W&DB

The Wolverhampton & Dudley Breweries
Annual report 2001

Contents

Financial calendar

Current financial period ended	29 September 2001
Next financial period ends	28 September 2002
Announcements	
Half-year results	20 May 2002
Full-year results	4 December 2002
Dividend payment dates	
Preference shares	
Final dividend	28 December 2001
Interim dividend	28 June 2002
Ordinary shares	
Final dividend	31 January 2002
Interim dividend	28 June 2002
Debenture interest payment dates	
£20m 11½% Mansfield debenture stock 2010	31 March 2002 30 September 2002
£15m 10¼% debenture stock 2012	31 March 2002 30 September 2002
£125m 6½% debenture stock 2019	31 December 2001 30 June 2002
£30m 7¼% debenture stock 2027	31 December 2001 30 June 2002
£30m 6.875% Mansfield debenture stock 2028	28 February 2002 31 August 2002
Annual general meeting	25 January 2002

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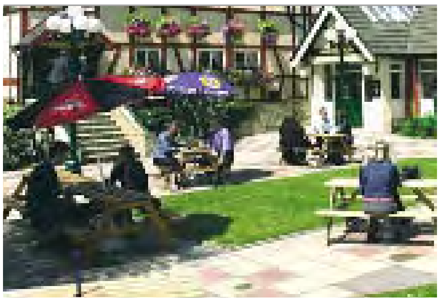


Our aim is excellent quality and great value – for pubs, food and drink

Year at a glance

Turnover
£m

2001	565.4
2000	598.8

Total operating profit*
£m

2001	115.0
2000	105.5

Profit before tax*
£m

2001	76.1
2000	65.0

** Before goodwill amortisation and exceptional items.*

Trading divisions

Retail Division

Our Retail business comprises 615 managed pubs, including the "Pitcher & Piano" brand. The majority of our pubs are community pubs which aim to provide leading brands and good food in a traditional pub environment.

The Union Pub Company

Our tenanted estate numbers 1,087 pubs. We aim to attract good tenants through a combination of successful pubs, a commitment to developing our estate, training and support, and the availability of leading brands.

Brands Division

Pedigree, Banks's and Mansfield are leading ale brands in our trading area. Our Brands division is committed to providing a level of service and choice which makes us the natural alternative to multi-national brewers when choosing brands.

Pr ofits before goodwill amortisation and exceptional items up 17.1% to £76.1m

Like-for-like 0.5% above last year: positive like-for-like sales in community pubs

Good progres by key ale and lager brands

Earnings per ordinary share*
p

* *Before goodwill amortisation and exceptional items.*

Dividend per share
p

Turnover by division
£m

Trading summary

Retail Division	2001	2000
Turnover (£m)	328.7	352.4
Operating profit (£m)	64.2	66.7
Net assets (£m)	512.6	599.9
Number of pubs	615	889
Average weekly sales (£000)	8.8	8.0

The Union Pub Company	2001	2000
Turnover (£m)	89.0	76.2
Operating profit (£m)	40.1	31.3
Net assets (£m)	264.1	245.3
Number of pubs	1,087	889

Brands Division	2001	2000
Turnover (£m)	147.7	170.2
Operating profit (£m)	22.1	21.3
Net assets (£m)	118.9	197.0

Comparable earnings per share up 10.7% to 58.0p

Final dividend up 12.8% to 17.5p per share

Integration of Marston's and Mansfield acquisitions completed

Chairman’s statement

Record profits*, record earnings per share* and accelerated free cash flow have been achieved from the successful integration of our acquisitions, the high quality of our community pub estate and our growing beer market share.

** Before goodwill amortisation and exceptional items.*

In April 2001, we announced our strategic plans to create a more focused and simpler business, able to extract greater returns from our core community estate, our strong regional presence and our brands. We have made good progress in implementing these proposals and on our commitment to enhance shareholder value. As a consequence, we intend to proceed with our planned return of £100m to shareholders by the end of December 2001.

The good progress made during the year was achieved despite the significant distractions of being in a formal offer period for 365 days. This culminated in a hostile bid from Pubmaster on 1 June 2001, which lapsed on 13 August 2001.

Results

Profit before taxation, goodwill amortisation and exceptional items for the year ended 29 September 2001 increased by 17.1% to £76.1m. Earnings per share, on the same basis, increased by 10.7% to 58.0p per share. These results are as forecast in July 2001.

Turnover of £565.4m compares to £598.8m last year, reflecting the successful implementation of our stated strategy to focus the Group on higher-margin core businesses. Operating margin increased to 20.3%, up from 17.6% last year. First-half margins increased to 17.9% from 15.3% and second-half margins to 22.8% from 19.7% as we integrated our acquisitions, divested non-core assets and drove down costs. We expect to make further progress as the benefits of integration continue to flow.

** Before goodwill amortisation and exceptional items.*

Overall return on capital* increased from 9.9% to 12.7%.

Free cash flow was £104.5m, compared with £81.0m last year. Net debt at the year end was £450.0m compared to £572.1m last year, and is down by almost £220m from a peak of nearly £670.0m in February 2000. Our strong cash flow is the key to our prospects, since it enables W&DB to invest in the development of its businesses whilst returning cash to shareholders.

Dividend

A final dividend of 17.5p per share is proposed, in accordance with our forecast, making a total of 26.5p per share – up 10.3% compared to last year. Subject to shareholder approval, this will be paid on 31 January 2002 in respect of shares registered at the close of business on 4 January 2002.

Return of capital

In July 2001, we announced our intention to return up to £200m to shareholders by April 2003. The return of capital is consistent with our expectations of the strong cash flow from the business and our desire to maintain an efficient capital structure. The return is also consistent with our established approach of returning capital to shareholders: we returned £57.3m in 1998.

Subject to shareholder approval, the initial proposed return of £100m will be made by way of a share buyback at 491p per share through a tender offer representing approximately 21.5% of our issued share capital. A circular will be posted to shareholders setting out the terms and conditions of the tender offer and giving notice of an extraordinary general meeting to be convened on 17 December 2001 to approve this proposal. Payment is expected to be made on 21 December 2001.

The balance of the programme, which we aim to complete by April 2003, will depend on our achieving the plans which we announced in April 2001.

Right, Extracting greater returns from our high-quality community pub estate.

Far right, Expertise in the art of brewing helped us to grow beer market share.

People

David Miller retired from the Board in June 2001 after nine years as Chairman: the Board is grateful for his tremendous contribution and steadfast guidance during a period of great change in the pub and brewing industry.

I was appointed Chairman on 5 June 2001, and will become non-executive as from the annual general meeting on 25 January 2002.

Ralph Findlay became Chief Executive on 24 April 2001. On 30 April 2001, Martin Womack (Managing Director, Brands Division) and Stephen Oliver (Managing Director, The Union Pub Company) were appointed to the Board. We are currently recruiting a Finance Director. Paul Inglett, our Director of Planning, is fulfilling the role of Acting Finance Director until a permanent appointment is made.

All those who work at W&DB endured a year of uncertainty, yet these results demonstrate a clear understanding of our strategy, careful integration of three businesses, and the application of developed skills in order to deliver good service and profitable trading. The Board's thanks go to all our staff.

Strategy

W&DB recognised some years ago that demographic changes, rising costs and changes in the pattern of demand led to reduced returns on capital investment in the pub sector. Since 1997, our strategy has been to conserve value for shareholders by cutting costs of operation and by exploiting the cash flow of the business. We have expanded those cash flows by consolidating the regional brewery sector and improving the quality and profitability of assets. Selling those pubs either with a less promising future or with a high asset value in relation to long-term returns further improves our average return on capital.

In 1999, we acquired both Marston's and Mansfield. Since then we have sold approximately 800 pubs, integrated three businesses, and reduced both costs and working capital.

Since 1998, turnover has increased from £285.7m to £565.4m, profits* from £45.0m to £76.1m, and operating margins* from 19.4% to 20.3%. Compound underlying earnings* growth over the last four years, despite the introduction of FRS 15, has been 5.5%.

Behind this strengthening of the Company's performance lies the creation of a powerful trading platform both as a major operator of community pubs throughout the Midlands and in the North, and as a leading supplier of beer in the Midlands. We are also developing our strengths in the national premium ale sector. This geographic and sector focus brings with it efficient costs of operation, low central overheads and reduced working capital.

At the heart of our strategy is proximity to our consumers and customers. We aim to provide value-for-money drinks and food in comfortable and well-maintained pubs, and to offer personal service and excellent brands to our trade customers.

This strategy continues to underpin our plans to develop the businesses to deliver greater value to shareholders. It is a strategy that is well suited to today's uncertain economic environment and the changing dynamics of our industry.

Outlook

Trading since 29 September 2001 has been steady and reflects continuing improvement throughout our businesses. Our markets are essentially stable and have attractive qualities. Many of our staff have had experience in managing successfully through previous recessions. The Board believes that the Group is well placed to continue its improved trading momentum whilst making substantial cash returns to shareholders.

Current like-for-like trading is ahead of last year. We look forward to 2002 and beyond.

David Thompson *Chairman*

** Before goodwill amortisation and exceptional items.*

Adding value by building stronger relationships with our customers.

We have delivered record results with profit before taxation* and earnings per share* rising by 17.1% and 10.7% respectively. Operating margins* rose 2.7% to 20.3% from 17.6% last year. These excellent results are for the first full year since the Marston's and Mansfield acquisitions.

** Before goodwill amortisation and exceptional items.*

Right, Business at The Firs, Wolverhampton, has been transformed since its re-opening.

	2001	2000	1999	1998	1997
Managed pubs at year end	**615**	889	814	609	605
Tenanted pubs at year end	**1,087**	889	937	406	393
Average weekly turnover per managed pub (£000)	**8.8**	8.0	7.3	5.8	5.6
Retail Division return on capital employed	**12.5%**	11.1%	8.9%	10.6%	10.3%
The Union Pub Company return on capital employed	**15.2%**	12.8%	10.9%	12.3%	13.0%
Brands Division return on capital employed	**18.6%**	10.8%	10.7%	10.1%	7.7%

We have achieved improved margins in each of our Divisions by realising the integration benefits from acquisitions and by improving our management of volume, price, sales mix and costs. The reorganisation of the business into three distinct Divisions has brought greater transparency and accountability for the management of the Group.

Across our trading area we now operate over 1,700 core quality pubs, and sell the most popular ale brands – Banks's and Pedigree. The combination of scale and high-quality pub assets in a tight geographical area has created a stable, attractive business with significant future opportunities. We have improved the focus and profitability of our Brands Division, reducing our free trade loan book by £32.6m in addition to the £18.1m reduction in 2000, and we have also exited low-margin contract brewing.

