the completion of three years service.

Our communications aim is to increase the understanding and commitment of all our employees through regular briefings and in-house publications.

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 Finance Director. Our operations comply with relevant environmental legislation to minimise risks of all forms of pollution and noise.

The Company's payment policy follows the CBI's Prompt Payment Code for all suppliers. Copies of this Code can be obtained from the Company's registered office. Creditor days at the period end for the Group were 38 (2004: 42), and creditor days for the Company were nil (2004: nil).

Charitable donations made during the year were £45,176 (2004: £16,307). These were made across the divisions to various local and national charities, further details of which can be found in the Corporate and social responsibility report on page 22. No political donations were made (2004: £nil).

Directors
The present Directors and their biographical details are shown on pages 18 to 19. All served throughout the financial year. Derek Andrew, Lord Hodgson and Peter Lipscomb retire by rotation in accordance with the articles of association and offer themselves for re-election at the forthcoming annual general meeting. Details of the terms under which the directors serve and their remuneration are given in the Directors' remuneration report on pages 27 to 33.

Directors' report

Interests of Directors

The interests of the Directors and their immediate families in the ordinary share capital of the Company as at 1 October 2005 were:

	Ordinary Shares			
	Beneficial		Non-beneficial	
	2005	2004	**2005**	2004
Derek Andrew	**60,753**	64,753		
Alistair Darby	**12,102**	9,666		
Miles Emley	**8,812**	8,812		
Ralph Findlay	**69,620**	58,120		
Lord Hodgson	**1,680**	1,680		
Paul Inglett	**13,822**	11,663		
Peter Lipscomb	**5,000**	5,000		
Stephen Oliver	**8,720**	8,720		
David Thompson	**161,052**	161,052	**268,212**	268,212

In addition, Derek Andrew, Ralph Findlay, Paul Inglett, Stephen Oliver and Alistair Darby as Executive Directors are treated as having a beneficial interest in the total number of 163,862 ordinary shares (2004: 212,500) held in the ESOP. The interests in share options are set out on page 30.

No Director had any material interest in any contract of the Group's business during or at the end of the period. There have been no changes in Directors' interests between 1 October 2005 and 2 December 2005.

Substantial shareholdings

The Company has received notification of the following interests in 3% or more of its issued share capital as at 1 October 2005.

Ordinary shares	Number	%
Silchester International Investors Limited	3,433,306	4.48
The Royal Bank of Scotland Group Plc	3,051,750	3.97
Legal & General Investment Management	2,785,929	3.84
Prudential Plc	2,890,714	3.74

Since the year end the Directors have been notified that Prudential Plc has increased its interest in ordinary shares to 3,911,294 (5.06%).

Preference shares

Fiske Nominees Limited A/C IONIAO42	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
Fiske Nominees Limited IONIA023	2,500	3.3

Directors' report

Auditors
PricewaterhouseCoopers LLP have indicated their willingness to continue in office. A resolution for their re-appointment 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 7 – to approve the Directors' remuneration report.

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 £7,604,235 representing approximately one-third of the total ordinary share capital of the Company in issue as at 1 October 2005.

The authority contained in this resolution will be valid for up to 15 months after passing the resolution or until the date of the annual general meeting in 2007, whichever is earlier.

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 £1,140,635 representing approximately 5% of the total ordinary share capital of the Company in issue as at 1 October 2005, for cash without offering the shares first to existing shareholders by way of rights.

The authority contained in this resolution will be valid for up to 15 months after passing the resolution or until the date of the annual general meeting in 2007, whichever is earlier.

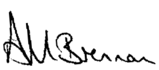
Resolution number 10 – purchase of own shares by the Company.
The Company's articles of association permit the purchase of the Company's own shares, subject to the provisions of the Companies Acts. The Directors consider it desirable and in the Company's interests for shareholders to grant the Company 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 the shareholders generally. Subject to the passing of Resolution number 10 and to the extent that the Company exercises such power, the Company may decide to either cancel the shares it purchases pursuant to such power and/or hold such shares in treasury for resale.

We propose an authority for the Company to purchase its own shares in the market, up to a total of 11,591,948 ordinary shares of 29.5p each having an aggregate nominal value of £3,419,625 representing approximately 14.99% of the issued ordinary share capital of the Company as at 1 October 2005.

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



Anne-Marie Brennan Secretary
2 December 2005

Directors' remuneration report

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.

The Committee is responsible for setting the framework and policy for the remuneration of the Chairman and Executive Directors, which it reviews for appropriateness and relevance annually. It is also responsible for determining the specific elements of the Executive Directors' remuneration, their contractual terms and compensation arrangements. In addition, the Committee monitors the level and structure of remuneration for senior management and approves their bonus payments. It also oversees any major changes in employee benefits structures throughout the Group. The terms of reference of the Committee can be found in the Investors section of the Company's website at www.wdb.co.uk.

In setting policy and compensation levels, the Remuneration Committee has due regard to the Combined Code.

The Committee took advice on specific issues during the year from the Chief Executive, Ralph Findlay, who did not, however, provide any advice in relation to his own remuneration. The Committee also referred to data from independent professional sources for general remuneration levels to ensure that the awards remain competitive and in line with best practice.

Remuneration policy

The Company's remuneration policy is to ensure that the remuneration of Executive Directors is sufficiently competitive to enable the Company to retain and motivate existing Directors and attract high quality performers in the future. The Committee undertakes an annual review of market practice and considers the remuneration levels of directors in companies of similar size from within and outside of the industry sector. The Company also aims to incentivise and reward its Executive Directors in a way that is consistent with the Company's commercial objectives and to align the interests of the Directors with those of shareholders. To achieve this, the Executive Directors' total remuneration comprises both fixed remuneration and variable reward, the latter reflecting both Company performance and individual achievement.

The main fixed and performance related ("variable") elements for Executive Directors are set out below. Only the basic salary element is pensionable.

Fixed

- basic salary;
- benefits in kind (detailed in the notes to the Directors' Emoluments table below);
- pension benefits.

Variable

- annual award of share options under the Long Term Incentive Plan (LTIP), vesting after 3 years, subject to performance conditions being met;
- annual bonus related to Company performance and individual objectives.

The Company's remuneration policy in respect of Non-executive Directors is to pay annual fees which reflect the responsibilities and duties placed upon them, whilst also having regard to market practice.

Service contracts

The Company's policy is that all Executive Directors' contracts are on a rolling 12 months basis. They are subject to 12 months' notice when terminated by the Company and 6 months notice when terminated by the Executive Director. David Thompson has a six-month rolling contract. All service contracts expire on the Director reaching age 60 unless the Company subsequently agrees that the Director may continue to work beyond the age of 60.
The following table details the Directors' service contracts.

	Date of contract	Notice period (Company)	Notice period (Director)
Derek Andrew	22 July 04	12 months	6 months
Alistair Darby	16 May 03	12 months	6 months
Ralph Findlay	15 Aug 01	12 months	6 months
Paul Inglett	22 Mar 02	12 months	6 months
Stephen Oliver	15 Aug 01	12 months	6 months
David Thompson	24 Jan 02	6 months	6 months

Directors' remuneration report

Payments to Directors upon termination of their contracts will be equal to the Director's basic salary for the duration of the notice period. There is no reduction for mitigation or for early payment for those listed above. The Remuneration Committee has taken the view that since the current Executive Directors are all long standing employees of the Company, they would merit full compensation in the event of unilateral termination of their employment by the Company. This would not necessarily apply to new appointments.

With the exception of David Thompson, the Non-executive Directors do not have a service contract and their appointments may be terminated without compensation at any time. All Non-executive Directors have letters of appointment and their appointment and subsequent re-appointment is subject to approval by shareholders.

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

Salaries

Salaries for Executive Directors were reviewed as at 1 October 2004 against similar positions within companies of a similar size. The aim of the Company is to provide a competitive remuneration package to retain key executives whilst having regard to an individual's performance and responsibilities and in the context of other pay awards made in the Group.

Bonuses

Bonus objectives for Executive Directors were set based on a combination of Group profit achievement and personal objectives. The level of bonus payments awarded is dependent on the level of performance achieved and is determined by the Remuneration Committee who retain discretion over the level of pay out depending on the quality of the financial performance in achieving the result. There is a maximum possible bonus of 75% of basic salary, with up to 50% allocated on the basis of profit achievement and 25% awarded for personal achievement.

The terms and conditions for bonus payments are unchanged from the previous year. Bonuses are payable in December 2005. The performance targets and KPIs relate to financial trading targets and other quantitative objectives all of which are commercially sensitive and are therefore not included in this report.

Share incentive schemes

The Company operates Executive share option schemes, a Long Term Incentive Plan (LTIP) and a Savings Related Share Option Scheme. It is envisaged that for the foreseeable future the Remuneration Committee is likely to make awards under the LTIP rather than the Executive share option scheme, and in any event does not intend to make awards under both the LTIP and Executive share option schemes in the same year.

The 1994 Executive Share Option Scheme is an Inland Revenue approved scheme and the 1997 Executive Share Option Scheme is a non-Inland Revenue approved scheme used to make awards to Executive Directors and other selected employees above their £30,000 tax efficient limit. The 1994 Scheme expired in January 2004 and this, together with the 1997 Scheme, was replaced by the 2004 Executive Share Option Scheme which was approved by shareholders at the annual general meeting (AGM) held on 23 January 2004. Executive share options are awarded at the prevailing market rate on the date of grant. Options are normally exercisable between three and ten years after grant and upon the achievement of stated performance criteria.

The exercise of executive share options granted under the 1994 and 1997 Schemes is subject to the Group achieving growth in earnings per share (eps) in excess of the growth in the retail price index by an average of 2.0% per year over a three-year performance period. For the 2004 Scheme, the growth in eps must be in excess of the growth in the retail price index by an average of 3.0% per year over a three-year performance period before an option becomes exercisable. There are no re-testing provisions under any of the Schemes. The Remuneration Committee retains the discretion to change the performance measures for future awards, if appropriate, provided the new conditions are no less stretching. The levels of the target and maximum awards will not be increased without shareholder approval. The Committee believes the eps performance conditions to be appropriate and provide proper alignment with the Group's overall performance.

The Company introduced a Long Term Incentive Plan (LTIP) following shareholder approval at the AGM in January 2004. Both Executive Directors and senior managers are eligible to participate and the maximum annual, conditional award, of nil cost options, that can be made to an individual is equivalent to 100% and 35% of salary respectively. The options granted during the year will only become exercisable (vest) provided the participant satisfies the minimum shareholding requirement and the performance conditions are met. The minimum shareholding requirement as a percentage of salary required to participate in the LTIP is 100% for Executive Directors and 35% for senior managers. Spouse holdings for both Executive Directors and senior managers are included in satisfying this requirement. The options will vest to the extent that the Group's growth in eps exceeds the growth in the UK retail prices index (RPI) over a period of three years. There will be no re-testing provisions if the performance conditions are not met.

Where the excess growth is at least 3% compound in excess of the increase in RPI over the three year period, then 35% of the option awarded will vest.

Where the excess growth is at least 9% over the period, then 100% of the option will vest.

Directors' remuneration report

A sliding scale will operate between these two points.

If these performance conditions or the minimum shareholding requirement are not met, then those relevant options will lapse on the first date that they would otherwise have vested.

The Company also operates an Inland Revenue approved Save As You Earn Plan ("SAYE") which is available to all eligible employees, including the Executive Directors. Invitations are usually offered annually for a savings contract of 3, 5 or 7 years subject to the maximum monthly savings limit of £250. Options are granted at a discount of 20% of the market value of the Group's shares at the date of grant and their exercise is not subject to performance conditions. There have been no changes from the previous year to the terms and conditions of the Group's share incentive schemes.

Directors' emoluments

The emoluments of the Directors for their services as Directors of the Company and its subsidiaries for the period ended 1 October 2005 were:

	Salary/ Fees £	Bonus £	Non-cash benefits £	Other cash benefits £	**Total 2005 £**	Total 2004 £
Derek Andrew	215,000	118,250	4,388	13,500	**351,138**	346,188
Alistair Darby	205,000	102,500	8,481	7,120	**323,101**	273,053
Miles Emley	33,000	–	–	–	**33,000**	25,000
Ralph Findlay	350,000	210,000	8,925	16,200	**585,125**	509,754
Lord Hodgson	30,000	–	–	–	**30,000**	25,000
Paul Inglett	205,000	123,000	5,023	13,500	**346,523**	298,105
Peter Lipscomb	38,000	–	–	–	**38,000**	30,000
Stephen Oliver	205,000	112,750	2,859	13,500	**334,109**	302,603
David Thompson	120,000	–	2,583	16,200	**138,783**	118,187
	1,401,000	**666,500**	**32,259**	**80,020**	**2,179,779**	**1,927,890**

Non-cash benefits principally include the provision of company cars, fuel for company cars, life assurance and private health cover. Other cash benefits include cash allowances paid in lieu of a company car and fuel payments.

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

No Executive Directors earn fees outside their employment.

Non-executive Directors fees and benefits

The fees for the Chairman and Non-executive Directors are determined by the Board as a whole. The fees for 2004/05 were set last year following a review of comparator information provided by Deloitte and having regard to the increasing responsibilities placed on Non-executive Directors. The fees had been unchanged since 1 October 2001. The basic fee is currently £30,000 p.a. with an additional fee of £3,000 p.a. for the chairmanship of the Audit and Remuneration Committees. There is also a further fee of £5,000 p.a. paid to the senior independent Non-executive Director for his role as the Deputy Chairman. The Non-executive Directors do not participate in any of the Company's incentive plans, nor do they receive any benefits or pension contributions from the Group, with the exception of David Thompson whose benefits are as set out on pages 29 and 31.