In April 2001, we announced the planned disposal of approximately 170 non-core pubs and sites to create a better focused business. We have made good progress, with terms agreed for the disposal of 110 pubs and sites for £71m. Included within this total are £61m of disposals which are contracted, and £10m which are subject to contract. Consequently, subject to shareholder approval, we are able to proceed with the first phase of our planned cash return of £100m to shareholders on 21 December 2001.

The transition towards a higher-quality business is shown in the table above.

We are much better positioned as a result of the changes we have made. In April 2001 we set out our strategy, which is to be a focused community pub operator supported by leading ale brands. We also set clear operational and financial targets for each Division, progress against which is measured in the following Divisional reviews.

Above, W
because it is floor malted by hand.

Left, We aim to serve excellent quali
and drink which offers great value to our customers.

Far left, We look to increase beer market share in areas where brand awareness is strong but distribution is low.

Retail Division

The Retail Division, as at 29 September 2001, comprised 615 pubs: 550 core community managed pubs, and 65 non-core pubs identified for disposal, including Pitcher & Piano (38 units).

Performance against strategic targets

	September 2000	September 2001	Target 2003
Average turnover per pub per week	£8,000	£8,800	£9,000
Return on Bostin Local investment	27%	29%	+20%
EBITDA*/turnover margin	26%	29%	33%

** Earnings before interest, tax, depreciation and amortisation and before divisional overheads of those managed pubs as at 29 September 2001.*

Our managed pubs are concentrated across the Midlands. We have chosen to focus our business on community pubs because we believe that we really understand our consumers in this market, and that it offers attractive opportunities – whilst many of our competitors have chosen to focus elsewhere on segmented high street offerings.

Community pubs are stable, lower risk, and as an operator we have a strong competitive position through existing licensing and planning. Following planned disposals, our estate will be 98% freehold.

Our results reflect the steady performance of our core community estate, as evidenced by like-for-like sales and profit:

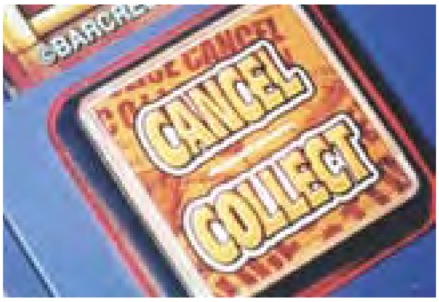
Like-for-like performance

	Number of pubs	Sales % change	Profit % change
Core community estate			
Un-invested	489	+0.3	(1.1)
Invested	61	+12.9	+39.5
Total community	550	+1.8	+4.0
Non-core pubs to be sold	65	(6.5)	+3.6
Total Retail	615	+0.5	+3.9

As a consequence of the disposal of 68 pubs and the transfer of 206 smaller managed pubs to tenancy, operating profit decreased from £66.7m last year to £64.2m.

Operating margins increased by 0.6% to 19.5%. This increase was driven by stronger pricing, tight control of costs and our increasing focus on higher-margin community pubs.

Food sales are of increasing importance within our community estate. Like-for-like food sales increased by 3.8% on an un-invested basis, and now represent 22.8% of total Retail sales. Further investment in our Bostin Local developments will increase food sales within our business.



oval to raise the jackpot prize limit to £25 should prove attractive to players.

Right, Offering well-regarded brands to our community pub customers puts us in a strong competitive position.

Far right, Increasing like-for-like food sales through offering quality and value.

Community pubs are stable, but the market is changing. Our investment plan for Bostin Local is to develop approximately 40 community pubs per year, with up to 200 conversions possible from our current estate. These are larger pubs in suburban areas which can be transformed to fulfil a need for bright, contemporary community pubs. There were 18 trading as at 29 September 2001, with an average of £400,000 per pub invested producing a return on incremental capital of 29%. The development plan for the current year is well advanced, with a further ten due to have been opened before Christmas 2001.

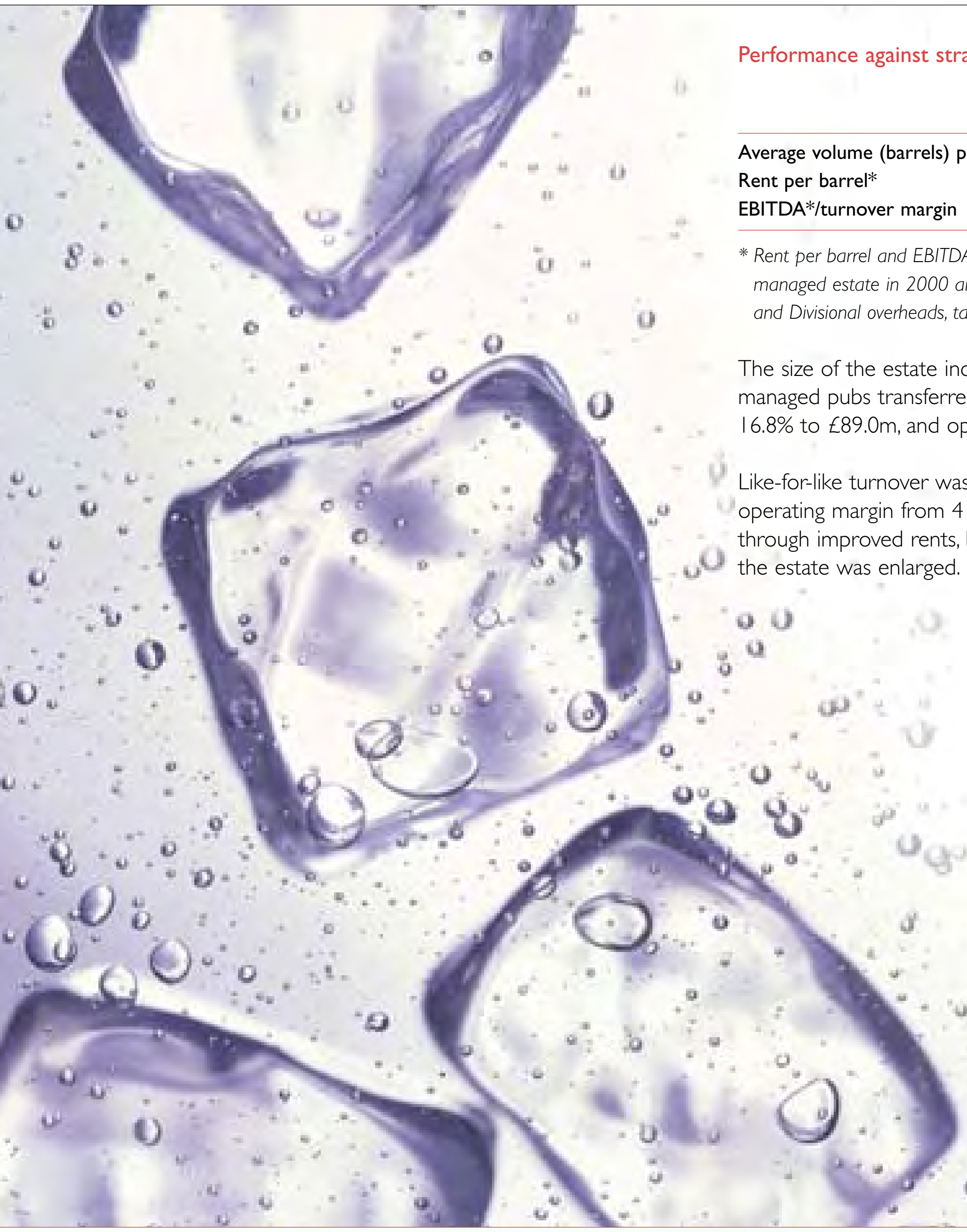
This investment, together with the extension of EPOS across our estate over the next few years, offers a significant opportunity for us to extract more value from our existing assets. It is not merely a capital investment plan – we have also invested in a research team so that consumer feedback is recognised in the way we do business.

Our Retail business has made excellent progress during the year, and we feel that there are good opportunities ahead.

Left, The Bostin Local development plan is well advanced.

The Union Pub Company

The Union Pub Company operates 1,087 tenanted pubs concentrated in the Midlands and the North East.



Performance against strategic targets

	September 2000	September 2001	Target 2003
Average volume (barrels) per pub per year	257	276	290
Rent per barrel*	£60	£68	£66
EBITDA*/turnover margin	52%	55%	58%

** Rent per barrel and EBITDA/turnover margin exclude pubs transferred from the managed estate in 2000 and 2001. EBITDA is defined as earnings before interest and Divisional overheads, tax, depreciation and amortisation.*

The size of the estate increased during the year with 206 smaller managed pubs transferred to tenancy. This is reflected in turnover up 16.8% to £89.0m, and operating profit up 28.1% to £40.1m.

Like-for-like turnover was 1.1% below last year. The improvement in operating margin from 41.1% last year to 45.1% was achieved through improved rents, better pricing and tight control of costs while the estate was enlarged.

Delivering from local depots helps customers who need top-up stock.

We benefited from increased stability as the year progressed, following completion of the post-acquisition integration and the review of our brewing operations, particularly in Mansfield.

We have put more resources into field-based management, and have seen good results from better managed promotional activity, targeted capital investment, and more rigorous application of the tie. We have opened local depots to help customers who need top-up stock, and are trialling an in-cellar beer monitoring system to maximise our sales.

After the very active period of acquisitions and disposals, we now have a high-quality estate. We have a wider range of tenanted pubs selling food, with their sustainable rents and long-term growth potential complementing the traditional wet-led tenancies which form the bedrock of our business and the heart of their local communities.

A prime aim of our business is to help tenants compete effectively in their local markets. Our capital investment programme is designed to ensure that our estate is kept attractive and welcoming for customers. In 2001 we invested £5.8m in the estate, and will invest a similar amount in 2002.

We are extending the "Business Builder Agreement" across our estate, and now have around 600 tenants on this original three-year Plain English tenancy agreement, which rewards tenants for on-target achievement through substantial discounts. As existing agreements come up for renewal more and more tenants are signing up to the modern Business Builder Agreement. We have also more recently introduced a new 21-year lease agreement which will appeal to entrepreneurs with capital to invest.

Competition for good tenants and lessees is intense. We operate a sophisticated recruitment system which is generating better candidates than ever before, and all of our tenants attend an intensive week-long training course focused on best business practices before they take up their responsibilities.

Next year we will continue the process of churn, weeding out under-performing pubs and increasing the value of the business through maximising volumes, rents and other sources of income such as gaming machines. We anticipate that further improvements in profitability can be achieved by such close attention to detail.

Above, The process of churn has resulted in an increased number of tenanted pubs selling food.

Left, Maintaining the reputation of our beers demands that we use only the best natural ingredients.

Far left, Traditional wet-led tenancies selling popular local beers form the bedrock of our business.

Brands Division

2001 has been a year of significant change for the Brands division, and as a consequence we have a more focused, more profitable business with a significantly lowered capital employed.

Performance against strategic targets

	September 2000	September 2001	Target 2003
EBITDA*/turnover margin	18%	20%	26%

* *Earnings before interest and divisional overheads, tax, depreciation and amortisation.*

Turnover declined from £170.2m last year to £147.7m. The reduction was the planned consequence of exiting low-margin free trade and contract brewing operations.

Operating profit increased by £0.8m to £22.1m, representing a 2.5% improvement in operating margin to 15.0%. After a £32.6m reduction in the free trade loan book and tight control of working capital, capital employed reduced from £197.0m last year to £118.9m: return on capital increased from 10.8% to 18.6%.

These improvements have been accompanied by a new approach to the business, which is now focused on own ale brands.

Marston's Pedigree is brewed in Burton Upon Trent using the unique Burton Union System – the only beer "better brewed in wood" as our marketing campaign describes it. It is the number one premium cask ale in the Midlands, with a market share of 28.9%, up 0.5% since last year. It is the number two premium cask ale nationally, with a market share of 8.5%, 0.3% behind last year.

In the take home trade, Pedigree was 45.3% ahead of last year, with a strong performance in the premium bottled ale market.

The strength of the brand is illustrated by the table on page 13.

We have two strong regional ales in Banks's and Mansfield. Banks's is the number one standard ale in the Midlands, with a market share of 21.1%, up 3.8% since last year. Banks's is a Midlands brand, and there are opportunities to increase market share by targeting parts of the Midlands where brand awareness is strong but distribution is low. The strength of our position is illustrated not just by market share (see table on page 13) but by rate of sale – Banks's has the highest throughputs of any mainstream ale brand in the country.

Mansfield is a strong local brand in Nottinghamshire and the East Midlands. We will continue to drive the brand in its current trading area, where there is keen demand from tenanted pubs and free trade outlets.

During the year, we announced a number of significant changes to our brewing operations. We will concentrate production at two sites, Burton and Wolverhampton, and will cease to brew lager. Distribution and logistics will be concentrated in Wolverhampton and Mansfield. These changes are expected to improve future profitability by approximately £4.0m per year following the anticipated disposal of the Cameron's brewery, and the closure of the Mansfield brewery by the end of December 2001.

As a result of these changes, we are targeting further improvement in return on capital. We are encouraged that industry changes, including the disposal of competitor brands and changes in pub ownership, offer scope for developing our business.

Industry developments

The changing balance of our pub estate directly reflects the evolving industry environment. Increases in the National Minimum Wage, the Working Time Directive and changes to holiday entitlements have meant that pubs which would previously have been good managed pubs are now more economic to run as tenancies. In consequence, tenancies now form a greater proportion of our estate. Such changes have a direct impact on employment opportunities, and have contributed to price increases.

The beer market is also changing rapidly, with the ownership of major competitor ale brands and national lager brands uncertain. These changes provide opportunities for us both as a brewer of leading regional ale brands, and as a buyer of lager for our managed and tenanted pub estates. We will be seeking to maximise our advantage.

The introduction of licensing reform has regrettably been delayed, the Government having previously indicated that changes would be introduced within this year's legislative programme. We welcome any relaxation in the extent and costs of regulation.

Right, We anticipate greater returns from gaming machines in the year ahead.

Far right, We are determined to make Marston's Pedigree Britain's number one premium ale.

Top UK premium ale brands	Market share %
Bass	10.1
Pedigree	8.5
London Pride	6.5
Abbott Ale	5.2
Directors	5.0

Source: A C Neilsen, September 2001

Top Midlands* standard ale brands	Market share %
Banks's	21.1
Worthington	12.3
John Smith's	9.6
Tetley's	7.0
Brew XI	6.0

Source: A C Neilsen, September 2001 * *Central TV area.*

Very recently, the Government has approved the triennial review for gaming machines, which raises the jackpot prize limit from £15 to £25. This should prove attractive to players.

Future prospects

We are continuing discussions on the balance of our planned disposals.

Our share buy-back programme requires the balance sheet to be more highly geared. I believe that the basic stability of our trade, the asset backing of pubs and strong cash flow support this more efficient capital structure, provided that debt is carefully managed. We have demonstrated our ability and willingness to return value to shareholders before, in 1998, when 18.6% of our share capital was returned realising £57.3m of value.

The return of capital is compatible with our investment plans, through the Bostin Local programme and improvements to tenanted pubs. Our focus will remain on extracting value from the assets we have rather than on new site development. However, there are likely to be opportunities to acquire pubs in the future. The pub market continues to develop rapidly, and there is no sign of the pace of change slackening. Scale and quality matter, and there will be a continuing need for churn.

Current trading is satisfactory. In the eight weeks to 24 November 2001, total like-for-like sales in our Retail estate were 4.0% ahead of last year and like-for-like volumes in our tenanted estate were 0.1% ahead of last year.

In summary, notwithstanding a more uncertain economic outlook overall, we see good operational and strategic opportunities for developing the Group's businesses in the future.

Ralph Findlay *Chief Executive*

Left, We remain committed to brewing Marston's Pedigree in our unique Burton Union System.

Financial review

Trading overview

Segmental analysis	Turnover 2001 £m	Turnover 2000 £m	Operating profit 2001 £m	Operating profit 2000 £m	% Margin 2001 %	% Margin 2000 %	Capital employed 2001 £m	Capital employed 2000 £m
Retail Division	**328.7**	352.4	**64.2**	66.7	**19.5**	18.9	**512.6**	599.9
The Union Pub Company	**89.0**	76.2	**40.1**	31.3	**45.1**	41.1	**264.1**	245.3
Brands Division	**147.7**	170.2	**22.1**	21.3	**15.0**	12.5	**118.9**	197.0
Central costs	**–**	–	**(11.4)**	(13.8)	**(2.0)**	(2.3)	**11.4**	23.9
Group	**565.4**	598.8	**115.0**	105.5	**20.3**	17.6	**907.0**	1,066.1

Turnover declined by £33.4m as a consequence of the disposal of 76 pubs, the transfer of 206 smaller managed pubs to tenancy, and a focus on higher-margin business within the Brands Division.

Operating margins (before goodwill amortisation and exceptional items) increased by 2.7% to 20.3% through tighter pricing, good cost control and the focus across the Group on higher-margin business, including the effect of pub disposals.

The reduction in capital employed in the Retail Division reflects the transfer of 206 smaller pubs to tenancy and pub disposals. Capital employed within The Union Pub Company has increased correspondingly.

The decrease in capital employed in the Brands Division results from the free trade loan book reduction of £32.6m, lower working capital, and the write-down of the Mansfield Brewery in advance of its closure in December 2001.

The increase in profit before tax, goodwill amortisation and exceptional items was 17.1% to £76.1m, compared to £65.0m last year.

Return on capital employed (before goodwill amortisation and exceptional items) increased from 9.9% last year to 12.7%.

Taxation
The comparable underlying rate of tax is 28.6% (2000: 28.8%).

Earnings per share
Comparable earnings per share (before goodwill amortisation and exceptional items) increased by 10.7% to 58.0p per share.

Exceptional items
Total exceptional items after taxation were £49.8m, analysed as follows:

	£m
Reorganisation and restructuring	13.2
Defence costs	9.1
Goodwill on disposals	13.6
Fixed asset impairment	10.3
Property disposals	6.8
Refinancing costs	1.7
Taxation on exceptional items	(4.9)
	49.8

In July 2001, the Group forecast exceptional items of £10.6m excluding defence costs, the effect of brewery rationalisation and any impact from disposals. Included within reorganisation and restructuring costs of £13.2m is a provision for future redundancy costs of £2.3m relating to brewery rationalisation.

Other reorganisation costs include expenditure associated with the integration of Mansfield and restructuring of the free trade operations. The defence costs were incurred in defending the hostile bid by Pubmaster which lapsed on 13 August 2001. The goodwill adjustment in respect of disposals recognises a reduction in goodwill as a consequence of selling Marston's and Mansfield assets during the year. The fixed asset impairment charge recognises actual and planned disposals since 29 September 2001. The loss on disposal of pubs principally relates to the disposal of 76 pubs and unlicensed property during the year for proceeds of £62.8m.

Funding, interest rate costs and interest rate hedging

Group debt of £450.0m was funded as follows:

Source	Amount £m	Maturity	Fixed/ variable	Rate %
Debentures and other instruments	220	2010 – 2028	Fixed	6.5 – 11.5
Term loans	216	2004	Variable	LIBOR+
Revolving credit facility	58	2004	Variable	LIBOR+
Gross debt	494			
Cash in hand	(44)			
Net debt as at 29 September 2001	**450**			

Since the year end, the bank debt has been refinanced.

The Group's policy for interest rate management is to reduce the risk of exposure to changes in interest rates by using hedging instruments as follows:

Year	Swaps £m	Rates %
2001	225	5.30 – 7.67
2002	185	6.80 – 7.03
2003	185	6.80 – 7.03
2004	160	6.80 – 7.03

The effective interest cost of the Group's borrowings was 7.3% (2000: 7.0%).

Review of cash flow

Year-end net debt of £450.0m was £122.1m lower than last year. Cash from operating activities, including exceptional cash costs of £17.8m, increased by 13.3% to £133.1m. Capital expenditure of £32.1m compared to £36.8m in 2000. Debt was also reduced by the proceeds from pub and unlicensed property disposals of £62.8m, and a reduction in the free trade loan book of £32.6m.

Proposed share buy-back

The proposed return of £100.0m to shareholders on 21 December 2001, as set out in the Chairman's statement, will, if approved by shareholders, result in 20.4m shares being cancelled. If there are no other changes to issued share capital this financial year, the weighted average number of shares in issue for the year ended 28 September 2002 will be 77.8m.

Accounting standards

FRS 17, "Retirement Benefits", will be implemented in full in the year ending September 2003. The standard requires that the surplus or deficit of the Company's pension fund, as measured at the year end, should be included in the balance sheet. This year, as required, we have disclosed that the deficit for the pension fund is £21.8m after tax, with a total investment of £143.6m. The valuation date was at the pension scheme's year end of 30 September 2001.