Directors' remuneration report

Directors' share options

	Date of grant	At 2 October 2004	Granted during the year	Exercised during the year	Lapsed during the year**	Share price on exercise p	At 1 October 2005	Option price p	Exercise period from	to
Derek Andrew										
Executive	10 Jan 03	20,000	–	–	–	–	**20,000**	604.0	9 Jan 06	9 Jan 10
SAYE	30 Jun 00	6,633	–	–	–	–	**6,633**	277.0	31 Jul 07	31 Jan 08
	21 Jun 05	–	2,127	–	–	–	**2,127**	840.0	01 Aug 12	31 Jan 13
LTIP	15 Jun 04	24,554	–	–	–	–	**24,554**	0.0	15 Jun 07	-*
	26 May 05	–	19,833	–	–	–	**19,833**	0.0	26 May 08	-*
Alistair Darby										
Executive	10 Jan 03	20,000	–	–	–	–	**20,000**	604.0	9 Jan 06	9 Jan 10
SAYE	30 Jun 00	2,436	–	2,436	–	1140.0	–	277.0	31 Jul 05	31 Jan 06
	26 Jun 02	1,194	–	–	–	–	**1,194**	554.0	31 Jul 07	31 Jan 08
	25 Jun 03	616	–	–	–	–	**616**	517.0	31 Jul 08	31 Jan 09
	21 Jun 05	–	786	–	–	–	**786**	840.0	01 Aug 10	31 Jan 11
LTIP	15 Jun 04	22,713	–	–	–	–	**22,713**	0.0	15 Jun 07	-*
	26 May 05	–	18,911	–	–	–	**18,911**	0.0	26 May 08	-*
Ralph Findlay										
Executive	31 May 95	15,000	–	15,000	–	1117.0	–	530.0	30 May 98	30 May 05
	10 Jan 03	20,000	–	–	–	–	**20,000**	604.0	9 Jan 06	9 Jan 10
SAYE	30 Jun 00	6,092	–	6,092	–	1140.0	–	277.0	31 Jul 05	31 Jan 06
	21 Jun 05	–	1,967	–	–	–	**1,967**	840.0	01 Aug 10	31 Jan 11
LTIP	15 Jun 04	39,901	–	–	–	–	**39,901**	0.0	15 Jun 07	-*
	26 May 05	–	32,287	–	–	–	**32,287**	0.0	26 May 08	-*
Paul Inglett										
Executive	10 Jan 03	20,000	–	–	–	–	**20,000**	604.0	9 Jan 06	9 Jan 10
SAYE	24 Jun 99	1,474	–	1,474	–	1094.0	–	457.5	31 Jul 04	31 Jan 05
	26 Jun 02	1,370	–	685	685	1186.0	–	554.0	31 Jul 05	31 Jan 06
	25 Jun 03	1,430	–	–	715	–	**715**	517.0	31 Jul 06	31 Jan 07
	28 Jun 04	–	588	–	294	–	**294**	640.0	31 Jul 07	31 Jan 08
	21 Jun 05	–	451	–	–	–	**451**	840.0	01 Aug 08	31 Jan 09
LTIP	15 Jun 04	22,713	–	–	–	–	**22,713**	0.0	15 Jun 07	-*
	26 May 05	–	18,911	–	–	–	**18,911**	0.0	26 May 08	-*
Stephen Oliver										
Executive	10 Jan 03	20,000	–	–	–	–	**20,000**	604.0	9 Jan 06	9 Jan 10
SAYE	26 Jun 02	3,244	–	–	–	–	**3,244**	554.0	31 July 09	31 Jan 10
LTIP	15 Jun 04	22,713	–	–	–	–	**22,713**	0.0	15 Jun 07	-*
	26 May 05	–	18,911	–	–	–	**18,911**	0.0	26 May 08	-*
David Thompson										
Executive	2 Jan 96	39,000	–	–	–	–	**39,000**	581.0	1 Jan 99	1 Jan 06
	26 Jun 98	7,000	–	7,000	–	1100.0	–	518.0	25 Jun 01	25 Jun 05
	23 Dec 99	15,000	–	–	–	–	**15,000**	541.0	22 Dec 02	22 Dec 06
	30 May 00	180,000	–	–	–	–	**180,000**	325.5	29 May 03	29 May 07
SAYE	30 Jun 00	6,633	–	–	–	–	**6,633**	277.0	31 Jul 07	31 Jan 08

*Provided the required shareholding and the three-year performance conditions are met, options granted under the LTIP will not expire until the end of the calendar year following the option holder's expected retirement date, or earlier at the discretion of the Remuneration Committee.

**Paul Inglett's wife was an employee of the Company until 22 March 2005. On leaving the Company her SAYE options lapsed.

The mid-market ordinary share price range during the year was 880p to 1192p with an average price of 1076p.
The mid-market ordinary share price on 1 October 2005 was 1183p.

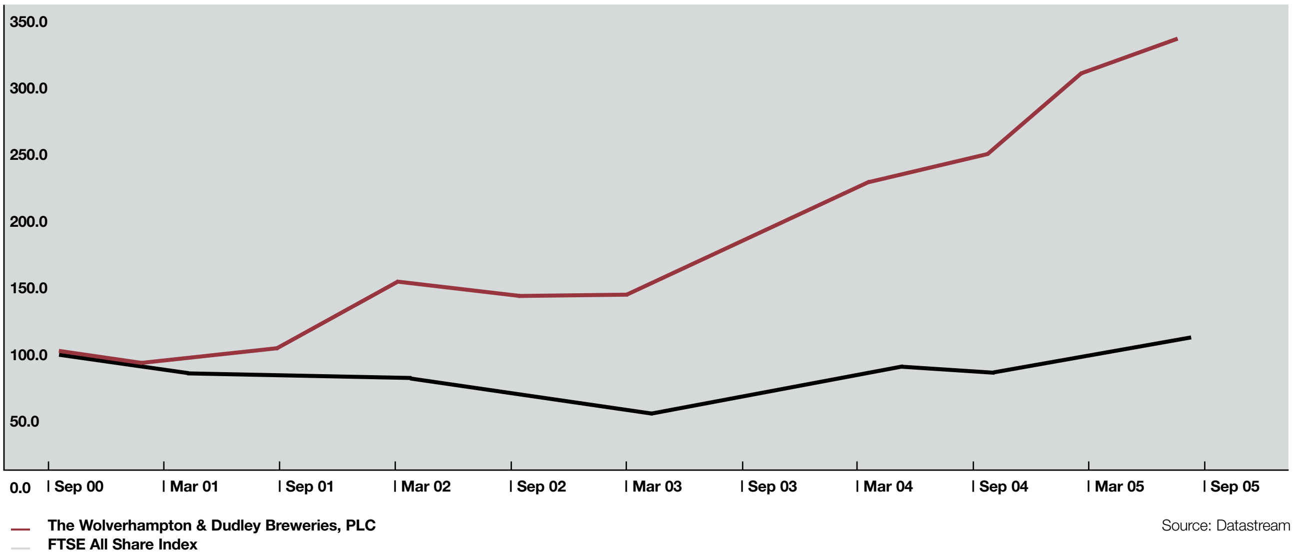
Directors' remuneration report

Interests of Directors

The interests of Directors and their immediate families in the ordinary share capital of the Company are disclosed on page 25.

Total shareholder return graph

The graph below shows the comparative Total Shareholder Return (TSR) performance of the Company against the FTSE All Share Index during the previous five financial years. The FTSE All Share Index has been selected as a comparator because the Company believes it is the most meaningful market index of which the Company is a member. The Company believes it would have been less meaningful to use a narrower index such as the Leisure and Hotels index for comparison purposes. The TSR indices used in the chart have been calculated in accordance with the Directors' Remuneration Report Regulations 2002 relative to a base date at the end of September 2000.



Directors' pensions

Pension benefits earned by the Directors:

	Accrued pension at 1 October 2005 £	Change in accrued pension over 2004/2005 excluding increase for inflation £	Members' contributions over year £	**GN11 transfer value at 1 October 2005 £**	GN11 transfer value at 2 October 2004 £	Change in transfer value over 2004/2005 net of members' contributions £	Transfer value of the increase in the accrued pension £
Derek Andrew	**100,008**	8,604	0	**1,028,008**	789,370	238,638	138,824
Alistair Darby	**15,482**	2,395	7,650	**119,372**	82,296	29,426	15,342
Ralph Findlay	**25,615**	2,594	7,650	**239,980**	179,034	53,296	32,049
Paul Inglett	**24,714**	2,339	7,650	**173,672**	126,147	39,875	22,905
Stephen Oliver	**32,353**	3,340	7,650	**386,878**	287,048	92,180	51,755
David Thompson	**144,019**	22,728	9,000	**1,483,994**	1,061,435	413,559	336,527

Directors' remuneration report

Notes

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 The increase in accrued pension during the year excludes any increase for inflation.
3 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.
4 The Company operates funded unapproved arrangements for Ralph Findlay, Stephen Oliver and Paul Inglett.
5 The pension benefits for Alistair Darby as at 2 October 2004 have been restated to recognise pension rights from previous employment.
6 The transfer values are calculated in accordance with version 8.1 of guidance note GN11 issued by the actuarial profession.

The following additional information relates to Directors' pensions:

(a) Normal retirement age is 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, Paul Inglett and Alistair Darby 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% per annum 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) There are no discretionary benefits.

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 scheme 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 fourth such payment of £93,750 was made on 1 October 2004, together with £65,148 to meet the tax liability created. The total commitment of £468,750 was charged to the profit and loss account in the year ended 28 September 2002. The Company contribution to the FURBS for the period ended 1 October 2005 was £105,000.

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 scheme above. The UURBS was replaced by a FURBS from 15 August 2001. The Company contribution to the FURBS for the period ended 1 October 2005 was £51,250.

Paul Inglett has participated in a FURBS since 11 March 2002. The Company contribution to the FURBS for the period ended 1 October 2005 was £41,000.

In anticipation of the new pensions regime applying from April 2006, the pensions of Executive Directors, and those employees affected by the new regime, were reviewed during the year. No extra payment was made or is planned to be made in any form to any individual as a result of this review.

Pension arrangements

During the year the Group operated three final salary pension schemes and three defined contribution arrangements.

The Wolverhampton & Dudley Breweries, PLC (W&DB)

During the year, the Group operated a final salary pension scheme (the "Scheme") for employees who joined the Scheme prior to 29 September 1997. The Scheme was closed to new entrants from that date. The Group contributed 32.0% of the pensionable payroll for all members, and members contributed in accordance with the Rules. All employees in the Group final salary pension schemes have permanent health insurance and death-in-service life assurance cover to the value of four times their salary, subject to acceptance by insurers.

The Group introduced a Group Personal Pension Plan (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 provides permanent health insurance and death-in-service life assurance cover to the value of between two and four times pensionable salary, subject to acceptance by insurers.

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 1 September 2003. This resulted in a long-term Group contribution rate of 32.0% 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 1 September 2003 valuation for the Scheme assumed that:

- the long-term investment return pre-retirement would exceed salary increases by 3.9% per annum and price inflation by 4.9%

Directors' remuneration report

per annum, and
- the long-term investment return after retirement would exceed salary increases by 2.1% per annum and price inflation by 3.1% per annum.

The market value of the Scheme assets was £135.3 million, which was sufficient to cover 78.5% of members' accrued benefits, after allowing for future increases in earnings at the long-term rate.

In addition, and following the successful securitisation of part of the Group's assets, the Group made a lump sum payment to the Scheme of £29.0 million. This contribution is not recognised in the amounts quoted above, but is recognised in the updated actuarial valuation as at 1 September 2005, further details of which can be found in Note 21 to the accounts. It is also recognised in the FRS17 position as at 1 October 2005.The payment will be recognised in the next full actuarial valuation of the Scheme, which has an effective date of 30 September 2005.

Burtonwood
During the year the Group acquired Burtonwood PLC which also operates a final salary pension scheme and a GPPP.

The Group has continued the contributions to this final salary scheme at the rate of 24.2% of pensionable salaries for Category A members and 18.4% of pensionable salaries for Category B members (as defined by the Burtonwood scheme). These rates were determined following the latest actuarial valuation of the Scheme which took place as at 1 April 2003. The assumptions used for that valuation were that long term investment returns would be 6.25% per annum and that these would exceed salary growth by 2.75% per annum, price inflation by 3.75% per annum and pension increases by 4.0% per annum. The market value of the Scheme's assets was £9.8 million which was sufficient to cover 81% of members' accrued benefits, after allowing for future increases in earnings at the long term rate.

Jennings
During the year the Group also acquired Jennings Brothers PLC. Jennings also operates a final salary pension scheme and a defined contribution arrangement.

The Group has continued contributions to this final salary scheme at the rate of £21,000 per month. This rate was determined following the latest actuarial valuation of the Scheme, which took place as at 6 April 2004. The assumptions used for that valuation were that long term investment returns would be 6.5% per annum and that these would exceed salary growth by 2.0% per annum, price inflation by 3.5% per annum and pension increases by 3.75% per annum. The market value of the Scheme's assets was £3.9 million which was sufficient to cover 70% of members' accrued benefits, after allowing for future increases in earnings at the long term rate.

At 1 October 2005 a pension pre-payment of £28.7 million is included within debtors in respect of the W&DB Scheme and a provision of £3.3 million is included within creditors in respect of the Burtonwood and Jennings Schemes. At 2 October 2004 a provision of £1.5 million in respect of the W&DB Scheme was included within creditors.

Compliance with the Directors' Remuneration Report Regulations
The Company's Directors' remuneration report has been prepared by the Remuneration Committee and approved by the Board. It has been written in line with the Directors' Remuneration Report Regulations incorporated in Schedule 7A to the Companies Act and the new Combined Code on Corporate Governance and shareholders will be invited to approve it at the forthcoming AGM.