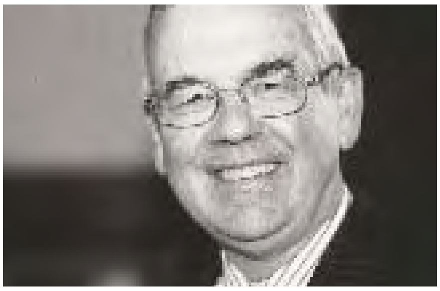
FRS 18, "Accounting Policies", has been implemented as described in note 1(a) on page 30.

FRS 19, "Deferred Taxation", will be implemented in full in the year ending 28 September 2002. The standard requires that deferred tax should be fully provided. We anticipate that the implementation of FRS 19 next year will require a provision of approximately £21.0m as a prior year adjustment.

Paul Inglett *Acting Finance Director*
29 November 2001

Directors

David Thompson (47)
Chairman
Joined the Company in 1977 and appointed to the Board in 1980, Managing Director in 1986, Chairman in 2001.



Peter Lipscomb OBE (62)*
Deputy Chairman, Non-executive Director
Appointed in 2000. Former Managing Director of Guinness Great Britain and Deputy Managing Director of Guinness Brewing Worldwide.

Ralph Findlay FCA (40)
Chief Executive
Joined the Company in 1994 and appointed to the Board and Finance Director in 1996, Chief Executive in 2001.

Derek Andrew MBE (46)
Managing Director, Retail Division
Joined the Company in 1980 and appointed to the Board in 1994.

Miles Emley (52)*
Non-executive Director
Appointed in 1998. Chairman of St. Ives plc. Former Director of N M Rothschild & Sons Limited and UBS Phillips & Drew.

Paddy Linaker (67)*
Non-executive Director
Appointed in 1996. Director of Charities Investment Managers Limited and Fleming Mercantile Investment Trust plc. Former Chairman of Fisons plc, The Fleming Geared Income and Assets Investment Trust plc, Deputy Chairman and Managing Director of M&G Group plc and Director of Lloyds TSB Group plc.

Stephen Oliver (43)
Managing Director, The Union Pub Company
Joined the Company in 1999 following the acquisition of Marston, Thompson & Evershed, plc and appointed to the Board in 2001.

Martin Womack (46)
Managing Director, Brands Division
Joined the Company in 1998 and appointed to the Board in 2001.

**Member of the Remuneration and Audit Committees.*

Directors' report

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

Review

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

Dividends

The final dividend proposed is 17.5p per ordinary share, making a total of 26.5p for the period ended 29 September 2001. After total preference share dividends of 7.0p per share, the loss transferred from reserves is (£28.3m) (2000: loss (£10.0m)). The final dividend, as proposed and if approved, will be paid on 31 January 2002 to those shareholders on the register at close of business on 4 January 2002.

Policy and practice

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

Our communications aim is to increase the understanding and commitment of all our employees through regular briefings and W&DB News.

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

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

It is the Company's payment policy to follow the CBI's Prompt Payment Code for all suppliers. Copies of the code can be obtained from the Group's registered office. Creditor days at the period end were 45 (2000: 51).

Charitable donations were £3,315 (2000: £13,165).

Directors

The present Directors are shown on page 16. All served throughout the period with the exception of S J Oliver and M Womack who were appointed on 30 April 2001 and J Taylor on 5 September 2001. S J Oliver and M Womack ceased to be Directors on 29 June 2001 because being in an offer period prevented them from acquiring their share qualification requirement within the requisite time frame. They were re-appointed on 1 August 2001 following fulfilment of the share qualification requirement. A resolution proposing their election will be made at the annual general meeting on 25 January 2002. R G Findlay and M L B Emley retire by rotation and, being eligible, offer themselves for re-election. R G Findlay has a rolling one-year service contract. M L B Emley does not have a service contract. J D F Miller retired on 5 June 2001 and J Taylor resigned on 16 October 2001.

Interests of Directors

The interests of the Directors and their immediate families as at 29 September 2001 were:

	Ordinary shares			
	Beneficial		Non-beneficial	
Beneficial	**2001**	2000	**2001**	2000
D Andrew	**25,705**	25,705	**–**	–
M L B Emley	**10,400**	10,400	**–**	–
R G Findlay	**15,000**	9,500	**–**	–
L E Linaker	**3,000**	2,000	**–**	–
P W Lipscomb	**2,000**	2,000	**–**	–
S J Oliver	**400**	–	**–**	–
J Taylor	**400**	–	**–**	–
D G F Thompson	**137,416**	134,302	**300,266**	300,266
M Womack	**400**	–	**–**	–

In addition, D G F Thompson, R G Findlay, D Andrew, S J Oliver and M Womack are technically treated as having a beneficial interest in the total number of 915,000 ordinary shares (2000: 915,000) held in the ESOP.

The interests of the Directors in options over the Company's shares are set out on page 20.

No Director had any material interest in any contract of the Group's business during or at the end of the period. There has been no change in Directors' interests between 29 September 2001 and 29 November 2001.

Significant shareholdings
The Company has received notification of the following interests in 3% or more of its issued ordinary share capital as at 29 September 2001:

Ordinary shares	Number	%
Silchester International Investors Limited	10,689,070	11.3
Britannic Investment Managers Limited	6,779,464	7.2
Tweedy Browne Company LLC	4,875,599	5.2
Baily Thomas Charitable Fund	3,390,496	3.6
Baily Thomas Provident Fund	3,380,762	3.6
Prudential plc	3,321,927	3.5
Schroder Investment Management Limited	2,989,417	3.2

Preference shares	Number	%
Ionian Nominees Ltd A/C SLLPF	31,548	42.1
Medlock & Medlock Limited	6,750	9.0
Mrs A Somerville	5,500	7.3
George Mary Allison Limited	5,500	7.3
Mr D S G Symonds	4,341	5.8
Trustees of Nathaniel P Knowles	4,056	5.4
Mr A W R Medlock	3,657	4.9
Brewin Nominees Limited	3,250	4.3
Mr A F Southall	2,855	3.8
Arbuthnot Latham (Nominees) Limited	2,500	3.3

On 26 November 2001 the Company was notified that the interest of the Baily Thomas Charitable Fund was 1,890,496 ordinary shares, 2.0%.

On 28 November 2001 the Company was notified that the interest of Britannic Investment Managers Limited was 3,747,083 ordinary shares, 4.0%.

The Directors have not been notified of any other significant shareholding between 29 September 2001 and 29 November 2001.

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

Annual general meeting special business
Resolution number 8 – Savings Related Share Option Scheme 2002 This resolution seeks shareholder approval to the adoption of a new savings related share option scheme to replace the now expired 1982 Scheme.

Resolution number 9 – authority to issue shares This resolution seeks renewal of the Directors' authority to allot unissued shares up to an aggregate nominal amount of £7,866,262, being one-third of the total ordinary share capital of the Company in issue as at 29 September 2001.

Resolution number 10 – 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 £1,181,120, being 5% of the total ordinary share capital of the Company in issue as at 29 September 2001, for cash without offering the shares first to existing shareholders by way of rights.

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

Resolution number 11 – purchase of own shares by the Company The Company's articles of association permit the purchase of the Company's own shares for cancellation, subject to the provisions of the Companies Acts. The Directors consider it desirable, and in the Company's interests, for shareholders to grant the Company authority to exercise this power, within certain limits, to enable it to purchase its own shares in the market. We undertake that the authority will only be exercised if we are satisfied that the purchase will result in an increase in earnings per share and is in the best interests of shareholders generally.

We propose an authority for the Company to purchase its own shares in the market, up to a total of 14,163,996 ordinary shares of 25p each, having an aggregate nominal value of £3,540,999, being 14.99% of the issued ordinary share capital of the Company as at 29 September 2001.

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

By order of the Board

Leslie Porter *Secretary*
29 November 2001

Contracts

D G F Thompson has already voluntarily reduced his three-year rolling contract to a two-year rolling contract without compensation. D Andrew has had a two-year rolling contract since July 1987. It is now policy to offer one-year rolling contracts to new Board Executive appointments; R G Findlay, S J Oliver and M Womack all have a one-year rolling contract.

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

Fees earned by Executive Directors outside their employment are not retained. D G F Thompson earned fees of £60,953 (2000: £53,000) which were made payable to the Company.

Salaries and bonuses

Salaries for Executive Directors were reviewed on 1 October 2000 and 1 June 2001 and for Senior Executives on 1 April 2001. Bonus objectives for Executive Directors and Senior Executives for 2001 were set based on a combination of Company Profit Achievement Bonus and Personal Objectives Bonus with a maximum possible bonus of 50.0% and 35.0% respectively of basic salary, payable in December 2001. All such bonuses are non-pensionable. Bonus objectives for 2002 have been similarly set.

Directors' emoluments

The emoluments of the Directors for their services as Directors of the Company and its subsidiaries for the period ended 29 September 2001 were:

	Salary/fees £	Bonus £	Benefits £	**Total 2001 £**	Total 2000 £
D Andrew	180,000	90,000	9,748	**279,748**	265,389
M L B Emley	18,000	–	–	**18,000**	18,000
R G Findlay	230,000	125,000	10,595	**365,595**	267,987
L E Linaker	18,000	–	–	**18,000**	18,000
P W Lipscomb	22,417	–	–	**22,417**	7,500
J D F Miller (to 5 June 2001)	54,256	40,000	–	**94,256**	100,000
S J Oliver (from 30 April 2001)	54,167	45,500	8,900	**108,567**	–
J Taylor (from 5 September 2001)	12,103	–	610	**12,713**	–
D G F Thompson	250,000	125,000	11,746	**386,746**	356,949
M Womack (from 30 April 2001)	54,167	45,500	3,237	**102,904**	–
	893,110	471,000	44,836	**1,408,946**	1,033,825
Contributions to pension scheme (see page 21)				**95,112**	159,733
				1,504,058	1,193,558

The bonuses for S J Oliver and M Womack represent 35.0% of their annual salaries rather than their salaries as Directors.

Benefits include private medical insurance, permanent health insurance and car benefits.

The fees relating to the services of M L B Emley were paid to St. Ives plc.