P. W. Lipscomb

Peter Lipscomb OBE Chairman, Remuneration Committee
2 December 2005

Corporate governance

Statement of compliance with the provisions of the Combined Code
The Group 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, except with regard to Code provision A3.2 which provides that at least half the Board, excluding the chairman, should comprise independent Non-executive Directors. The report sets out below how the principles of the Combined Code have been applied by the Group and the reasoning behind the composition of the Board.

Structure
The Board comprises four Non-executive Directors, one of whom is Chairman, and five Executive Directors. The Non-executive Directors all possess a wide range of skills and experience. All exercise independent judgement although David Thompson, the Chairman, cannot be considered independent under the requirements of the Code, because of his past experience as a long serving Executive Director. Peter Lipscomb, Deputy Chairman, has been appointed the senior independent Non-executive Director. His experience and business interests ensure his independence from management which is also the case for the other independent Non-executive Directors. The Board consider that the current balance of Executives and Non-executives is such that no one individual or small group can dominate the Board's decision taking by virtue of the strength of experience and character possessed by the independent Non-executives. This is further strengthened by the process by which matters are disclosed to, and decisions are made by, the Board.

The Board met 10 times during the year in the normal course of business and additionally as required. With the exception of Derek Andrew, who was unable to attend one Board meeting, all the Directors attended all the Board meetings. 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. The Board approves major acquisitions, disposals and capital expenditure projects, all financial statements and the annual budgets. Specific to this year the Board met on several additional occasions to receive presentations explaining the securitisation of part of the Group's assets before giving approval to the transaction. 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 managers on a regular basis, which provides an opportunity for formal discussions with them. There is a strategy away-day to enable the full Board to focus on each division and consider the Group's opportunities, threats and operating issues.

There is a clear division of roles and responsibilities between the Chairman and the Chief Executive. The Chairman is responsible for running an effective Board and concentrating on the strategic development of the Group. The Chief Executive is responsible for implementing strategy and running the business in accordance with objectives agreed by the Board.

The Executive Committee, comprising the five Executive Directors, meets weekly to discuss operational matters. The Board is briefed on the decisions reached by the Committee including those involving risk management, health and safety issues and property transactions below a specified financial authority limit.

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. The Company maintains insurance cover in respect of legal proceedings and other claims against its directors and officers.

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. Details of the Directors retiring by rotation and offering themselves for re-election this year are set out in the Directors' report on page 24.

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. During the year the Chairman conducted a review of the Board, its Directors and Committees through consultation with each Director and discussion with the senior independent Non-executive Director. The Non-executive Directors also met, without the Chairman being present. This was to consider the governance of the Board and the Group, including the performance of the Chairman. Each of these matters was considered to be satisfactory. Where relevant, and not in respect of their own performance, the Chairman and the Chief Executive were involved in evaluating the composition of the Board and Committees, the meeting process, information and training, leadership, effectiveness and compliance with the new Combined Code. The results of the review were reported back to the Board and a number of action points concerning procedural matters have been incorporated into next year's meetings agenda. The Board is satisfied with its own composition, meeting process and minute recording, and that of its committees. In addition, the Chairman met informally with the Non-executive Directors on a number of occasions during the year without the Executive Directors being present.

All Board Committees have agreed terms of reference which have been updated to meet the provisions of the new Combined Code and are approved by the Board. They can be found on the Group's website at www.wdb.co.uk.

Corporate governance

The structure, size and composition of the Board, together with Board appointments and re-elections are considered by the Nomination Committee which comprises David Thompson (Chairman), Miles Emley, Ralph Findlay, Lord Hodgson and Peter Lipscomb. No Director is involved in any decision regarding his own re-appointment. The Committee met twice during the year to consider re-elections and the balance of the Board and all Committee members attended all of the meetings.

On 18 August 2005 the Chairman, David Thompson, was appointed executive director of Ragleth Limited (Ragleth) and, subsequent to its acquisition by Ragleth, Anglia Maltings (Holdings) Limited (Anglia). He has no controlling interest in either company and so the transactions between the Group and Ragleth or Anglia are not considered to be Related Party Transactions as defined by UK Generally Accepted Accounting Principles (GAAP). David Thompson has accepted these appointments on the basis of Ragleth and Anglia allowing him sufficient time to devote to the chairmanship of W&DB.

The Remuneration Committee comprises Peter Lipscomb (Chairman), Miles Emley and Lord Hodgson with Ralph Findlay in attendance if required. It is responsible for agreeing contract terms, remuneration and benefits, including bonuses, for Executive Directors and senior managers. It is also responsible for the granting of LTIP awards and share options. It met five times during the year to review pay and bonuses and consider the granting of share incentives. All Committee members attended all meetings.

The Audit Committee comprises Miles Emley (Chairman), Lord Hodgson and Peter Lipscomb. It monitors the relationship with the external 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 external auditors. The Committee also has responsibility for the Group's whistleblowing policy. The Board consider that both Miles Emley and Lord Hodgson have recent and relevant financial experience in accordance with the requirements of the new Combined Code. It met three times during the year to review the results of the full year audit, approve the interim results, consider the risks to the Group, review the performance of the external auditors and to consider the need for an internal audit function. All Committee members attended all meetings.

The Group uses the external auditors for non-audit services such as taxation advice and planning, and corporate activity. When appointing advisors for non-audit work the Group considers the value for money, experience and objectivity required and in this respect it has used other accounting firms for non-audit work. The Board are satisfied that where the external auditors are used for non-audit services their objectivity and independence is not compromised. In reaching this conclusion the Committee considered a report prepared by the external auditors prior to the year end, reviewing the potential threats to their objectivity and independence in the light of the new ethical standards issued by the Auditing Practices Board ahead of their application for the 2006 year end. Where a potential risk was identified the Committee was satisfied that the safeguards that the external auditors had put in place were sufficient to prevent a threat to their independence and objectivity.

Communication
The Group 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. During the year the Chairman and the senior independent Non-executive Director arranged meetings with the Company's major shareholders to discuss governance and strategy and develop an understanding of shareholder views. The matters arising out of those meetings have been fed back to the Board and any requests have been acted upon or noted.

The Group also maintains a web site, www.wdb.co.uk, to provide up to date information on its operations and brands. The Company's share price and all Company announcements are available on this site together with slides for analysts' and investor 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
The Group 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 the Finance Director chairs a quarterly meeting of the Company's Corporate and Social Responsibility Committee.

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.

Action plans formulated in 2003 continue to provide the basis of the Group's response to all risks to which the Group is exposed and these are reviewed on an ongoing basis. There is a continuous

Corporate governance

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

In recognition of the importance and increasing complexity of risk management the Group has appointed a Director of Risk and Treasury and a Group Risk Manager during the year. In matters of risk and internal audit they will report to the Audit Committee and they have presented the Group's Internal Audit Strategy to the Committee.

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 Group 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, divestment and strategic plans including capital expenditure, disposals 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 mis-statement or loss.

Health & Safety
The management of Health and Safety matters is based on the Health and Safety Executives 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) and insurers are used.

Auditors
PricewaterhouseCoopers LLP 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 30 September 2006 and relevant plans beyond that date, that the Group and the Company have adequate resources to continue in operation for the foreseeable 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

Anne-Marie Brennan Secretary
2 December 2005

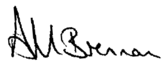
Statement of Directors' responsibilities

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 40 to 74. 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. The maintenance and integrity of the Group's website is the responsibility of the Directors; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements, since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Anne-Marie Brennan Secretary
2 December 2005

Independent Auditors' report

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, the note of Group historical cost profits and losses, the reconciliation of movements in Group shareholders' funds and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the Directors' remuneration report ("the auditable part").

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. The Directors are also responsible for preparing the Directors' remuneration report.

Our responsibility is to audit the financial statements and the auditable part of the Directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the Directors' remuneration report have been 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 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 mis-statements or material inconsistencies with the financial statements. The other information comprises only the Directors' report, the unaudited part of the Directors' remuneration report, the Chairman's statement, the Chief Executive's review, the Financial review, the Corporate and social responsibility report and the Corporate governance statement.

We review whether the Corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, 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 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 and the auditable part of the Directors' remuneration report. 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 and the auditable part of the directors' remuneration report are free from material mis-statement, 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 and the auditable part of the directors' remuneration report.

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 1 October 2005 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the Directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
2 December 2005

Five-year record

	2001 restated £m	2002 restated £m	2003 restated £m	2004 £m	**2005 £m**
Turnover					
Continuing operations	565.4	505.6	490.5	513.7	**551.8**
Acquisitions	–	–	–	–	**45.5**
Total turnover	565.4	505.6	490.5	513.7	**597.3**
Profit before goodwill and exceptionals	76.1	74.0	73.1	77.7	**90.1**
Exceptional items	(37.7)	(10.5)	(4.8)	(5.0)	**(39.1)**
Fixed asset disposals	(17.1)	2.4	(1.8)	4.5	**4.0**
Goodwill amortisation	(8.3)	(7.2)	(6.9)	(7.0)	**(7.1)**
Profit before taxation	13.0	58.7	59.6	70.2	**47.9**
Taxation	(16.2)	(17.0)	(21.1)	(21.8)	**(14.5)**
Profit/(loss) after taxation	(3.2)	41.7	38.5	48.4	**33.4**
Capital employed	544.9	445.2	457.7	648.3	**758.5**
Earnings/(loss) per ordinary share	(3.4p)	50.2p	53.0p	66.7p	**44.3p**
Goodwill amortisation	8.9p	8.7p	9.5p	9.6p	**9.5p**
Fixed asset disposals	18.3p	(2.9p)	2.5p	(6.2p)	**(5.3p)**
Exceptional items	32.9p	6.6p	3.9p	5.7p	**35.9p**
Earnings per ordinary share before goodwill and exceptionals	56.7p	62.6p	68.9p	75.8p	**84.4p**
Dividend per ordinary share	26.5p	29.2p	32.1p	35.3p	**38.9p**
Retail price index	100.0	101.7	104.5	107.7	**110.6**
Earnings per share growth	100.0	1,476.5	1,558.8	1,961.8	**1,302.9**
Earnings per share growth before goodwill and exceptionals	100.0	110.4	121.5	133.7	**148.9**
Dividend growth	100.0	110.2	121.1	133.2	**146.8**

The five-year record has been restated for FRS 19, “Deferred tax”, adopted in 2002 and UITF 38, “Accounting for ESOP Trusts”, that was adopted in 2004.

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

Group profit and loss account

for the 52 weeks ended 1 October 2005

	Notes	2005 Before goodwill and exceptionals £m	2005 Goodwill and exceptionals £m	2005 Total £m	2004 Before goodwill and exceptionals £m	2004 Goodwill and exceptionals £m	2004 Total £m
Turnover							
Continuing operations		**551.8**	**–**	**551.8**	513.7	–	513.7
Acquisitions		**45.5**	**–**	**45.5**	–	–	–
Total turnover	2	**597.3**	**–**	**597.3**	513.7	–	513.7
Trading expenses	3/4	**(461.9)**	**(13.5)**	**(475.4)**	(400.8)	(12.0)	(412.8)
Operating profit							
Continuing operations		**123.1**	**(8.6)**	**114.5**	112.9	(12.0)	100.9
Acquisitions		**12.3**	**(4.9)**	**7.4**	–	–	–
Total operating profit	2	**135.4**	**(13.5)**	**121.9**	112.9	(12.0)	100.9
Fixed asset disposals	4	**–**	**4.0**	**4.0**	–	4.5	4.5
Profit on ordinary activities before interest		**135.4**	**(9.5)**	**125.9**	112.9	(7.5)	105.4
Interest	6	**(45.3)**	**(32.7)**	**(78.0)**	(35.2)	–	(35.2)
Profit on ordinary activities before taxation		**90.1**	**(42.2)**	**47.9**	77.7	(7.5)	70.2
Taxation	7	**(26.5)**	**12.0**	**(14.5)**	(22.7)	0.9	(21.8)
Profit on ordinary activities after taxation		**63.6**	**(30.2)**	**33.4**	55.0	(6.6)	48.4
Dividends paid and proposed	9			**(29.9)**			(25.6)
Retained profit for the period	23			**3.5**			22.8

	Notes	2005	2004
Earnings per share:			
Basic earnings per share	10	**44.3p**	66.7p
Basic earnings per share before goodwill and exceptionals	10	**84.4p**	75.8p
Diluted earnings per share	10	**43.8p**	65.9p
Diluted earnings per share before goodwill and exceptionals	10	**83.4p**	74.9p

Group cash flow statement

for the 52 weeks ended 1 October 2005

	Notes	2005 £m	2005 £m	2004 £m	2004 £m
Net cash inflow from operating activities	24		**119.1**		148.4
Returns on investments and servicing of finance					
Interest received		**0.5**		0.6	
Interest paid		**(50.2)**		(34.9)	
Arrangement cost of new bank facilities		**(1.8)**		(2.1)	
Issue costs paid on securitised debt		**(12.5)**		–	
Net cash outflow from returns on investments and servicing of finance			**(64.0)**		(36.4)
Taxation			**(19.9)**		(21.0)
Capital expenditure and financial investment					
Investment in fixed assets for existing business		**(63.9)**		(61.0)	
Fixed asset purchase of new pubs/site developments		**(34.2)**		(20.9)	
Sale of tangible fixed assets		**14.8**		13.5	
Decrease in trade loans and other investments		**5.8**		3.5	
Net cash outflow for capital expenditure and financial investment			**(77.5)**		(64.9)
Acquisitions					
Purchase of subsidiary undertakings		**(144.0)**		(30.3)	
Net cash acquired with subsidiary undertakings		**3.9**		7.5	
Repayment of debt of subsidiary upon acquisition		**–**		(68.5)	
Net cash outflow for acquisitions			**(140.1)**		(91.3)
Equity dividends paid			**(27.8)**		(24.1)
Cash outflow before financing			**(210.2)**		(89.3)
Financing					
Issue of ordinary share capital		**2.6**		3.0	
Purchase of ordinary share capital for cancellation		**–**		(8.0)	
Net sale of own shares from share trust		**0.3**		1.1	
Repayment of loan notes		**(0.1)**		–	
Capital element of finance lease payments		**(0.1)**		–	
(Repayment)/advance of loans		**(281.2)**		99.4	
Settlement of debentures		**(287.9)**		–	
Proceeds from issue of securitised debt		**805.0**		–	
Net cash inflow from financing			**238.6**		95.5
Increase in cash in the period	25		**28.4**		6.2

	Notes	2005 £m	2005 £m	2004 £m	2004 £m
Reconciliation of net cash flow to movement in net debt					
Increase in cash in the period	25	**28.4**		6.2	
Cash inflow from increase in debt		**(278.6)**		(97.3)	
Change in debt resulting from cash flows	25		**(250.2)**		(91.1)
Debt acquired with subsidiaries	25		**(65.9)**		–
Non-cash movements	25		**4.8**		(0.6)
Movement in net debt in the period			**(311.3)**		(91.7)
Net debt at 3 October 2004	25		**(560.4)**		(468.7)
Net debt at 1 October 2005	25		**(871.7)**		(560.4)

Statement of total Group recognised gains and losses

for the 52 weeks ended 1 October 2005

	Notes	2005 £m	2004 £m
Profit on ordinary activities after taxation		**33.4**	48.4
Unrealised surplus on revaluation of properties	12/23	**59.1**	171.7
Total recognised gains relating to the period		**92.5**	220.1

Note of Group historical cost profits and losses

for the 52 weeks ended 1 October 2005

	Note	2005 £m	2004 £m
Profit on ordinary activities before taxation		**47.9**	70.2
Realisation of property revaluation gains of previous periods	23	**0.3**	2.3
Difference between the historical cost depreciation and actual depreciation on the revalued amount	23	**0.8**	0.9
Historical cost profit before taxation		**49.0**	73.4
Historical cost profit after taxation and dividends		**4.6**	26.0

Reconciliation of movements in Group shareholders' funds

for the 52 weeks ended 1 October 2005

	Notes	2005 £m	2004 £m
Profit on ordinary activities after taxation		**33.4**	48.4
Dividends paid and proposed	9	**(29.9)**	(25.6)
Profit for the period transferred to reserves		**3.5**	22.8
Revaluation of properties	12/23	**59.1**	171.7
Proceeds of ordinary share capital issued for cash	22	**2.6**	3.0
Ordinary shares issued for Burtonwood acquisition	27	**42.7**	–
Purchase of own shares for cancellation		**–**	(8.0)
Net sale of own shares from share trust		**0.3**	1.1
Net addition to shareholders' funds		**108.2**	190.6
Opening shareholders' funds		**648.3**	457.7
Closing shareholders' funds		**756.5**	648.3

Balance sheets

as at 1 October 2005

	Notes	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Fixed assets					
Goodwill		**111.3**	109.1	**–**	–
Negative goodwill		**(5.4)**	–	**–**	–
Intangible assets	11	**105.9**	109.1	**–**	–
Tangible assets	12	**1,553.1**	1,182.3	**323.2**	866.9
Investments	13	**21.1**	21.2	**186.2**	31.8
		1,680.1	1,312.6	**509.4**	898.7
Current assets					
Stocks	14	**13.6**	13.5	**–**	–
Debtors					
Amounts falling due within one year	15	**60.6**	45.0	**667.6**	613.6
Amounts falling due after more than one year	15	**28.0**	–	**375.5**	–
Cash at bank and in hand		**76.1**	16.2	**29.7**	46.4
		178.3	74.7	**1,072.8**	660.0
Creditors – Amounts falling due within one year	16	**(169.5)**	(138.7)	**(763.5)**	(720.6)
Net current assets/(liabilities)		**8.8**	(64.0)	**309.3**	(60.6)
Total assets less current liabilities		**1,688.9**	1,248.6	**818.7**	838.1
Creditors – Amounts falling due after more than one year	17	**(895.4)**	(583.1)	**–**	(168.3)
Provisions for liabilities and charges	20	**(35.0)**	(17.2)	**(3.2)**	(2.9)
		758.5	648.3	**815.5**	666.9
Capital and reserves					
Equity share capital	22	**22.8**	21.4	**22.8**	21.4
Non-equity share capital	22	**0.1**	0.1	**0.1**	0.1
Called-up share capital	22	**22.9**	21.5	**22.9**	21.5
Share premium account	23	**185.1**	209.9	**185.1**	209.9
Merger reserve	23	**41.5**	–	**–**	–
Revaluation reserve	23	**379.9**	321.9	**84.1**	321.9
Capital redemption reserve	23	**6.0**	6.0	**6.0**	6.0
Profit and loss account	23	**121.1**	89.0	**517.4**	107.6
Shareholders' funds including non-equity interests of £0.1m (2004: £0.1m)		**756.5**	648.3	**815.5**	666.9
Equity minority interests		**2.0**	–	**–**	–
Capital employed		**758.5**	648.3	**815.5**	666.9

The financial statements on pages 40 to 74 were approved by the Board on 2 December 2005 and were signed on its behalf by:

Ralph Findlay Chief Executive
2 December 2005

Notes

1 Accounting Policies

(a) Basis of accounting and consolidation
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 and the Companies Act 1985. The segmental analysis comparatives have been restated, as explained in note 2.

The Group continues to follow the transitional arrangements permitted by FRS 17, "Post retirement benefits" (see note 21).

The consolidated financial statements incorporate the audited financial statements of The Wolverhampton & Dudley Breweries, PLC and all of its subsidiary undertakings for the 52 weeks ended 1 October 2005 (2004: 53 weeks ended 2 October 2004). The results of new subsidiary undertakings are included in the Group accounts from the date of acquisition.

The consolidated financial statements also incorporate the results of W&DB Issuer PLC, a company set up with the sole purpose of issuing debt securitised on assets owned by the Group. The Directors consider this company meets the definition of a quasi-subsidiary under FRS5 and hence it has been treated as a subsidiary for the purpose of the consolidated financial statements.

(b) Turnover and other operating income
Turnover represents the value of goods and services supplied to customers, and rents receivable from licensed properties. Rental income is recognised in respect of the period to which it relates. Turnover is recorded net of discounts, intra-Group transactions and VAT. Other operating income comprises mainly rents from unlicensed properties.

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

(d) Deferred tax
Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date which give rise to an obligation to pay more or less tax in the future. Timing differences are differences between the 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 recoverability is probable.

(e) Tangible fixed assets
- Freehold and leasehold properties are stated at valuation or at cost. Plant, furnishings, equipment and other similar items are stated at cost.
- Freehold buildings are depreciated to their residual value on a straight line basis over 50 years.
- Other tangible fixed assets are depreciated to their residual value 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 and 50 years and other tangible assets over periods ranging from three to 15 years.
- Own labour directly attributable to capital projects is capitalised.

Valuation of properties:
Trading properties are revalued professionally by independent valuers on a five-year rolling basis. When a valuation or expected proceeds are below current carrying value the asset concerned is reviewed for impairment. Impairment losses are charged directly to the revaluation reserve until the carrying amount reaches historical cost. Deficits below historical cost are charged to the profit and loss account except to the extent that the value in use exceeds the valuation in which case this is taken to the revaluation reserve. Surpluses on revaluation are recognised in the revaluation reserve, except to the extent that they reverse previously charged impairment losses, in which case they are recorded in the profit and loss account. Any negative valuations are accounted for as onerous leases and included within provisions (see note 20).

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

Notes

1 Accounting Policies continued

(g) Pensions
Pension costs for the Group's final salary pension schemes 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 independent qualified actuaries. Variations from the regular cost are spread over the average remaining service lives of the employees.

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

(h) Investments in subsidiaries
Investments in subsidiaries are stated at cost, less provision for permanent diminution in value.

(i) Employee Share Ownership Plan (ESOP)
Investments in own shares held by the ESOP trust are deducted from share capital and reserves until the shares have vested unconditionally to specific employees.

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

(k) Goodwill and negative 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 assets to which it relates. Where goodwill is impaired, the charge is taken to the profit and loss account.

Negative goodwill is recognised on acquisition where the fair value of the identifiable net assets exceeds the fair value of the consideration. The difference is treated as negative goodwill and included within intangible fixed assets. It is amortised over the estimated useful life of the non-monetary assets acquired.

(l) Leases
Rental costs under operating leases are charged to the profit and loss account over the term of the lease. The cost of assets held under finance leases is included within tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned. The corresponding obligations under these leases are shown as creditors. The finance charge element of rentals is charged to the profit and loss account as incurred.

(m) Financial instruments
The issue 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.

Notes

2 Segmental analysis

	2005					
	Turnover £m	Operating profit before goodwill and exceptionals £m	Goodwill and exceptionals £m	Operating profit after goodwill and exceptionals £m	Net assets £m	Goodwill asset £m
Pathfinder Pubs						
Continuing operations	**304.7**	**61.3**	**(4.1)**	**57.2**	**644.7**	**37.0**
Acquisitions	**12.7**	**2.1**	**(0.2)**	**1.9**	**46.9**	**0.7**
Total	**317.4**	**63.4**	**(4.3)**	**59.1**	**691.6**	**37.7**
The Union Pub Company						
Continuing operations	**123.1**	**53.5**	**(1.1)**	**52.4**	**524.1**	**20.6**
Acquisitions	**30.2**	**11.7**	**(4.5)**	**7.2**	**208.5**	**3.2**
Total	**153.3**	**65.2**	**(5.6)**	**59.6**	**732.6**	**23.8**
WDB Brands						
Continuing operations	**124.0**	**18.0**	**(0.7)**	**17.3**	**95.0**	**5.3**
Acquisitions	**2.6**	**0.2**	**(0.1)**	**0.1**	**4.7**	**0.8**
Total	**126.6**	**18.2**	**(0.8)**	**17.4**	**99.7**	**6.1**
Central costs						
Continuing operations	**–**	**(9.7)**	**(2.7)**	**(12.4)**	**44.4**	**38.3**
Acquisitions	**–**	**(1.7)**	**(0.1)**	**(1.8)**	**2.7**	**–**
Total	**–**	**(11.4)**	**(2.8)**	**(14.2)**	**47.1**	**38.3**
	597.3	**135.4**	**(13.5)**	**121.9**	**1,571.0**	**105.9**
Goodwill					**105.9**	
Debt, tax and dividends					**(918.4)**	
					758.5	

The net revaluation gain of £58.5m detailed in note 12, comprises a gain of £25.0m in Pathfinder Pubs, a gain of £34.0m in The Union Pub Company, a loss of £0.7m in WDB Brands and a gain of £0.2m in the Central unlicensed property estate.

	2004 Restated					
	Turnover £m	Operating profit before goodwill and exceptionals £m	Goodwill and exceptionals £m	Operating profit after goodwill and exceptionals £m	Net assets £m	Goodwill asset £m
Continuing operations:						
Pathfinder Pubs	275.2	54.6	(9.2)	45.4	583.0	40.1
The Union Pub Company	118.2	49.8	0.4	50.2	452.8	22.1
WDB Brands	120.3	17.8	(0.1)	17.7	84.8	6.0
Central costs	–	(9.3)	(3.1)	(12.4)	24.2	40.9
	513.7	112.9	(12.0)	100.9	1,144.8	109.1
Goodwill					109.1	
Debt, tax and dividends					(605.6)	
					648.3	

Notes

2 Segmental analysis continued

As a result of the refinancing during the year, the Directors have reconsidered the inter-divisional transfer terms, to ensure that products are supplied by WDB Brands to other divisions on an arms length market basis. The allocation of central overheads was also considered and revised. Following this review, the operating profit comparatives for each division have been restated. This has reduced the profit in Pathfinder Pubs by £3.8m, The Union Pub Company by £1.1m, WDB Brands by £3.6m and increased profits in Central by £8.5m.

Turnover originates from operations in the UK and is not materially different from turnover by destination. Acquisition details are included in notes 27 to 29.

3 Trading expenses

	2005			
	Continuing operations £m	**Acquisitions £m**	**Total £m**	**2004** £m
Change in stocks of finished goods and work in progress	**(1.1)**	**–**	**(1.1)**	0.3
Own work capitalised	**0.3**	**–**	**0.3**	0.8
Other operating income	**2.8**	**0.9**	**3.7**	2.8
Raw materials, consumables and excise duties	**(200.3)**	**(17.3)**	**(217.6)**	(180.8)
Depreciation	**(35.1)**	**(3.2)**	**(38.3)**	(32.9)
Employee costs	**(115.4)**	**(9.2)**	**(124.6)**	(106.2)
Hire of plant and machinery	**(1.8)**	**(0.1)**	**(1.9)**	(2.1)
Other operating lease rentals	**(7.8)**	**(0.4)**	**(8.2)**	(5.9)
Other operating charges	**(70.6)**	**(8.6)**	**(79.2)**	(78.3)
Income from fixed asset investments	**0.3**	**–**	**0.3**	0.4
Exceptional impairment of fixed assets following revaluation	**(0.6)**	**–**	**(0.6)**	(2.2)
Goodwill amortisation	**(7.0)**	**(0.1)**	**(7.1)**	(7.0)
Exceptional goodwill impairment following fixed asset disposals	**(1.0)**	**(0.1)**	**(1.1)**	(1.7)
	(437.3)	**(38.1)**	**(475.4)**	(412.8)

Exceptional reorganisation costs of £0.4m (2004: £0.3m) are included in other operating charges and £4.3m (2004: £0.8m) within employee costs.

Fees paid to PricewaterhouseCoopers LLP:	**2005 £m**	**2004** £m
Statutory audit fees, including £0.1m (2004: £0.1m) in respect of the Company	**0.2**	0.2
Tax advisory services	**0.2**	0.1
Corporate finance advisory services	**0.5**	–
Further assurance services	**1.3**	0.4

Further assurance services include £0.3m of due diligence capitalised within acquisition fees (see notes 27 to 29) and £1.0m of advisory and reporting work in respect of the issuance of securitised debt during the period (see note 18).