Directors' share options

		Number of shares under option 29 September 2001	30 September 2000 or on appointment	Option price p	Date of grant	Exercise period From	To
D Andrew	Executive	**2,000**	2,000	467.5	16 Jan 92	15 Jan 97	15 Jan 02
		7,500	7,500	523.5	1 Jul 92	30 Jun 97	30 Jun 02
		500	500	459.0	22 Dec 92	21 Dec 97	21 Dec 02
		5,000	5,000	522.0	20 Jan 94	19 Jan 97	19 Jan 04
		20,000	20,000	544.0	14 Jun 94	13 Jun 97	13 Jun 04
		8,000	8,000	514.0	14 Dec 94	13 Dec 97	13 Dec 04
		8,500	8,500	581.0	2 Jan 96	1 Jan 99	1 Jan 06
		10,000	10,000	683.5	25 Feb 97	24 Feb 00	24 Feb 04
		10,000	10,000	458.5	1 Dec 97	30 Nov 00	30 Nov 04
		24,500	24,500	518.0	26 Jun 98	25 Jun 01	25 Jun 05
		100,000	100,000	325.5	30 May 00	29 May 03	29 May 07
	SAYE	**6,633**	6,633	277.0	30 Jun 00	31 Jul 07	31 Jan 08
R G Findlay	Executive	**15,000**	15,000	530.0	31 May 95	30 May 98	30 May 05
		10,000	10,000	581.0	2 Jan 96	1 Jan 99	1 Jan 06
		46,000	46,000	683.5	25 Feb 97	24 Feb 00	24 Feb 04
		3,000	3,000	458.5	1 Dec 97	30 Nov 00	30 Nov 04
		6,500	6,500	518.0	26 Jun 98	25 Jun 01	25 Jun 05
		100,000	100,000	325.5	30 May 00	29 May 03	29 May 07
	SAYE	**6,092**	6,092	277.0	30 Jun 00	31 Jul 05	31 Jan 06
S J Oliver	Executive	**11,358**	11,358	524.87	29 Jan 96	28 Jan 99	28 Jan 06
		10,000	10,000	565.0	26 May 99	29 May 02	25 May 06
		20,000	20,000	325.5	30 May 00	29 May 03	29 May 07
D G F Thompson	Executive	**14,500**	14,500	467.5	16 Jan 92	15 Jan 97	15 Jan 02
		5,000	5,000	523.5	1 Jul 92	30 Jun 97	30 Jun 02
		5,000	5,000	522.0	20 Jan 94	19 Jan 97	19 Jan 04
		32,500	32,500	544.0	14 Jun 94	13 Jun 97	13 Jun 04
		39,000	39,000	581.0	2 Jan 96	1 Jan 99	1 Jan 06
		7,000	7,000	458.5	1 Dec 97	30 Nov 00	30 Nov 04
		7,000	7,000	518.0	26 Jun 98	25 Jun 01	25 Jun 05
		15,000	15,000	541.0	23 Dec 99	22 Dec 02	22 Dec 06
		180,000	180,000	325.5	30 May 00	29 May 03	29 May 07
	SAYE	**1,839**	1,839	424.0	3 Jul 95	31 Jul 02	31 Jan 03
		6,633	6,633	277.0	30 Jun 00	31 Jul 07	31 Jan 08
M Womack	Executive	**5,000**	5,000	565.0	26 May 99	25 May 02	25 May 09
		35,000	35,000	565.0	26 May 99	25 May 02	25 May 06
		20,000	20,000	325.5	30 May 00	29 May 03	29 May 07

The Executive share option grant to D G F Thompson on 27 June 1991 of 2,000 ordinary shares at 493.0p per share lapsed on 26 June 2001.

D G F Thompson exercised an SAYE option over 2,892 ordinary shares at 404.5p per share on 22 January 2001.

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

The exercise of Executive share options granted under the 1994 and 1997 Schemes is subject to the Company achieving growth in earnings per share in excess of the growth in the retail price index by an average of 2% per year.

The ordinary share price range during the year was 496.0p to 372.5p with an average price of 462.9p. The ordinary share price on 29 September 2001 was 483.5p.

Directors' pensions

Pension benefits earned by the Directors (note 1)

	Company's pension contributions £	Directors' contributions in the year (note 2) £	Increase in accrued pension during the year (note 3) £ pa	Accumulated total accrued pension at year end £ pa
D Andrew	24,480	9,000	5,227	69,219
R G Findlay	31,280	11,500	19,672	56,984
S J Oliver	4,009	2,857	9,353	24,534
D G F Thompson	31,552	–	8,959	105,662

Notes to pension benefits

1 The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year.
2 These relate to the contributions paid or payable in the year.
3 The increase in accrued pension during the year excludes any increase for inflation.
4 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.

The following additional information relates to Directors' pensions:

(a) Normal retirement age: 60.
(b) On death before retirement a lump sum is payable, equal to the Director's contributions. However, some or all of this lump sum may be used to provide a statutory minimum spouse's pension. On death after retirement the spouse's pension payable is two-thirds of the pension which the member was receiving at the date of death.
(c) Early retirement can be taken from age 50 provided the Company gives its consent. The accrued pension will then be reduced to take account of its early payment.
(d) Pension increases will be in line with statutory requirements before and after retirement. In addition, S J Oliver will receive increases on pension earned prior to 6 April 1997 at the rate of 3% per annum.
(e) There are no discretionary benefits.

R G Findlay participates in an unfunded, unapproved retirement benefit scheme. The amount charged in the profit and loss account in respect of this scheme has been included within contributions to pension schemes above.

M Womack participates in the Group Personal Pension Plan (GPPP). Company contributions to his GPPP amounted to £3,791 during the year.

J Taylor did not participate in any Company pension scheme.

Pension arrangements

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

Two schemes were taken on as a result of the Mansfield acquisition, current members of which joined the W&DB Scheme in April 2000 and were fully integrated into The Wolverhampton & Dudley Breweries, PLC Pension and Life Assurance Scheme (the W&DB Scheme) during the year.

During the year the Company contributed 13.6% of the pensionable payroll in respect of the Banks's constituency, 9.1% in respect of the Marston's constituency and 11.0% in respect of the Mansfield constituency. Members contributed in accordance with the Rules. All employees in the Company Final Salary Pension Schemes have death-in-service life assurance cover to the value of between two and four times pensionable salary.

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

During the year, the Group operated a Final Salary Pension Scheme for employees who joined the Scheme prior to 29 September 1997. The funds of the Scheme are administered by Trustees and are separate from the Group.

A provision of £2.8m (2000: £2.6m) is included in creditors representing the cumulative excess of pension costs charged to the profit and loss account over the Company contributions paid.

Non-executive Directors' fees

The fees for the Non-executive Directors are set by the Board. The current basic fees were set on 1 October 1999. The Non-executive Directors do not receive any benefits or pension contributions from the Company.

Compliance with Greenbury

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

P W Lipscomb OBE *Chairman, Remuneration Committee*
29 November 2001

Corporate governance

Statement of compliance with the provisions of the Combined Code

The Company is committed to achieving high standards of corporate governance throughout the Group and to integrity and high ethical standards in all its business activities. The Board considers that it has complied with the Code provisions set out in Section 1 of the Combined Code throughout the period with the following exceptions:

- The Nominations Committee is formed on an ad hoc basis as required given the nature of Board appointments and comprises the Chairman, the Deputy Chairman, the Chief Executive and the Non-executive Directors.
- D Andrew and D G F Thompson have two-year rolling service contracts as described in the Board's report on remuneration.

A copy of the Combined Code can be obtained from Gee Publishing Limited, 100 Avenue Road, Swiss Cottage, London NW3 3PG.

The Board of Directors

The Board comprises three Non-executive Directors and five Executive Directors, one of whom is the Chairman. The Non-executive Directors all exercise independent judgement and have a wide range of skills and experience. Following the appointment of P W Lipscomb as Deputy Chairman the Board has nominated him as Senior Independent Director with effect from 24 April 2001.

The Executive Committee comprises the Executive Directors with the exception of the Chairman and meets weekly. The Board is briefed on the decisions reached by the Executive Committee, including those involving risk management and health and safety issues.

The Board meets 12 times each year in the normal course of business and additionally as required. It has a formal schedule of matters reserved to it for approval ensuring that it considers strategic, financial, organisational and compliance matters with timely information provided in advance of each meeting. All Directors receive within their Board papers details of the Group's performance against budget, and reports from the Chief Executive, Acting Finance Director and Divisional Managing Directors.

There is a clear division of roles and responsibilities between the Chairman and Chief Executive.

All the Directors have access to the advice and services of the Company Secretary and access to independent legal advice, if required, at the Company's expense.

On appointment to the Board all Executive Directors receive appropriate training and all Directors receive a full induction programme covering briefings and meetings with the Divisional directors.

The Board considers that all Directors bring an independent 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 independent and free from any business or other relationship which could interfere with the exercise of their independent judgement.

All Directors are subject to election at the first opportunity following appointment and to re-election at intervals not exceeding three years at the Company's general meeting. Non-executive Directors are appointed for terms of three years.

The Audit Committee comprises M L B Emley (Chairman), L E Linaker and P W Lipscomb. It monitors the relationship with the Auditors, agrees their scope of work and fees and reviews the results of the full year audit and the interim review each year. It also assesses annually the cost effectiveness, objectivity and independence of the Auditors.

The Remuneration Committee comprises P W Lipscomb (Chairman), M L B Emley and L E Linaker with R G Findlay in attendance if required. It is responsible for agreeing contract terms, remuneration and benefits including bonuses for Executive Directors and where appropriate Senior Executives. It is also responsible for the granting of share options under the Company's share option schemes.

Relationship with shareholders and the annual general meeting

The Company recognises the importance of maintaining a meaningful relationship with its shareholders. Regular meetings and presentations concerning trading and market conditions and strategy take place with institutional shareholders. The annual general meeting is also an important forum, giving all shareholders the opportunity 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 Company, as required by the Listing Rules of the Financial Services Authority, has complied with the Combined Code provisions on internal control. The Executive Directors examine, and report to the Board as necessary, the procedures required to implement in full the guidance on internal control produced by the Turnbull Committee. In addition the Board has taken account of the new Association of British Insurers guidelines on socially responsible investment. In that respect the Company has been registered on the FTSE4Good index.

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

There is a weekly review by the Executive Committee, which comprises the Chief Executive and the Divisional Managing Directors, 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 the Divisional Managing Directors.

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

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

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

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

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

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

Going concern
The Directors are confident, having reviewed the Group's budget for the 52 weeks to 28 September 2002 and relevant plans beyond that date, that the Group and the Company have adequate resources to continue in operation for the foreseeable future and this review included an analysis of business operating plans, proposed capital expenditure and associated cash flow projections. It also included a comparison of results and ratios within the Group's committed borrowing facilities. It is therefore considered appropriate to adopt the going concern basis in preparing the financial statements.