Notes

4 Goodwill and exceptionals

	2005 £m	2004 £m
Operating items:		
Goodwill amortisation	**7.1**	7.0
Exceptional trading expenses:		
Goodwill impairment following fixed asset disposals	**1.1**	1.7
Impairment of fixed assets following revaluation	**0.6**	2.2
Costs of reorganisation of acquisitions	**4.7**	1.1
	13.5	12.0
Non-operating exceptional items:		
Profit on fixed asset disposals	**(4.0)**	(4.5)
Interest:		
Write-off of unamortised finance cost following refinancing	**4.3**	–
Premium on redemption of debentures	**28.4**	–
	32.7	–
	42.2	7.5

The exceptional tax credit relating to fixed asset disposals is £0.4m (2004: £0.6m).
Further details regarding the impairment of fixed assets following revaluation are included in note 12.
Exceptional trading expenses include £0.4m (2004: £0.3m) of other operating charges and £4.3m (2004: £0.8m) of employee costs.
Interest exceptional items were incurred as part of the debt refinancing in August 2005 (see note 18).

The Financial review on pages 16 and 17 includes further details regarding exceptional items.

5 Employees and directors

Employee costs	2005 £m	2004 £m
Wages and salaries	**110.6**	94.1
Social security costs	**8.5**	7.0
Pension costs	**5.5**	5.1
	124.6	106.2

Employee costs include £4.3m (2004: £0.8m) which were classified as exceptional items.

Directors
Directors' emoluments are set out in the Directors' remuneration report on pages 27 to 33.

Notes

5 Employees and directors continued

Average number of employees	2005	2004
Full-time	**4,790**	4,787
Part-time	**6,981**	5,701

6 Interest and similar items

	2005 £m	2004 £m
Bank interest payable	**24.6**	19.7
Debenture/securitised debt interest payable	**21.1**	16.4
Unwinding of premium	**(1.8)**	(2.0)
Other interest payable	**0.6**	0.1
Amortisation of issue costs on securitised debt	**0.2**	–
Amortisation of issue costs on bank loan	**0.8**	1.1
Exceptional charges following debt refinancing	**32.7**	–
Interest receivable	**(0.2)**	(0.1)
	78.0	35.2

The exceptional charges relate to the write-off of unamortised finance costs following refinancing of £4.3m and the premium paid on redemption of debentures of £28.4m (see note 4).

7 Taxation

	2005 £m	2004 £m
The charge to the profit and loss account comprises:		
Current tax:		
Corporation tax on profit for the period	**1.7**	22.0
Adjustment in respect of prior periods	**(1.5)**	(0.6)
	0.2	21.4
Deferred tax	**14.3**	0.4
	14.5	21.8

Notes

7 Taxation continued

Factors affecting the current tax charge for the period
The actual tax rate for the period is lower (2004: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2005 £m	2004 £m
Profit on ordinary activities before taxation	**47.9**	70.2
Profit on ordinary activities before taxation multiplied by the standard rate of UK Corporation tax of 30% (2004: 30%)	**14.4**	21.1
Effects of:		
Adjustments to tax in respect of prior periods	**(1.5)**	(0.6)
Capital losses/rollover relief relating to profit on property disposals	**(1.6)**	(1.9)
Costs not deductible for tax purposes	**4.6**	5.5
Other permanent differences	**(1.7)**	(0.7)
Utilisation of losses brought forward	**(2.4)**	–
Timing differences:		
Excess of capital allowances over depreciation	**(1.6)**	(0.9)
Pension contributions	**(2.5)**	(0.5)
SWAPs	**(2.5)**	–
Release of fair value adjustments	**(4.9)**	(0.6)
Other	**(0.1)**	–
	0.2	21.4

Factors that may affect future tax charges
Based on current capital expenditure plans, it is anticipated that capital allowances will be in excess of depreciation in future years.

No provision has been made for deferred tax on gains recognised on revaluing properties to their market value, or on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would only become payable if the properties were sold without it being possible to claim rollover relief. The total amount unprovided for, after offsetting available capital losses, is estimated at £108.7m (2004: £77.8m). At present, it is not envisaged that any such tax will become payable in the foreseeable future.

8 Profit after taxation

As permitted by Section 230 of the Companies Act 1985 a separate profit and loss account for the Company has not been prepared. The profit after taxation dealt with in the accounts of the Company was £167.5m (2004: £65.8m).

Notes

9 Dividends

	2005 £m	2004 £m
Ordinary shares		
Interim paid 13.20p per share (2004: 12.00p)	**10.1**	8.7
Final proposed 25.66p per share (2004: 23.32p)	**19.8**	16.9
Total dividends on ordinary shares 38.86p per share (2004: 35.32p)	**29.9**	25.6
Preference shares		
Interim dividend paid 3.00p per share (2004: 3.00p)	**–**	–
Final proposed 4.00p per share (2004: 4.00p)	**–**	–
Dividend on preference shares 7.00p per share (2004: 7.00p) totalled £5,250 (2004: £5,250)	**–**	–
Total dividends	**29.9**	25.6

10 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 ESOP (see note 23) 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 goodwill amortisation and exceptionals. The Directors consider that the supplementary figures provide a useful additional indication of performance.

	2005			2004		
	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	**33.4**	**75.4**	**44.3**	48.4	72.6	66.7
Effect of dilutive options	**–**	**0.9**	**–**	–	0.8	–
Diluted earnings per share	**33.4**	**76.3**	**43.8**	48.4	73.4	65.9
Supplementary earnings per share figures:						
Basic earnings per share	**33.4**	**75.4**	**44.3**	48.4	72.6	66.7
Effect of:						
Exceptionals	**23.1**		**30.6**	(0.4)		(0.5)
Goodwill amortisation	**7.1**		**9.5**	7.0		9.6
Basic earnings per share before goodwill and exceptionals	**63.6**	**75.4**	**84.4**	55.0	72.6	75.8
Diluted earnings per share	**33.4**	**76.3**	**43.8**	48.4	73.4	65.9
Effect of:						
Exceptionals	**23.1**		**30.3**	(0.4)		(0.5)
Goodwill amortisation	**7.1**		**9.3**	7.0		9.5
Diluted earnings per share before goodwill and exceptionals	**63.6**	**76.3**	**83.4**	55.0	73.4	74.9

Notes

11 Intangible assets

Group	Positive goodwill £m	Negative goodwill £m	Total £m
Cost			
At 3 October 2004	186.7	–	186.7
Goodwill on acquisitions	10.5	(5.5)	5.0
At 1 October 2005	**197.2**	**(5.5)**	**191.7**
Amortisation			
At 3 October 2004	77.6	–	77.6
Amortisation charge/(credit) for the period	7.2	(0.1)	7.1
Goodwill impairment following fixed asset disposals	1.1	–	1.1
At 1 October 2005	**85.9**	**(0.1)**	**85.8**
Net book amount			
At 1 October 2005	**111.3**	**(5.4)**	**105.9**
At 2 October 2004	109.1	–	109.1

Additions to positive goodwill relate to goodwill arising on the acquisition of Jennings (see note 28) and English Country Inns (see note 29). This goodwill is being amortised on a straight line basis over 20 years. This reflects the period over which the Directors estimate that the values of the underlying businesses acquired are expected to exceed the value of the underlying assets.

Negative goodwill relates to the acquisition of Burtonwood (see note 27) and is being amortised over the estimated useful life of the fixed assets, being the non-monetary assets.

Following the disposal of certain fixed assets, an impairment review of the remaining goodwill was undertaken in order to reduce it to its estimated residual value. This resulted in an impairment charge of £1.1m (2004: £1.7m).

Notes

12 Tangible fixed assets

Group	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 3 October 2004	942.9	44.4	41.9	20.0	234.4	1,283.6
Additions	45.0	3.0	2.0	5.3	40.9	96.2
Acquisitions	227.8	8.5	2.4	2.9	23.3	264.9
Transfers	4.3	(0.1)	(4.2)	–	–	–
Disposals	(7.4)	–	(0.3)	(0.6)	(17.3)	(25.6)
Surplus/(deficit) on revaluation	51.1	1.3	(1.1)	–	–	51.3
At 1 October 2005	**1,263.7**	**57.1**	**40.7**	**27.6**	**281.3**	**1,670.4**
Depreciation						
At 3 October 2004	5.0	0.6	0.8	8.1	86.8	101.3
Charge for the period	2.8	0.1	2.5	2.8	30.1	38.3
Transfers	–	(0.1)	0.1	–	–	–
Depreciation on disposals	(0.2)	–	–	(0.5)	(14.4)	(15.1)
Revaluation	(5.9)	(0.5)	(0.8)	–	–	(7.2)
At 1 October 2005	**1.7**	**0.1**	**2.6**	**10.4**	**102.5**	**117.3**
Net book value						
At 1 October 2005	**1,262.0**	**57.0**	**38.1**	**17.2**	**178.8**	**1,553.1**
At 2 October 2004	937.9	43.8	41.1	11.9	147.6	1,182.3

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 3 October 2004	793.9	35.0	39.3	–	–	868.2
Additions	40.3	2.9	1.2	–	5.0	49.4
Transfers	2.3	(0.2)	(2.1)	–	–	–
Disposals	(6.3)	–	(0.1)	–	(0.3)	(6.7)
Transfers (to)/from Group undertakings	(570.0)	(22.0)	(0.8)	–	4.0	(588.8)
Surplus/(deficit) on revaluation	4.6	(0.1)	(0.2)	–	–	4.3
At 1 October 2005	**264.8**	**15.6**	**37.3**	**–**	**8.7**	**326.4**
Depreciation						
At 3 October 2004	0.2	0.4	0.7	–	–	1.3
Charge for the period	1.6	–	2.4	–	0.6	4.6
Transfers	–	(0.1)	0.1	–	–	–
Disposals	–	–	–	–	–	–
Transfers (to)/from Group undertakings	(0.1)	–	–	–	–	(0.1)
Revaluation	(1.7)	(0.2)	(0.7)	–	–	(2.6)
At 1 October 2005	**–**	**0.1**	**2.5**	**–**	**0.6**	**3.2**
Net book value						
At 1 October 2005	**264.8**	**15.5**	**34.8**	**–**	**8.1**	**323.2**
At 2 October 2004	793.7	34.6	38.6	–	–	866.9

Notes

12 Tangible fixed assets continued

Group and Company

Cost or valuation of properties comprises:	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Valuation	**1,068.1**	759.6	**283.4**	759.6
At cost	**293.4**	269.6	**34.3**	108.6
	1,361.5	1,029.2	**317.7**	868.2

Valuation of properties
At 2 July 2005, independent chartered surveyors Christie & Co revalued 1,341 properties on an existing use basis. The revaluation at 2 July 2005 has been reflected in the accounts as follows:

	£m
Exceptional items:	
Revaluation loss - charged as an impairment	(1.3)
Reversal of past impairment loss	0.7
Net profit and loss account charge	**(0.6)**
Revaluation reserve:	
Unrealised revaluation surplus	72.1
Reversal of past revaluation surplus	(13.0)
Net revaluation surplus taken to revaluation reserve	**59.1**
Net increase in shareholders' funds/fixed assets	**58.5**

At 14 June 2004, independent chartered surveyors, DTZ Debenham Tie Leung, fair valued the acquired Wizard Inns pub estate on an existing use basis.

At 2 October 2004, independent chartered surveyors revalued 75% of the Group estate at that time. Chesterton revalued the breweries and maltings on the basis of depreciated replacement cost and Christie & Co revalued the pub estate on an existing use basis. The remaining 25% of the Group estate was included within the 2 July 2005 revaluation noted above.

At 6 January 2005, independent chartered surveyors Gillman Jones fair valued the acquired Burtonwood pub estate on an existing use basis. Further details are presented in note 27.

At 20 May 2005, independent chartered surveyors Christie & Co fair valued the acquired Jennings pub estate on an existing use basis, and Donaldsons fair valued the brewery on a depreciated replacement cost basis. Further details are presented in note 28.

At 15 September 2005, independent chartered surveyors Christie & Co fair valued the English Country Inns pub estate on an existing use basis. Further details are presented in note 29.

If the freehold and leasehold properties had not been revalued, the historical net book value would be £977.2m (2004: £700.9m).

Cost at 1 October 2005 includes £12.1m (2004: £2.6m) of assets in the course of construction.

Capital expenditure authorised and committed but not provided in the accounts was £11.0m (2004: £2.9m).

Notes

13 Fixed asset investments

Group	Trade loans £m	Term loans £m	Long-term deposits £m	Total £m
At 3 October 2004	21.2	–	–	21.2
Additions	4.4	–	–	4.4
Acquisitions	1.7	0.3	2.3	4.3
Disposals, repayments and provisions	(6.2)	(0.3)	(2.3)	(8.8)
At 1 October 2005	**21.1**	**–**	**–**	**21.1**

Company	Subsidiary undertakings £m
At 3 October 2004	31.8
Additions	154.4
Disposals, repayments and provisions	–
At 1 October 2005	**186.2**

Additions to investments in subsidiary undertakings relate to the investment in Burtonwood of £92.5m (see note 27), Jennings of £48.5m (see note 28), and English Country Inns of £13.4m (see note 29).

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 and brewer	1,000	100	Ordinary £5 shares
W&DB Properties Limited	England	Property developer	2	100	Ordinary £1 shares
Banks's Brewery Insurance Limited	Guernsey	Insurance	1,450,000	100	Ordinary £1 shares
W&DB Pubs Limited	England	Pub retailer	1	100	Ordinary £1 shares
Burtonwood Group Limited	England	Pub retailer	22,357,952	100	Ordinary 25p shares
(formerly Burtonwood PLC)			450,000	100	Preference £1 shares
Jennings Brothers Limited	England	Pub retailer and brewer	10,851,615	100	Ordinary £1 shares
(formerly Jennings Brothers PLC)			50,000	100	Preference £1 shares
English Country Inns PLC	England	Pub retailer	10,113,439	85	Ordinary 50p shares

Subsequent to the year-end, the Group acquired a further 15% of the ordinary share capital of English Country Inns PLC, giving a total shareholding of 100%.

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.

The Group accounts also include the consolidation of W&DB Issuer PLC, which the Directors consider to be a quasi-subsidiary as the Group has operating and financial control of the Company (see note 32). W&DB Issuer PLC's ultimate parent undertaking is SPV Management Limited, which holds the shares of W&DB Issuer PLC's parent company under a charitable trust. W&DB Issuer PLC was setup with the sole purpose of issuing debt securitised on the assets of W&DB Pubs Limited.

Notes

14 Stocks

	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Raw materials and consumables	**4.6**	5.6	**–**	–
Work in progress	**0.2**	0.2	**–**	–
Finished goods	**8.8**	7.7	**–**	–
	13.6	13.5	**–**	–

15 Debtors

Amounts falling due within one year	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Trade debtors	**32.5**	27.7	**–**	–
Amounts owed by Group undertakings	**–**	–	**607.2**	582.5
Other debtors	**9.8**	7.9	**3.6**	–
Prepayments and accrued income	**12.4**	9.4	**0.6**	–
Corporation tax	**5.9**	–	**6.6**	–
Dividends due from Group undertakings	**–**	–	**49.6**	31.1
	60.6	45.0	**667.6**	613.6
Amounts falling due after more than one year				
Pension prepayment (see note 21)	**28.0**	–	**–**	–
12.5% sub-ordinated loan owed by Group undertakings	**–**	–	**375.5**	–
	28.0	–	**375.5**	–

16 Creditors

Amounts falling due within one year	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Bank loans and overdraft	**35.4**	3.7	**–**	4.1
Securitised debt	**9.1**	–	**–**	–
Loan notes	**9.2**	0.1	**9.2**	0.1
Trade creditors	**26.4**	39.1	**–**	–
Finance leases	**0.1**	0.1	**–**	–
Amounts owed to Group undertakings	**–**	–	**734.0**	685.9
Corporation tax	**–**	12.6	**–**	9.7
Other taxation and social security payable	**15.8**	15.7	**–**	–
Other creditors	**18.4**	15.6	**0.2**	0.1
Accruals and deferred income	**35.3**	34.9	**0.3**	3.8
Dividends proposed	**19.8**	16.9	**19.8**	16.9
	169.5	138.7	**763.5**	720.6

Notes

16 Creditors continued

Amounts owed to Group undertakings include £0.5m (2004: £278.6m) relating to the current carrying value of a discounted loan note. The loan note with a principal value of £0.5m (2004: £286.1m) is repayable in March 2006 (2004: March 2005). The discount on the loan note is charged to the profit and loss account over the term of the loan note in order to give a constant periodic rate of return.

Securitised debt details are provided in note 18.

17 Creditors

	Group		Company	
Amounts falling due after more than one year	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Securitised debt	**782.6**	–	**–**	–
Debentures	**–**	218.1	**–**	168.3
Bank loans	**111.1**	354.4	**–**	–
Finance leases	**0.3**	0.2	**–**	–
Other creditors	**1.4**	10.4	**–**	–
	895.4	583.1	**–**	168.3

Other creditors' maturity profile is as follows: due between one and two years £0.1m (2004: £1.7m), two and five years £0.3m (2004: £4.4m) and greater than five years £1.0m (2004: £4.3m).

Securitised debt details are provided in note 18.

18 Securitised debt

On 9 August 2005, £805m of secured loan notes were issued in connection with the securitisation of 1,592 of the Group's pubs held in W&DB Pubs Limited. These are secured over the properties and their future income streams and were issued by W&DB Issuer PLC, a quasi–subsidiary of the Company (see note 13). The funds were lent within the Group and used to repay existing debenture and bank facilities. The premium paid on redemption of the existing debentures and the write-off of the unamortised finance costs of existing bank loans have been recognised as an exceptional charge in the period (see note 4).

The securitisation is governed by various covenants, warranties and events of default, many of which apply to W&DB Pubs Limited. These include covenants regarding the maintenance and disposal of securitised properties and restrictions on the ability to move cash to other companies within the Group.

The securitised debt consists of four tranches with the following principal terms:

Tranche	£m	Interest	Principal repayment period - by instalments	Expected average life	Expected maturity date
A1	236.0	Floating	2005 to 2020	6 years	2012
A2	214.0	Fixed/floating	2020 to 2027	14 years	2019
A3	200.0	Fixed/floating	2027 to 2032	22 years	2027
B	155.0	Fixed/floating	2032 to 2035	14 years	2019
	805.0				

Notes

18 Securitised debt continued

Interest on the Class A1 notes is payable at three month LIBOR plus a margin of 0.55%, stepping up to three month LIBOR plus 1.375% from July 2012. These notes are hedged in full by the Group using interest rate swaps whereby all interest payments are swapped to fixed interest payable.

Interest on the Class A2 notes is payable at fixed interest of 5.1576% until July 2019 and thereafter at three month LIBOR plus a margin of 1.32%. Interest on the Class A3 notes is payable at fixed interest of 5.1774% until April 2027 and thereafter at three month LIBOR plus a margin of 1.45%. Interest on the Class B notes is payable at fixed interest of 5.6410% until July 2019 and thereafter at three month LIBOR plus a margin of 2.55%.

At 1 October 2005, W&DB Pubs Limited had cash of £40.6m, which was governed by certain restrictions under the covenants associated with the securitisation.

The carrying value of the secured notes in the Group balance sheet at 1 October 2005 is analysed as follows:

	£m
Gross proceeds received on 9 August 2005	805.0
Deferred issue costs	(13.3)
Carrying value at 1 October 2005	791.7

19 Financial instruments

Financial instruments
The Group's financial instruments, other than derivatives, comprise securitised debt, 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 only derivatives that the Group enters into are interest rate swaps. 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 both of these risks and they are summarised below.

Interest rate risk
The Group finances its operations through a mixture of retained profits, securitised debt 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 rates 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, securitised debt is considered as being a suitable debt instrument.

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

Notes

19 Financial instruments continued

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

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:

	2005			2004		
	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Total £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Total £m
Sterling						
Bank overdraft	**35.6**	**–**	**35.6**	4.1	–	4.1
Debentures and loan notes	**9.2**	**–**	**9.2**	–	218.2	218.2
Bank revolving credit facility	**112.0**	**–**	**112.0**	55.8	200.0	255.8
Bank term loans	**–**	**–**	**–**	–	100.0	100.0
Securitised debt	**–**	**805.0**	**805.0**	–	–	–
Finance leases	**–**	**0.4**	**0.4**	–	0.3	0.3
Preference shares	**–**	**0.1**	**0.1**	–	0.1	0.1
	156.8	**805.5**	**962.3**	59.9	518.6	578.5

The effect of the Group's interest rate swaps is to treat £236.0m (2004: £300.0m) of borrowings in the table above as fixed. Floating rate borrowings bear interest based on LIBOR. Further details regarding the securitised debt are provided in note 18. The Group's debentures were secured by a floating charge in favour of the Law Debenture Trust Corporation p.l.c., over the whole of the undertaking, property and assets of the Company until their redemption on 9 August 2005.

Unamortised securitised debt and bank loan issue costs at 1 October 2005 of £14.4m have been excluded from the disclosures. The maturity profile is as follows: due within one year £1.2m and due after one year £13.2m.

	2005		2004	
	Fixed rate financial liabilities		Fixed rate financial liabilities	
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Sterling	**5.3**	**23**	6.2	9

Notes

19 Financial instruments continued

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

	2005		2004	
	Group £m	**Company £m**	Group £m	Company £m
Due within one year	**55.0**	**9.7**	4.3	282.8
Due between one and two years	**11.5**	**–**	12.6	–
Due between two and five years	**150.4**	**–**	343.4	–
After five years	**745.4**	**0.1**	218.2	168.4
	962.3	**9.8**	578.5	451.2

At 1 October 2005, £112.0m has been drawn under a revolving credit facility expiring in August 2010. It has been categorised as repayable between two and five years. At 2 October 2004, £255.8m had been drawn under a revolving credit facility expiring in March 2009. It was categorised as repayable between two and five years.

Financial assets

The Group held the following financial assets:	**2005 £m**	2004 £m
Sterling		
Cash	**76.1**	16.2
Trade loans	**21.1**	21.2
	97.2	37.4

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

	2005 £m	2004 £m
Fixed	**3.5**	3.2
Floating	**17.6**	18.0
	21.1	21.2

The fixed rate trade loans had a weighted average interest rate of 1.1% (2004: 1.4%) and a weighted average period of 7 years (2004: 8 years). The reference rate for floating rate trade loans is mainly UK base rates.

Notes

19 Financial instruments continued

Borrowing facilities

The Group has the following undrawn committed borrowing facilities available

	2005 £m	2004 £m
Expiring between one and two years	**–**	–
Expiring after two years	**153.0**	64.0
	153.0	64.0

A further £86.0m facility is in place in relation to the Group's securitised debt arrangements.

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:

	2005		2004	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations				
Bank overdraft	**35.6**	**35.6**	4.1	4.1
Debentures and loan notes	**9.2**	**9.2**	218.2	252.0
Bank revolving credit facility	**112.0**	**112.2**	255.8	252.2
Bank term loans	**–**	**–**	100.0	98.5
Securitised debt	**805.0**	**812.2**	–	–
Finance leases	**0.4**	**0.4**	0.3	0.3
Preference shares	**0.1**	**0.1**	0.1	0.1
Cash	**(76.1)**	**(76.1)**	(16.2)	(16.2)
	886.2	**893.6**	562.3	591.0
Derivative financial instruments held to manage interest costs				
Interest rate swaps	**–**	**(15.1)**	–	(2.8)

Trade loans are excluded from the fair value table as they are linked to customer supply terms. The various tranches of securitised debt have been valued using period end mid-market quoted prices. The fair value of interest rate swaps is the estimated amount which the Group could expect to pay or receive on the termination of the agreements. These amounts are based on bank quotations and take into consideration interest rates prevailing at the balance sheet date. All other fair values have been calculated by discounting cash flows at prevailing interest rates.

Notes

19 Financial instruments continued

Hedges

As explained earlier, 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:

	Gains £m	(Losses) £m	Total £m
Gains/(losses) on hedges at 3 October 2004	0.1	(2.9)	(2.8)
Arising in the period	(0.1)	(12.2)	(12.3)
Gains/(losses) on hedges at 1 October 2005	**–**	**(15.1)**	**(15.1)**
of which:			
Expected to be recognised within one year	–	(0.8)	(0.8)
Expected to be recognised after more than one year	–	(14.3)	(14.3)

Other instruments

Additional disclosure on financial instruments is made in the Financial review on pages 16 and 17. Throughout the year the Group adhered to the financial instruments policy approved by the Board.

20 Provisions for liabilities and charges

	Group			Company		
	Deferred tax £m	Property leases £m	Total £m	Deferred tax £m	Property leases £m	Total £m
At 3 October 2004	15.7	1.5	17.2	1.4	1.5	2.9
Acquisitions	2.8	0.2	3.0	–	–	–
Transfer of business from subsidiary	–	–	–	11.1	–	11.1
Disposal of business	–	–	–	(11.1)	–	(11.1)
Transfer to/(from) profit and loss account	14.3	0.5	14.8	0.4	(0.1)	0.3
At 1 October 2005	**32.8**	**2.2**	**35.0**	**1.8**	**1.4**	**3.2**

Deferred tax

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
The amount provided in respect of deferred tax is as follows:				
Excess of capital allowances over accumulated depreciation	**29.9**	23.0	**1.9**	1.6
Other timing differences	**2.0**	(4.1)	**(0.1)**	(0.2)
Accrued pension costs	**1.1**	(0.5)	**–**	–
Tax losses	**(0.2)**	(2.7)	**–**	–
	32.8	15.7	**1.8**	1.4

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.

Notes

20 Provisions for liabilities and charges continued

Property leases
When valuations of leasehold properties (based on future estimated income streams) give rise to a deficit as a result of onerous lease conditions they are recognised as liabilities in provisions. Payments are expected to be ongoing on these properties for periods of 18 to 43 years. The amounts are not discounted as the Directors consider the discounted amounts would not be materially different from the amounts recognised.

21 Pensions

The Group contributes to three funded final salary (defined benefit) pension schemes and three Group personal pension plans (defined contribution schemes).

Final salary pension schemes
The Group operates a W&DB final salary pension scheme for employees who joined the scheme prior to 29 September 1997. The Group contribution rate was 32.0% of pensionable salary throughout the year, following the recommendations of an independent qualified actuary.

The latest W&DB scheme valuation conducted by an independent actuary for the Group was as at 1 September 2005. The actuarial valuation was carried out using the projected unit method. 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 investment return and the rate of increase in earnings. The valuation as at 1 September 2005 assumed that the long-term investment return pre-retirement would exceed salary increases by 3.3% per annum and price inflation by 4.3% per annum. It assumed that the long-term investment return after retirement would exceed salary increases by 1.5% per annum and price inflation by 2.5% per annum. The market value of the scheme assets was £195.7m, which was sufficient to cover 104% of members' accrued benefits. The valuation as at 1 September 2005 includes a special contribution of £29.0m from the Group to the scheme on that date.