By Order of the Board

Leslie Porter *Secretary*
29 November 2001

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 26 to 43.

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

Leslie Porter *Secretary*
29 November 2001

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

We have audited the financial statements which comprise the Group profit and loss account, the balance sheets, the Group cash flow statement, the statement of total recognised gains and losses and related notes. We have also examined the amounts disclosed on pages 19 to 22 relating to Directors' emoluments and Directors' share options which form part of the Board's report on remuneration.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions is not disclosed.

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

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

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 29 September 2001 and of the loss and cash flows of the Group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers *Chartered Accountants and Registered Auditors*
Birmingham
29 November 2001

Group profit and loss account

for the 52 weeks ended 29 September 2001	Notes	2001 Before exceptionals £m	2001 Exceptional items (note 4) £m	2001 Total £m	2000 Before exceptionals £m	2000 Exceptional items (note 4) £m	2000 Total £m
Turnover – continuing operations		**565.4**	**–**	**565.4**	468.8	–	468.8
– acquisitions		**–**	**–**	**–**	130.0	–	130.0
Total turnover	*1*	**565.4**	**–**	**565.4**	598.8	–	598.8
Trading expenses	*3*	**(450.4)**	**(32.6)**	**(483.0)**	(493.3)	(17.3)	(510.6)
Operating profit before goodwill amortisation/disposals		**115.0**	**(32.6)**	**82.4**	105.5	(17.3)	88.2
Goodwill amortisation/disposals – continuing operations	*3*	**(8.0)**	**(13.6)**	**(21.6)**	(2.2)	(6.0)	(8.2)
– acquisitions		**–**	**–**	**–**	(4.8)	(10.4)	(15.2)
Operating profit after goodwill amortisation/disposals		**107.0**	**(46.2)**	**60.8**	98.5	(33.7)	64.8
Operating profit – continuing operations		**107.0**	**(46.2)**	**60.8**	80.8	(12.6)	68.2
– acquisitions		**–**	**–**	**–**	17.7	(21.1)	(3.4)
Total operating profit		**107.0**	**(46.2)**	**60.8**	98.5	(33.7)	64.8
Property disposals	*1*	**–**	**(6.8)**	**(6.8)**	–	4.6	4.6
Profit on ordinary activities before interest		**107.0**	**(53.0)**	**54.0**	98.5	(29.1)	69.4
Interest	*6*	**(38.9)**	**(1.7)**	**(40.6)**	(40.5)	(0.8)	(41.3)
Profit on ordinary activities before taxation		**68.1**	**(54.7)**	**13.4**	58.0	(29.9)	28.1
Profit on ordinary activities before taxation		**68.1**			58.0		
Add back goodwill amortisation		**8.0**			7.0		
Profit on ordinary activities before taxation and goodwill amortisation		**76.1**			65.0		
Taxation	*7*	**(21.8)**	**4.9**	**(16.9)**	(18.7)	3.1	(15.6)
(Loss)/profit on ordinary activities after taxation	*9*	**46.3**	**(49.8)**	**(3.5)**	39.3	(26.8)	12.5
Dividends paid and proposed	*10*			**(24.8)**			(22.5)
Loss for the period transferred from reserves	*21*			**(28.3)**			(10.0)
Basic earnings per share	*11*			**(3.7p)**			14.1p
Basic earnings per share before the effect of goodwill amortisation and exceptional items	*11*			**58.0p**			52.4p
Diluted earnings per share	*11*			**(3.7p)**			13.8p
Diluted earnings per share before the effect of goodwill amortisation and exceptional items	*11*			**57.6p**			51.3p

The notes on pages 30 to 43 form part of these accounts.

Group cash flow statement

for the 52 weeks ended 29 September 2001	Notes	2001 £m	2001 £m	2000 £m	2000 £m
Cash flow from operating activities	22		**133.1**		117.5
Returns on investments and servicing of finance					
Interest received		**2.1**		2.1	
Interest paid		**(39.7)**		(44.0)	
Arrangement costs of new bank facilities		**(0.5)**		(3.2)	
Net cash outflow for returns on investments and servicing of finance			**(38.1)**		(45.1)
Taxation			**(13.5)**		(15.7)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		**(32.1)**		(36.8)	
Sale of tangible fixed assets		**62.8**		85.3	
Purchase of investments		**–**		(0.4)	
Decrease in trade and other loans		**32.6**		18.1	
Net cash inflow for capital expenditure and financial investment			**63.3**		66.2
Acquisitions and disposals					
Purchase of investment in subsidiaries		**–**		(129.2)	
Purchase of debt of subsidiaries		**–**		(60.9)	
Sale of investment in associated undertakings		**–**		0.3	
Net cash outflow for acquisitions and disposals			**–**		(189.8)
Equity dividends paid			**(22.9)**		(18.3)
Cash inflow/(outflow) before use of liquid resources and financing			**121.9**		(85.2)
Financing					
Issue of ordinary share capital		**0.3**		0.6	
Debt due within one year		**(40.3)**		38.4	
Finance leases		**(0.6)**		(0.5)	
Debt due beyond one year – bank loan		**(45.0)**		47.0	
Net cash (outflow)/inflow from financing			**(85.6)**		85.5
Increase in cash in the period			**36.3**		0.3
Reconciliation of net cash flow to movement in net debt					
Increase in cash in the period		**36.3**		0.3	
Cash outflow/(inflow) from decrease/(increase) in debt		**85.9**		(84.9)	
Change in debt resulting from cash flows	23		**122.2**		(84.6)
Debt acquired with subsidiaries			**–**		(53.5)
Non-cash movements	23		**(0.1)**		–
Movement in net debt in the period			**122.1**		(138.1)
Net debt at 30 September 2000	23		**(572.1)**		(434.0)
Net debt at 29 September 2001	23		**(450.0)**		(572.1)

The notes on pages 30 to 43 form part of these accounts.

Supporting statements

Statement of total recognised gains and losses

for the 52 weeks ended 29 September 2001	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
(Loss)/profit on ordinary activities after taxation	**(3.5)**	12.5	**31.8**	17.0
Property revaluation adjustment	**–**	(0.8)	**–**	(0.8)
Total recognised (losses)/gains relating to the period	**(3.5)**	11.7	**31.8**	16.2

Historical cost profits and losses

for the 52 weeks ended 29 September 2001	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Profit on ordinary activities before taxation	**13.4**	28.1	**40.3**	30.1
Realisation of property revaluation gains of previous years	**7.7**	7.2	**7.7**	7.2
Difference between the historical cost depreciation charge and the actual depreciation charge for the period calculated on the revalued amount	**1.0**	0.1	**1.0**	0.1
Historical cost profit for the period on ordinary activities before taxation	**22.1**	35.4	**49.0**	37.4
Historical cost (loss)/profit for the period after taxation and dividends	**(19.6)**	(2.7)	**15.7**	1.7

Reconciliation of movements in shareholders' funds

for the 52 weeks ended 29 September 2001	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
(Loss)/profit on ordinary activities after taxation	**(3.5)**	12.5	**31.8**	17.0
Dividends	**(24.8)**	(22.5)	**(24.8)**	(22.5)
(Loss)/profit for period transferred from/to reserves	**(28.3)**	(10.0)	**7.0**	(5.5)
New share capital subscribed	**0.3**	121.9	**0.3**	121.9
Property revaluation adjustment	**–**	(0.8)	**–**	(0.8)
Net (reduction)/addition to shareholders' funds	**(28.0)**	111.1	**7.3**	115.6
Opening shareholders' funds	**589.6**	478.5	**565.5**	449.9
Closing shareholders' funds	**561.6**	589.6	**572.8**	565.5

The notes on pages 30 to 43 form part of these accounts.

Balance sheets

as at 29 September 2001	Notes	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Fixed assets					
Intangible assets	12	**125.9**	140.7	**–**	–
Tangible assets	13	**920.5**	993.2	**614.3**	656.1
Investments	14	**49.3**	81.9	**6.0**	6.7
		1,095.7	1,215.8	**620.3**	662.8
Current assets					
Stocks	15	**14.0**	19.4	**–**	–
Debtors	16	**36.4**	53.3	**618.7**	276.1
Cash at bank and in hand		**44.1**	7.8	**77.1**	72.3
		94.5	80.5	**695.8**	348.4
Creditors – amounts falling due within one year	17	**(259.7)**	(149.5)	**(440.4)**	(277.9)
Net current (liabilities)/assets		**(165.2)**	(69.0)	**255.4**	70.5
Total assets less current liabilities		**930.5**	1,146.8	**875.7**	733.3
Creditors – amounts falling due after more than one year	18	**(368.9)**	(557.2)	**(302.9)**	(167.8)
		561.6	589.6	**572.8**	565.5
Capital and reserves					
Equity share capital	20	**23.6**	23.6	**23.6**	23.6
Non-equity share capital	20	**0.1**	0.1	**0.1**	0.1
Called-up share capital	20	**23.7**	23.7	**23.7**	23.7
Share premium account	21	**199.2**	198.9	**199.2**	198.9
Revaluation reserve	21	**161.9**	170.6	**161.7**	170.4
Capital redemption reserve	21	**3.2**	3.2	**3.2**	3.2
Capital reserve	21	**0.4**	0.4	**0.4**	0.4
Profit and loss account	21	**173.2**	192.8	**184.6**	168.9
Shareholders' funds including non-equity interests of £0.1m (2000: £0.1m)		**561.6**	589.6	**572.8**	565.5
Capital employed		**561.6**	589.6	**572.8**	565.5

The financial statements on pages 26 to 43 were approved by the Board and were signed on its behalf by:

Ralph Findlay *Chief Executive*
29 November 2001

The notes on pages 30 to 43 form part of these accounts.

1 Accounting policies

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

FRS 18, "Accounting Policies", issued in December 2000, requires the Board to consider whether the accounting policies adopted in the financial statements are those judged to be the most appropriate to the Group's circumstances, are reviewed regularly and changed as appropriate. Having reviewed the Group's accounting policies the Board are satisfied they are the most appropriate.

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

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

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

(e) Deferred taxation
Deferred taxation is provided on accelerated capital allowances and other timing differences, only to the extent that it is probable that a liability will crystallise.

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

(ii) Freehold buildings are fully depreciated over 50 years.