Following the acquisition of Burtonwood on 6 January 2005, the Group contributed to the Burtonwood final salary pension scheme at a rate of 22.2% of pensionable salary for Category A (non-contributory) members and 17.4% of pensionable salary for Category B (contributory) members. The Burtonwood pension scheme was valued by an independent qualified actuary at the date of acquisition. The pension scheme was valued at a deficit of £1.0m which was included in the acquisition balance sheet as a creditor (see note 27). This valuation assumed that the long-term investment return pre-retirement would exceed salary increases by 3.5% per annum and price inflation by 4.5% per annum. It assumed that the long-term investment return after retirement would exceed salary increases by 1.7% per annum and price inflation by 2.7% per annum.

The Group also contributed to the Jennings final salary pension scheme, following the acquisition of Jennings on 20 May 2005. The contribution rate was 55.3% of pensionable salary. The pension scheme was valued by an independent qualified actuary at the date of acquisition. The pension scheme was valued at a deficit of £2.3m which was included in the acquisition balance sheet as a creditor (see note 28). The valuation as at 20 May 2005 assumed that the long-term investment return pre-retirement would exceed salary increases by 3.4% per annum and price inflation by 4.4% per annum. It assumed that the long-term investment return after retirement would exceed salary increases by 1.1% per annum and price inflation by 2.1% per annum.

All final salary pension schemes are administered by trustees and are separate from the Group. All final salary pension schemes are closed to new entrants. It is therefore expected that the costs of benefits will steadily rise in future, as the average age of members increases. The Group paid total contributions of £5.9m (2004: £5.8m) to the final salary pension schemes during the period, comprising £5.5m paid to the W&DB scheme, £0.2m paid to the Burtonwood scheme and £0.2m paid to the Jennings scheme.

At 1 October 2005 a pension prepayment of £28.7m is included within debtors in respect of the W&DB scheme of which £0.7m is classified as due within one year and the remainder due after more than one year. A provision of £3.3m is included within creditors in respect of the Burtonwood and Jennings schemes. At 2 October 2004 a provision of £1.5m in respect of the W&DB scheme was included within creditors.

Group personal pension plans
New employees who join the Group are offered membership of the W&DB Group personal pension plan. The Group also operates two separate Group personal pension plans, for employees of Burtonwood and Jennings.

The Group paid contributions of £0.5m (2004: £0.4m) to the Group Personal Pension Plans during the period.

Notes

21 Pensions continued

FRS 17 Retirement Benefits disclosure

An actuarial valuation for the purposes of FRS 17 was carried out on the defined benefit schemes at 1 October 2005, 2 October 2004 and 27 September 2003 by a qualified independent actuary. The 1 October 2005 information reflects the aggregate of the W&DB, Burtonwood and Jennings schemes. The prior year information reflects only the W&DB scheme, Burtonwood and Jennings having been acquired during the year. The major assumptions used by the actuary were:

	1 October 2005 % per annum	2 October 2004 % per annum	27 September 2003 % per annum
Discount rate	**5.1**	5.7	5.4
Rate of increase in pensionable salaries	**3.5**	3.8	3.6
Rate of increase in pensions	**2.5**	2.8	2.6
Inflation assumption	**2.5**	2.8	2.6

The assets of the schemes and the weighted average expected rates of return were:

	Long-term rate of return expected at 1 October 2005 %	**Value at 1 October 2005 £m**	Long-term rate of return expected at 2 October 2004 %	Value at 2 October 2004 £m	Long-term rate of return expected at 27 September 2003 %	Value at 27 September 2003 £m
Equities	**6.5**	**144.5**	6.9	110.1	6.9	99.9
Bonds	**4.7**	**73.5**	5.4	33.4	5.1	30.2
Other	**4.2**	**1.7**	4.6	2.5	4.6	0.4
Total market value of assets		**219.7**		146.0		130.5
Present value of scheme liabilities		**(264.6)**		(211.7)		(211.3)
Shortfall in scheme assets		**(44.9)**		(65.7)		(80.8)
Related deferred tax asset at 30%		**13.5**		19.7		24.2
Pension shortfall		**(31.4)**		(46.0)		(56.6)

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:

	1 October 2005 £m	2 October 2004 £m	27 September 2003 £m
Net assets before pension shortfall	**758.5**	648.3	457.7
Reversal of SSAP 24 (net of deferred tax)	**(17.9)**	1.1	2.1
Pension shortfall	**(31.4)**	(46.0)	(56.6)
Net assets after pension shortfall	**709.2**	603.4	403.2
Profit and loss reserve before pension shortfall	**121.1**	89.0	69.9
Reversal of SSAP 24 (net of deferred tax)	**(17.9)**	1.1	2.1
Pension shortfall	**(31.4)**	(46.0)	(56.6)
Profit and loss reserve after pension shortfall	**71.8**	44.1	15.4

Notes

21 Pensions continued

The following amounts would have been recognised in the performance statements under the requirements of FRS 17:

	2005 £m	2004 £m	2003 £m
Operating profit			
Current service cost	**2.8**	2.7	2.8
Total operating charge	**2.8**	2.7	2.8
Other finance income			
Expected return on pension scheme assets	**10.4**	8.4	7.8
Interest on pension scheme liabilities	**(12.8)**	(11.3)	(11.5)
Net return	**(2.4)**	(2.9)	(3.7)
Statement of total recognised gains and losses (STRGL)			
Actual return less expected return on pension scheme assets	**14.4**	7.8	5.8
Experience gains and losses arising on the scheme liabilities	**–**	–	15.0
Changes in assumptions underlying the present value of scheme liabilities	**(17.7)**	7.1	(7.1)
Actuarial (loss)/gain recognised in the STRGL	**(3.3)**	14.9	13.7
Movement in shortfall during the period			
Shortfall in scheme at the beginning of the period	**(65.7)**	(80.8)	(91.6)
Movement in the period:			
Current service cost	**(2.8)**	(2.7)	(2.8)
Contributions	**34.9**	5.8	3.6
Other finance costs	**(2.4)**	(2.9)	(3.7)
Actuarial (loss)/gain	**(3.3)**	14.9	13.7
Acquisitions	**(5.6)**	–	–
Shortfall in schemes at the end of the period	**(44.9)**	(65.7)	(80.8)

History of experience gains and losses

	2005	2004	2003
Difference between the expected and the actual return on scheme assets:			
Amount	**£14.4m**	£7.8m	£5.8m
Percentage of scheme assets	**6.6%**	5.3%	4.4%
Experience gains and losses on scheme liabilities:			
Amount	**–**	–	£15.0m
Percentage of the present value of scheme liabilities	**–**	–	7.1%
Total amount recognised in the STRGL:			
Amount	**(£3.3m)**	£14.9m	£13.7m
Percentage of the present value of scheme liabilities	**(1.2%)**	7.0%	6.5%

Notes

22 Share capital (Group and Company)

	Authorised				Issued and fully paid			
	2005		2004		**2005**		2004	
	Number m	**Value £m**	Number m	Value £m	**Number m**	**Value £m**	Number m	Value £m
Ordinary shares of 29.5p each (equity)	**101.7**	**30.0**	101.7	30.0	**77.3**	**22.8**	72.8	21.4
Preference shares of £1 each (non-equity)	**0.1**	**0.1**	0.1	0.1	**0.1**	**0.1**	0.1	0.1
Closing balance	**101.8**	**30.1**	101.8	30.1	**77.4**	**22.9**	72.9	21.5

Ordinary share capital movements during the period were:

	Number m	Value £m
At 3 October 2004	72.8	21.4
Shares issued on acquisition	3.9	1.2
Allotted under share option schemes	0.6	0.2
At 1 October 2005	**77.3**	**22.8**

A total of 0.6m ordinary shares were issued during the 52 week period ended 1 October 2005 pursuant to the exercise of Executive and SAYE share options at exercise prices ranging from 233.9p to 604.0p. The aggregate consideration in respect of these exercises was £2.6m.

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 1 October 2005 there were 0.6m (2004: 0.8m) executive share options outstanding at prices from 325.5p to 604.0p per share, exercisable between 2005 and 2012 and 0.7m (2004: 1.0m) SAYE options outstanding at prices from 277.0p to 840.0p per share exercisable between 2005 and 2012. Details of the Group's Long Term Incentive Plan (LTIP) and other executive share option schemes are included in the Directors' remuneration report on pages 27 to 33.

Notes

23 Reserves

Group	Share premium account £m	Merger reserve £m	Revaluation reserve £m	Capital redemption reserve £m	Profit and loss account £m
At 3 October 2004	209.9	–	321.9	6.0	89.0
Property revaluation in the period	–	–	59.1	–	–
Premium arising on issue of shares	2.4	–	–	–	–
Net sale of own shares from share trust	–	–	–	–	0.3
Transfer of premium on redemption of debentures	(27.2)	–	–	–	27.2
Merger reserve arising on Burtonwood acquisition	–	41.5	–	–	–
Disposal of properties	–	–	(0.3)	–	0.3
Transfer from revaluation reserve	–	–	(0.8)	–	0.8
Profit for the period	–	–	–	–	3.5
At 1 October 2005	**185.1**	**41.5**	**379.9**	**6.0**	**121.1**

Company	Share premium account £m	Merger reserve £m	Revaluation reserve £m	Capital redemption reserve £m	Profit and loss account £m
At 3 October 2004	209.9	–	321.9	6.0	107.6
Property revaluation in the period	–	–	6.9	–	–
Premium arising on issue of shares	2.4	–	–	–	–
Net sale of own shares from share trust	–	–	–	–	0.3
Transfer of premium on redemption of debentures	(27.2)	–	–	–	27.2
Disposal of properties	–	–	(243.9)	–	243.9
Transfer from revaluation reserve	–	–	(0.8)	–	0.8
Profit for the period	–	–	–	–	137.6
At 1 October 2005	**185.1**	–	**84.1**	**6.0**	**517.4**

The premium payable on redemption of the Company’s debentures of £27.2m has been transferred from the Company’s profit and loss account reserve to the share premium account in accordance with Section 130 of the Companies Act 1985. No transfer was permitted in respect of the redemption premiums which related to debentures held in subsidiary companies.

The merger reserve recognised on acquisition of Burtonwood reflects the difference between the nominal and fair value of the Company’s shares issued as part of the consideration. Merger relief has been taken in accordance with the Companies Act, relieving the Group from the need to transfer this difference to the share premium account. Acquisition details are provided in note 27.

The capital redemption reserve arose on share buy-backs in previous years and is not distributable.

The profit and loss account reserve is stated after deducting the carrying value of investment in own shares held by the Group's ESOP. At 1 October 2005, £0.9m (2004: £1.2m) was held by the ESOP which related to the purchase of 0.2m (2004: 0.2m) ordinary shares of 29.5p. They are held 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 as at 1 October 2005 was £1.9m (2004: £1.9m).

As at 1 October 2005 share options totalling 0.2m (2004: 0.2m) were 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 604p per share between 2005 and 2013. 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.

The Company’s profit and loss account reserve includes £156.9m of unrealised profit from the sale of pubs to its subsidiary (see note 31).

Notes

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

	2005 £m	2004 £m
Total operating profit	**121.9**	100.9
Goodwill amortisation	**7.1**	7.0
Income from fixed asset investments	**(0.3)**	(0.4)
Depreciation charge	**38.3**	32.9
Decrease in pension cost provision	**(30.2)**	(1.5)
Decrease/(increase) in stocks	**1.5**	(0.5)
Increase in debtors	**(0.8)**	(3.3)
(Decrease)/increase in creditors	**(20.1)**	9.3
Exceptional operating charges with no cash impact	**1.7**	4.0
Net cash inflow from operating activities	**119.1**	148.4

25 Analysis of net debt

	2005 £m	Cash flow £m	Non-cash flow £m	Acquisitions £m	2004 £m
Cash					
Cash at bank and in hand	**76.1**	59.9	–	–	16.2
Bank overdraft	**(35.6)**	(31.5)	–	–	(4.1)
	40.5	28.4	–	–	12.1
Debt due within one year					
Loan notes	**(9.2)**	0.1	(9.2)	–	(0.1)
Bank loans	**0.2**	–	(0.2)	–	0.4
Securitised debt	**(9.1)**	(10.1)	1.0	–	–
Finance leases	**(0.1)**	0.1	–	(0.1)	(0.1)
	(18.2)	(9.9)	(8.4)	(0.1)	0.2
Debt due after one year					
Bank loans	**(111.1)**	281.2	(0.9)	(37.0)	(354.4)
Securitised debt	**(782.6)**	(794.9)	12.3	–	–
Finance leases	**(0.3)**	–	(0.1)	–	(0.2)
Debentures	**–**	245.0	1.9	(28.8)	(218.1)
	(894.0)	(268.7)	13.2	(65.8)	(572.7)
	(871.7)	(250.2)	4.8	(65.9)	(560.4)

Bank loans due within one year represent unamortised issue costs expected to be charged in 2006.

Notes

26 Operating lease commitments

At 1 October 2005 the Group was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings		Other	
	2005	2004	**2005**	2004
	£m	£m	**£m**	£m
Leases which expire:				
Within one year	**–**	–	**0.1**	0.5
Within two to five years	**0.2**	–	**0.8**	0.6
After five years	**7.4**	6.1	**–**	–
	7.6	6.1	**0.9**	1.1

27 Acquisition - Burtonwood

On 6 January 2005, the Group acquired Burtonwood PLC and its wholly owned subsidiaries.

The acquisition has been accounted for under acquisition accounting principles and is therefore included in the consolidated balance sheet as at 1 October 2005.

		Fair value adjustments		Provisional
	Book value	Revaluations	Other	fair value
	£m	£m	£m	£m
Tangible fixed assets	140.9	44.5	–	185.4
Investments	2.8	–	(0.2)	2.6
Stock	1.0	–	–	1.0
Debtors	5.6	–	(0.1)	5.5
Cash	5.8	–	–	5.8
Creditors	(13.2)	–	(1.0)	(14.2)
Loans	(15.0)	–	–	(15.0)
Debentures	(24.6)	–	(4.2)	(28.8)
Provisions for liabilities and charges	(4.4)	–	1.6	(2.8)
Net assets acquired	98.9	44.5	(3.9)	139.5
Consideration (including acquisition fees)				
Cash				84.3
Shares				42.7
Loan notes				7.0
Total consideration				134.0
Negative goodwill				(5.5)

Notes

27 Acquisition - Burtonwood continued

The Company issued its own shares as part of the consideration for Burtonwood. The fair value of the shares issued, based on market price at the date of acquisition, was recorded as the consideration. The £1.2m nominal value of the shares issued has been recognised in share capital and the difference between nominal and fair value of £41.5m has been recorded as a merger reserve in the Group accounts. In the Company's accounts the cost of investment in Burtonwood of £92.5m (see note 13) reflects £1.2m nominal value of shares issued, cash of £84.3m and loan notes of £7.0m.

The attributed fair values are provisional. Any further adjustments will be included in next year's financial statements. The revaluation adjustment reflects the valuation of the acquired estate as at 6 January 2005. The valuation was carried out by independent chartered surveyors Gillman Jones on an existing use basis. No deferred tax has been recognised on the revaluation adjustment as there are no agreements to sell the assets concerned.

The other fair value adjustments include the valuation of the Burtonwood pension scheme and the market value of debentures at acquisition date. Deferred tax has been recognised on these fair value adjustments.

The net cash outflow in respect of the purchase of Burtonwood was:	£m
Acquisition of equity	
Cash	84.3
Cash in hand of subsidiary	(5.8)
Net cash outflow for acquisition	78.5

In the financial year to 3 April 2004, Burtonwood made a profit after tax of £7.5m. For the period from 4 April 2004 to 5 January 2005, Burtonwood recorded turnover of £40.1m, operating profit of £9.1m, profit before taxation of £3.0m and profit after taxation of £0.5m. There is no difference between profit after taxation and the recognised gains and losses for that period.

Since acquisition, the cash operations of Burtonwood have been integrated into the existing Group accounts. As a result, it is impractical to isolate the cash flows of Burtonwood.

Notes

28 Acquisition - Jennings

On 20 May 2005 the Group acquired Jennings Brothers PLC and its wholly owned subsidiaries.

The acquisition has been accounted for under acquisition accounting principles and is therefore included in the consolidated balance sheet as at 1 October 2005.

	Book value £m	Fair value adjustments Revaluations £m	Other £m	Provisional fair value £m
Intangible fixed assets	1.6	–	(1.6)	–
Tangible fixed assets	51.4	15.3	–	66.7
Investments	1.7	–	–	1.7
Stock	0.4	–	–	0.4
Debtors	2.7	–	–	2.7
Cash	0.2	–	–	0.2
Bank overdraft	(2.6)	–	–	(2.6)
Creditors	(4.1)	–	(3.1)	(7.2)
Loans	(22.0)	–	–	(22.0)
Provisions for liabilities and charges	(0.9)	(0.2)	0.9	(0.2)
Net assets acquired	28.4	15.1	(3.8)	39.7
Consideration (including acquisition fees)				
Cash				46.3
Loan notes				2.2
Total consideration				48.5
Goodwill				8.8

The attributed fair values are provisional. Any further adjustments will be included in next year's financial statements. The revaluation adjustment in respect of tangible fixed assets reflects the valuation of the acquired estate as at 20 May 2005. Valuations reflecting onerous leases have been included in provisions. The pub estate valuation was carried out by independent chartered surveyors Christie & Co on an existing use basis and the brewery valuation was carried out by independent chartered surveyors Donaldsons on a depreciated replacement cost basis. No deferred tax has been recognised on the revaluation adjustment as there are no agreements to sell the assets concerned.

The other fair value adjustments reflect the elimination of goodwill held in the acquired balance sheet, valuation of the Jennings pension scheme and the market value of SWAPs at acquisition date. Deferred tax has been recognised on the pension scheme and SWAPs fair value adjustments.

The net cash outflow in respect of the purchase of Jennings was:	£m
Acquisition of equity	
Cash	46.3
Cash in hand of subsidiary	(0.2)
Net cash outflow for acquisition	46.1

In the financial year to 26 February 2005, Jennings made a profit after tax of £2.4m. For the period from 27 February 2005 to 19 May 2005, Jennings recorded turnover of £5.0m, operating profit of £0.5m, loss before taxation of £1.4m and loss after taxation of £1.3m. There is no difference between loss after taxation and the recognised gains and losses for that period.

Since acquisition, the cash operations of Jennings have been integrated into the existing Group accounts. As a result, it is impractical to isolate the cash flows of Jennings.

Notes

29 Acquisition - English Country Inns

On 15 September 2005 the Group acquired English Country Inns PLC.

The acquisition has been accounted for under acquisition accounting principles and is therefore included in the consolidated balance sheet as at 1 October 2005.

	Book value £m	Fair value adjustments Revaluations £m	Other £m	Provisional fair value £m
Tangible fixed assets	10.2	2.6	–	12.8
Stock	0.1	–	–	0.1
Debtors	1.3	–	–	1.3
Cash	0.5	–	–	0.5
Creditors	(1.0)	–	–	(1.0)
	11.1	2.6	–	13.7
Minority interest	(1.6)	(0.4)	–	(2.0)
Net assets acquired	9.5	2.2	–	11.7
Cash consideration (including acquisition fees)				13.4
Goodwill				1.7

The attributed fair values are provisional. Any further adjustments will be included in next year's financial statements. The revaluation adjustment in respect of tangible fixed assets reflects the valuation of the acquired pub estate as at 15 September 2005. The valuation was carried out by independent chartered surveyors Christie & Co on an existing use basis. No deferred tax has been recognised on the revaluation adjustment as there are no agreements to sell the assets concerned.

The net cash outflow in respect of the purchase of English Country Inns was:	£m
Acquisition of equity	
Cash	13.4
Cash in hand of subsidiary	(0.5)
Net cash outflow for acquisition	12.9

In the financial year to 28 May 2005, English Country Inns made a loss after tax of £0.2m. For the period from 29 May 2005 to 14 September 2005, English Country Inns recorded turnover of £2.2m, operating profit of £nil, loss before taxation of £0.3m and loss after taxation of £0.3m. There is no difference between loss after taxation and the recognised gains and losses for that period.

Since acquisition, the cash operations of English Country Inns have been integrated into the existing Group accounts. As a result, it is impractical to isolate the cash flows of English Country Inns.

30 Acquisition - Wizard Inns

On 14 June 2004 the Group acquired Wizard Inns Limited. The fair value adjustments stated in the prior year accounts are now confirmed.

Notes

31 Disposal - Transfer of business

Company
On 9 August 2005, 1,592 pubs were sold to W&DB Pubs Limited, for £1,167.6m, generating a profit on disposal of £156.9m. The profit on disposal has been treated as an unrealised profit in the Company (see note 23). Stock, debtors and creditors relating to those pubs were also transferred to W&DB Pubs Limited at their net book value.

32 Quasi-subsidiary - W&DB Issuer PLC

The summarised accounts of W&DB Issuer PLC for its first accounting period ended 1 October 2005 are as follows:

Profit and loss account	2005 £m
Interest payable and similar charges	**(6.5)**
Interest receivable and similar income	**6.5**
Profit for the financial period	**–**

There are no recognised gains and losses other than the profit for the financial period.

Cash flow statement	2005	
	£m	£m
Net cash inflow from operating activities		**–**
Capital expenditure and financial investment		
Advance of loans	(805.0)	
Cash outflow before financing		**(805.0)**
Financing		
Proceeds from issue of securitised debt	805.0	
Net cash inflow from financing		**805.0**
Movement in cash in the period		**–**

Balance sheet	2005 £m
Debtors:	
Amounts due from W&DB Pubs Limited	**805.0**
Other debtors	**14.7**
Creditors:	
Securitised debt	**(805.0)**
Other creditors	**(14.7)**
Shareholders' funds	**–**

Notes

33 Contingent liabilities and financial commitments

On 9 August 2005 the Group entered into a Tax Deed of Covenant, the primary objective of which is to ensure that the Group does not trigger a total de-grouping liability of approximately £173.2m. This would arise in the event of W&DB Pubs Limited being sold outside of the Group within six years for corporation tax purposes and three years for stamp duty land tax purposes. The Directors consider the likelihood of such a sale to be remote.

The Company has provided guarantees to Barclays Bank PLC in relation to loans entered into by tenants to finance the purchase of certain fixtures and fittings. The total amount guaranteed under these arrangements is £1.1m (2004: £nil).

Shareholder information

Financial calendar

Current financial period ended	1 October 2005
Next financial period ends	30 September 2006

Announcements

Half-year results	26 May 2006
Full-year results	1 December 2006

Dividend payment dates

Preference shares

Final dividend	31 December 2005
Interim dividend	30 June 2006

Ordinary shares

Final dividend	31 January 2006
Interim dividend	30 June 2006

Interest payment dates

Loan stock	15 January 2006
	15 April 2006
	15 July 2006
	15 October 2006
Loan notes	
(issued on the acquisitions of	30 April 2006
Burtonwood and Jennings)	31 October 2006

Annual general meeting	20 January 2006

Advisers

Registrar and transfer office
Lloyds TSB Registrars, The Causeway, Worthing,
West Sussex, BN99 6DA
Shareholder queries: 0870 600 3970 www.shareview.co.uk

Auditors
PricewaterhouseCoopers LLP, 19 Cornwall Street,
Birmingham B3 2DT

Merchant bankers
NM Rothschild & Sons Limited, New Court, St Swithin's Lane,
London, EC4P 4DU

Solicitors
Freshfield Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HS
Bond Pearce, Marsh House, 11 Marsh Street, Bristol, BS99 7BB
Wragge & Co, 55 Colmore Row, Birmingham, B3 2AS

Stockbrokers
UBS Investment Bankers, 1 Finsbury Avenue, London, EC2M 2PP

Company Secretary and registered office
Anne-Marie Brennan, PO Box 26, Park Brewery, Bath Road,
Wolverhampton WV1 4NY. Registered Number: 31461
Telephone: 01902 711811

Website
You may wish to view the Group websites which contain details of Group activities and investor information.
The website addresses are:
www.wdb.co.uk www.pathfinderpubs.co.uk
www.tupc.co.uk www.marstonsdontcompromise.co.uk
www.pitcherandpiano.com

Equivalent market prices on 31 March 1982

The Wolverhampton & Dudley Breweries, PLC	
Preference shares	34.5p
Ordinary shares	94.5p
Burtonwood PLC	
Ordinary shares	100.63p

The Wolverhampton & Dudley Breweries, PLC
Notice of meeting

Notice is hereby given that the one hundred and eighteenth annual general meeting of The Wolverhampton & Dudley Breweries, PLC will be held at Edgbaston Cricket Ground, Edgbaston, Birmingham B5 7QU on Friday 20 January 2006 at 1200 hours for the following purposes:

Ordinary business

1 To receive and to adopt the Company's accounts, and the reports of the Directors and Independent Auditors for the 52 weeks ended 1 October 2005.
2 To declare and to confirm dividends.
3 To re-elect Derek Andrew.
4 To re-elect Lord Hodgson.
5 To re-elect Peter Lipscomb.
6 To re-appoint PricewaterhouseCoopers LLP as Independent Auditors of the Company and to authorise the Directors to fix their remuneration.

Special business

To propose the following as ordinary resolutions:
7 To approve the Directors' remuneration report for the year ended 1 October 2005 as set out on pages 27 to 33 of the Annual report 2005.
8 That the Board be and it is hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £7,604,235 provided that this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or, if earlier, 15 months after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Board may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.
To propose the following as special resolutions:
9 That subject to the passing of the previous resolution the Board be and it is hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94(2) and Section 94(3A) of the said Act) for cash pursuant to the authority conferred by the previous resolution as if sub-section (1) of Section 89 of the said Act did not apply to any such allotment provided that this power shall be limited:
(a) to the allotment of equity securities in connection with an issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them. But subject to such exclusions or other arrangements as the Board may deem necessary or expedient to deal with fractional entitlements or legal problems which may arise in any overseas territory or under the requirements of any regulatory body or any stock exchange; and
(b) to the allotment (otherwise than pursuant to sub paragraph (a) above) of equity securities up to an aggregate nominal value of £1,140,635.

This authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution, or, if earlier, 15 months after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be alloted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of Section 94(sA) of the Companies Act 1985 as if in the first paragraph of this resolution the words "pursuant to the authority conferred by the previous resolution" were omitted.

10 That the Company be and it is hereby generally and unconditionally authorised for the purposes of Section 166 of the Companies Act 1985 to make market purchases (as defined by Section 63(3) of the said Act) of ordinary shares of 29.5p each in its capital, subject as follows:
(a) the maximum number of shares which may be so acquired is £11,591,948.
(b) The minimum price which may be paid for such shares is 29.5p per share;
(c) The maximum price which may be so paid for a share is a sum equal to 105% of the average of the middle market quotations of the ordinary shares of the Company in the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the share is contracted to be purchased; and
(d) The authority conferred by this resolution shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or, if earlier, 15 months after the passing of this resolution (except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiry).

By order of the Board

Anne-Marie Brennan Secretary
2 December 2005

Notes

1 A member of the Company entitled to attend and to vote may appoint one or more proxies to attend and to vote instead. A proxy need not be a member. A proxy form is enclosed. Completed proxy forms must be received by the Registrar not less than 48 hours before the annual general meeting.
2 The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only shareholders registered on the register of members of the Company at 1200 hours on 20 January 2006 shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 1200 hours on 20 January 2006 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
3 The following are available for inspection at the Company's registered office during normal business hours on any weekday (excluding public holidays) and will be available for at least 15 minutes prior to, and during, the annual general meeting:
- The register of Directors' interests and those of their immediate families in the share capital of the Company;
- Directors' service contracts;
- A copy of the Company's memorandum and articles of association.


BANKS'S

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& Dudley Breweries, PLC
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W&DB