(iii) Other tangible fixed assets are depreciated on a straight line basis at rates calculated to provide for the cost of the assets over their anticipated useful lives. Accordingly, industrial properties are depreciated over 50 years, leasehold properties over the period of the lease and other tangible assets over periods ranging from 3 to 15 years.

Valuation of properties
Trading properties are revalued professionally by independent valuers on a three-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 either to the revaluation reserve to the extent that a previous gain has been recorded, or to the profit and loss account.

(g) Profit on property and investment disposals
Profit on property and investment disposals is calculated by comparing sale proceeds with the ascribed valuation or historic cost carrying value.

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

(i) ESOP
In accordance with the requirements issued in UITF Abstract 13 (Accounting for ESOP trusts) the assets of the trust are recognised as fixed asset investments until the shares have been vested unconditionally to specific employees. Any permanent diminution in the value of the shares is recognised immediately as a charge to the profit and loss account.

(j) Goodwill
Goodwill arising on consolidation represents the excess 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 over its estimated useful economic life. The Directors have considered the useful economic life of the assets purchased and have decided, in the absence of concrete evidence to the contrary, to amortise the goodwill arising on the purchase over 20 years (in line with the maximum write-off period permitted under FRS 10). The Directors consider the carrying value of goodwill and make appropriate adjustments to reflect the disposal of certain of the assets to which it relates. Any charge is taken to the profit and loss account as exceptional in accordance with FRS 10.

(k) Leases
Rental costs under operating leases are charged to the profit and loss account over the term of the lease.

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

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

2 Business segmental analysis

	2001 Turnover £m	2001 Operating profit £m	2001 Capital employed £m	2000 Turnover £m	2000 Operating profit £m	2000 Capital employed £m
Retail Division	**328.7**	**64.2**	**512.6**	352.4	66.7	599.9
The Union Pub Company	**89.0**	**40.1**	**264.1**	76.2	31.3	245.3
Brands Division	**147.7**	**22.1**	**118.9**	170.2	21.3	197.0
Central costs	**–**	**(11.4)**	**11.4**	–	(13.8)	23.9
	565.4	**115.0**	**907.0**	598.8	105.5	1,066.1
Goodwill	**–**	**(8.0)**	**125.9**	–	(7.0)	140.7
Debt, tax, dividends and ESOP	**–**	**–**	**(471.3)**	–	–	(617.2)
	565.4	**107.0**	**561.6**	598.8	98.5	589.6

The segmental analysis includes the following amounts in respect of businesses acquired during the period:

	2001 Turnover £m	2001 Operating profit £m	2000 Turnover £m	2000 Operating profit £m
Retail Division	**–**	**–**	64.4	11.4
The Union Pub Company	**–**	**–**	22.4	10.7
Brands Division	**–**	**–**	43.2	4.2
Central costs including goodwill amortisation	**–**	**–**	–	(8.6)
	–	**–**	130.0	17.7

The goodwill can be attributed to the business segments as follows:

	2001 Operating profit £m	2001 Capital employed £m	2000 Operating profit £m	2000 Capital employed £m
Retail Division	**(2.3)**	**38.0**	(2.1)	44.7
The Union Pub Company	**(2.0)**	**29.0**	(1.8)	29.6
Brands Division	**(1.1)**	**12.8**	(1.0)	19.8
Central costs	**(2.6)**	**46.1**	(2.1)	46.6
	(8.0)	**125.9**	(7.0)	140.7

3 Trading expenses

	2001 £m	Continuing operations £m	Acquisitions £m	2000 £m
Change in stocks of finished goods and work in progress	**0.3**	(5.6)	(0.7)	(6.3)
Own work capitalised	**0.3**	–	–	–
Other operating income	**3.2**	2.9	0.4	3.3
Raw materials, consumables and excise duties	**(216.5)**	(177.2)	(53.7)	(230.9)
Depreciation	**(30.6)**	(24.5)	(6.6)	(31.1)
Employee costs (see note 5)	**(112.7)**	(97.0)	(22.9)	(119.9)
Employee bonus (see note 5)	**(2.3)**	(3.5)	(0.3)	(3.8)
Other operating charges – all land and buildings	**(93.4)**	(82.0)	(24.2)	(106.2)
Income from fixed asset investments	**1.3**	1.1	0.5	1.6
Costs of reorganisation, restructuring and defence	**(22.3)**	(5.1)	(10.7)	(15.8)
Fixed asset impairment	**(10.3)**	(1.5)	–	(1.5)
Goodwill amortisation	**(8.0)**	(2.2)	(4.8)	(7.0)
Goodwill on disposals	**(13.6)**	(6.0)	(10.4)	(16.4)
	(504.6)	(400.6)	(133.4)	(534.0)

Fees paid to PricewaterhouseCoopers:	2001 £m	2000 £m
Audit fees	**0.2**	0.2
Other fees	**1.1**	1.1

Included in audit fees above is £0.1m (2000: £0.1m) in respect of the Company.

4 Exceptional items

	2001 £m	2000 £m
Charged against operating profit		
Costs of reorganisation and restructuring	**13.2**	15.8
Defence costs	**9.1**	–
Fixed asset impairment	**10.3**	1.5
Goodwill on disposals	**13.6**	16.4
	46.2	33.7
Non-operating items		
Net loss/(gain) on disposal of trading properties	**6.8**	(4.6)
Bank arrangement costs	**1.7**	0.8
	54.7	29.9

A full explanation of each material exceptional item is given in the Financial review on pages 14 to 15.

5 Staff costs and Directors' emoluments

	2001 £m	2000 £m
Wages and salaries	**102.1**	108.6
Bonus	**2.3**	3.8
Social security costs	**6.9**	7.0
Pension costs	**3.7**	4.3
	115.0	123.7

Redundancy costs of £5.2m have been charged as exceptional items (2000: £6.4m).

The average number of employees was:	2001	2000
Full-time	**5,676**	6,371
Part-time	**9,914**	9,965

During the year, the Group operated a Final Salary Pension Scheme for employees who joined the Scheme prior to 29 September 1997. The funds of the Scheme are administered by trustees and are separate from the Group. A valuation of the Scheme was carried out on 30 September 1998. This resulted in a long-term Company contribution rate of 13.6% 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 1998 valuation for the Scheme assumed that investment returns over the long term would exceed salary growth by 2.75% per annum; further, due to stock market conditions prevailing on 30 September 1998 an additional investment return of 0.5% per annum was assumed prior to each member's retirement. The market value of the Scheme assets was £53.4m, which was sufficient to cover 94% of members' accrued benefits, after allowing for future increases in earnings at the long-term rate.

The Company contribution rate recommended by the actuaries rose from 10.0% to 13.6% from 1 April 1999. The Scheme was closed to new entrants on 29 September 1997. A Group Personal Pension Plan has been made available to eligible employees since that date.

Following the Mansfield acquisition, two further Final Salary Schemes exist for Mansfield employees. Valuations were carried out as at 1 April 1999 when the market value of the Schemes' assets were £36.7m and £8.8m respectively. These were sufficient to cover 97% and 108% of the members' benefits respectively. The long-term Company contribution rate was calculated as 13.5% of members' earnings for future service.

A provision of £2.8m (2000: £2.6m) is included in creditors representing the cumulative excess of pension costs charged to the profit and loss account over the Company contributions paid.

5 Staff costs and Directors' emoluments continued

FRS 17, "Retirement Benefits Disclosure"

The Group operates a defined benefit scheme. An actuarial valuation was carried out at 30 September 2001 by a qualified independent actuary. The major assumptions used by the actuary were:

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

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

	Long-term rate of return expected at 30 September 2001 %	Value at 30 September 2001 £m
Equities	**7.5**	
Bonds	**6.0**	
Other	**6.0**	
Total market value of assets		**143.6**
Present value of Scheme liabilities		**(174.8)**
Shortfall in Scheme assets		**(31.2)**
Related deferred tax liability at 30%		**9.4**
Pension shortfall		**(21.8)**

The Group paid total contributions of £3.4m to the Scheme during the year. The existing rates of contribution are currently under review. As the Scheme is closed to new entrants, it is expected that the costs of benefits will steadily rise in the future, as the average age of members increases.

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

	30 September 2001 £m
Net assets before pension shortfall	**561.6**
Reversal of SSAP 24 provision	**2.8**
Pension shortfall	**(21.8)**
Net assets after pension shortfall	**542.6**
Profit and loss account before pension shortfall	**173.2**
Reversal of SSAP 24 provision	**2.8**
Pension shortfall	**(21.8)**
Profit and loss account after pension shortfall	**154.2**

Directors' emoluments

These are set out in the Board's report on remuneration on pages 19 to 22.

6 Bank overdraft and other interest payable

	2001 £m	2000 £m
Bank interest payable	**25.5**	27.5
Debenture interest payable	**16.2**	15.6
Unwinding of fair value adjustment	**(2.9)**	(2.7)
Other interest payable	**0.1**	0.2
Other interest receivable	**–**	(0.1)
	38.9	40.5
Bank arrangement costs	**1.7**	0.8
	40.6	41.3

7 Taxation

	2001 £m	2001 £m	2000 £m	2000 £m
The charge to the profit and loss account comprises:				
Corporation tax on profit before exceptional items, property and investment disposals for the year at 30% (2000: 30%)	**22.8**		18.7	
Adjustment in respect of prior years	**(2.5)**		(0.9)	
Deferred taxation	**1.5**		0.9	
		21.8		18.7
Corporation tax on exceptional items at 30% (2000: 30%)		**(4.9)**		(3.1)
		16.9		15.6

8 Deferred taxation

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
The amount recognised in respect of deferred taxation is as follows:				
Excess of capital allowances over accumulated depreciation	**4.8**	5.0	**–**	–
Other timing differences	**(6.1)**	(8.5)	**(0.1)**	(7.3)
Accrued pension costs	**(0.8)**	(0.7)	**–**	–
	(2.1)	(4.2)	**(0.1)**	(7.3)

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
At 30 September 2000	**(4.2)**	(4.1)	**(7.3)**	(3.5)
Fair value adjustments	**0.6**	(2.5)	**1.0**	(5.0)
Transfers	**–**	1.5	**5.4**	–
Profit and loss account in prior years	**0.9**	–	**(0.1)**	0.4
Profit and loss account in current year	**0.6**	0.9	**0.9**	0.8
At 29 September 2001	**(2.1)**	(4.2)	**(0.1)**	(7.3)

There is an unprovided amount of £21.0m (2000: £20.0m) in respect of the excess of capital allowances over accumulated depreciation. No account has been taken of the liability to tax if freehold and leasehold properties were to be disposed of at their balance sheet amounts as it is expected that the properties will generally be retained by the Group.

9 Profit after taxation

As permitted by the Companies Act 1985 a separate profit and loss account for the Company has not been prepared. The profit after taxation dealt with in the accounts of the Company was £31.8m (2000: £17.0m).

10 Dividends

	2001 £m	2000 £m
Ordinary shares		
Interim paid 9.00p per share (2000: 8.50p)	**8.4**	7.9
Final proposed 17.50p per share (2000: 15.52p)	**16.4**	14.6
Total dividend on ordinary shares 26.50p per share (2000: 24.02p)	**24.8**	22.5
Preference shares		
Interim dividend paid 3.0p per share (2000: 3.0p)	**–**	–
Final proposed 4.0p per share (2000: 4.0p)	**–**	–
Dividend on preference shares 7.0p per share (2000: 7.0p) total £5,250 (2000: £5,250)	**–**	–
Total dividends	**24.8**	22.5

11 Earnings per ordinary share

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

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the weighted average market price of the Company's shares during the period.

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

	2001			2000		
	Earnings £m	**Weighted average number of shares m**	**Per share amount Pence**	Earnings £m	Weighted average number of shares m	Per share amount Pence
Basic earnings per share	**(3.5)**	**93.5**	**(3.7)**	12.5	88.4	14.1
Effect of dilutive options	**–**	**0.6**	**–**	–	1.7	–
Diluted earnings per share	**(3.5)**	**94.1**	**(3.7)**	12.5	90.1	13.8
Supplementary earnings per share figures						
Basic earnings per share	**(3.5)**	**93.5**	**(3.7)**	12.5	88.4	14.1
Effect of:						
Exceptional items	**49.8**	**93.5**	**53.2**	26.8	88.4	30.4
Goodwill amortisation	**8.0**	**93.5**	**8.5**	7.0	88.4	7.9
Basic earnings per share before goodwill amortisation and exceptional items	**54.3**	**93.5**	**58.0**	46.3	88.4	52.4
Diluted earnings per share	**(3.5)**	**94.1**	**(3.7)**	12.5	90.1	13.8
Effect of:						
Exceptional items	**49.8**	**94.1**	**52.8**	26.8	90.1	29.7
Goodwill amortisation	**8.0**	**94.1**	**8.5**	7.0	90.1	7.8
Diluted earnings per share before goodwill amortisation and exceptional items	**54.3**	**94.1**	**57.6**	46.3	90.1	51.3

12 Intangible assets

Group	**2001 £m**
Cost	
At 30 September 2000	165.3
Goodwill arising on acquisition (see note 19)	6.8
At 29 September 2001	**172.1**
Amortisation/disposals	
At 30 September 2000	24.6
Amortisation for the period	8.0
Goodwill on disposals	13.6
At 29 September 2001	**46.2**
Net book value	
At 29 September 2001	**125.9**
At 30 September 2000	140.7

In accordance with FRS 10, "Goodwill and Intangible Assets", an impairment review of acquisitions indicated that a charge of £13.6m (2000: £16.4m) was required as a result of the disposal of certain fixed assets.

13 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 30 September 2000	775.3	40.5	31.0	53.3	229.8	1,129.9
Transfers between short and long leases	–	(0.5)	0.5	–	–	–
Additions	8.9	0.3	0.5	0.6	26.1	36.4
Disposals	(44.3)	(6.2)	(1.8)	(1.9)	(21.6)	(75.8)
At 29 September 2001	**739.9**	**34.1**	**30.2**	**52.0**	**234.3**	**1,090.5**
Depreciation						
At 30 September 2000	6.2	0.1	2.1	23.6	104.7	136.7
Charge for the period	4.6	0.1	1.3	5.2	19.4	30.6
Depreciation on disposals	(0.2)	–	–	(0.9)	(6.5)	(7.6)
Impairment	7.5	0.2	0.1	1.6	0.9	10.3
At 29 September 2001	**18.1**	**0.4**	**3.5**	**29.5**	**118.5**	**170.0**
Net book value						
At 29 September 2001	**721.8**	**33.7**	**26.7**	**22.5**	**115.8**	**920.5**
At 30 September 2000	769.1	40.4	28.9	29.7	125.1	993.2

Company	Freehold properties £m	Leasehold properties Over 50 years unexpired £m	Leasehold properties Under 50 years unexpired £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Total £m
Cost or valuation						
At 30 September 2000	608.8	26.9	27.6	–	–	663.3
Transfers between short and long leases	–	(0.5)	0.5	–	–	–
Additions	8.8	0.3	0.5	–	–	9.6
Disposals	(39.2)	(3.2)	(0.9)	–	–	(43.3)
At 29 September 2001	**578.4**	**23.5**	**27.7**	**–**	**–**	**629.6**
Depreciation						
At 30 September 2000	5.0	0.1	2.1	–	–	7.2
Charge for the period	3.5	0.1	1.2	–	–	4.8
Depreciation on disposals	(0.2)	–	–	–	–	(0.2)
Impairment	3.4	–	0.1	–	–	3.5
At 29 September 2001	**11.7**	**0.2**	**3.4**	**–**	**–**	**15.3**
Net book value						
At 29 September 2001	**566.7**	**23.3**	**24.3**	**–**	**–**	**614.3**
At 30 September 2000	603.8	26.8	25.5	–	–	656.1

Group and Company

Cost or valuation of properties comprises	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Valuation	**333.6**	373.2	**333.5**	373.2
At cost	**470.6**	473.6	**296.1**	290.1
	804.2	846.8	**629.6**	663.3

13 Tangible fixed assets continued

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

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

The Directors have reviewed the full estate and as a result have made an impairment charge of £10.3m (2000: £1.5m).

Cost at 29 September 2001 includes £nil (2000: £0.1m) of assets in the course of construction.

Capital expenditure authorised and committed but not provided in the accounts was £1.5m (2000: £2.5m). If the freehold and leasehold properties had not been revalued, the historical net book value would be £627.0m (2000: £667.7m).

14 Fixed asset investments

Group	Own shares £m	Trade loans £m	Investments £m	Other loans £m	Total £m
At 30 September 2000	4.7	76.2	0.4	0.6	81.9
Additions	–	4.0	–	0.1	4.1
Disposals, repayments and provisions	–	(35.9)	(0.1)	(0.7)	(36.7)
At 29 September 2001	**4.7**	**44.3**	**0.3**	**–**	**49.3**

Company	Own shares £m	Subsidiary undertakings £m	Investments £m	Other loans £m	Total £m
At 30 September 2000	4.7	1.0	0.4	0.6	6.7
Additions	–	–	–	0.1	0.1
Disposals, repayments and provisions	–	–	(0.1)	(0.7)	(0.8)
At 29 September 2001	**4.7**	**1.0**	**0.3**	**–**	**6.0**

The market value of listed investments held at 29 September 2001 was £15,203 (2000: £25,000).

The principal subsidiary companies are:	Country of registration	Nature of business	Number of shares held	% held	Class of share
Wolverhampton & Dudley Breweries (Trading) Limited	England	Pub retailer	1,000	100	Ordinary £5 shares
Banks's Brewery Insurance Limited	Guernsey	Insurance	1,000,000	100	Ordinary £1 shares
Pitcher & Piano Limited	England	Property company	343,750	100	Ordinary £1 shares
W.&D. PLC	England	Holding company	50,000	100	Ordinary £1 shares
W&DB (Finance) PLC	England	Holding company	50,000	100	Ordinary £1 shares
Mansfield Brewery Limited	England	Property company	5,250	100	Ordinary £1 shares
Mansfield Inns Limited	England	Property company	10,000	100	Ordinary £1 shares
Mansfield Brewery Trading Limited	England	Property company	5,250,000	100	Ordinary £1 shares

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

During the 53-week period ended 3 October 1998 the Group established an Employee Share Ownership Plan (ESOP). Included within fixed asset investments is £4.7m (2000: £4.7m) relating to the purchase of 915,000 ordinary shares of 25p each which are held in the ESOP, pursuant to the Company's Executive Share Option Schemes. The trustee of the ESOP is the Company's wholly owned subsidiary, Banks's Brewery Insurance Limited. The market value of the shares shown above as at 29 September 2001 is £4.4m (2000: £4.3m).

As at 29 September 2001, share options totalling 626,055 have been granted to the members of the Executive Share Option Schemes over the shares in the trust. The options are exercisable at prices between 518.0p and 565.0p per share between 2001 and 2010. The Directors' interests in the ordinary shares in the trust are disclosed in the Directors' report. Dividends on the shares have been waived by the trust.

15 Stocks

	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Raw materials and consumables	**5.9**	5.9	**–**	–
Work in progress	**0.6**	0.7	**–**	–
Finished goods	**7.5**	12.8	**–**	–
	14.0	19.4	**–**	–
Total stocks at replacement cost	**14.0**	19.8	**–**	–

16 Debtors

Amounts falling due within one year	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Trade debtors	**23.2**	30.9	**–**	–
Amounts due from subsidiary undertakings	**–**	–	**617.5**	268.8
Other debtors	**1.1**	0.8	**–**	–
Prepayments and accrued income	**10.0**	17.4	**1.1**	–
Deferred taxation (see note 8)	**2.1**	4.2	**0.1**	7.3
	36.4	53.3	**618.7**	276.1

17 Creditors

Amounts falling due within one year	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Bank loans	**140.0**	40.0	**140.0**	40.0
Loan stock	**0.1**	0.1	**0.1**	0.1
Other loans	**0.2**	0.3	**–**	–
Trade creditors	**23.2**	21.4	**–**	–
Finance leases	**0.6**	0.6	**–**	–
Amounts due to subsidiary undertakings	**–**	–	**273.9**	208.5
Corporation tax	**11.6**	9.5	**5.6**	5.2
Other taxation and social security	**13.4**	16.8	**–**	0.6
Other creditors	**22.4**	15.6	**–**	4.9
Dividends	**16.4**	14.6	**16.4**	14.6
Accruals and deferred income	**31.8**	30.6	**4.4**	4.0
	259.7	149.5	**440.4**	277.9

18 Creditors

Amounts falling due after more than one year	Group 2001 £m	Group 2000 £m	Company 2001 £m	Company 2000 £m
Bank loans	**135.0**	320.0	**135.0**	–
Other loans	**0.2**	0.4	**–**	–
Other creditors	**15.7**	18.3	**–**	–
Finance leases	**0.3**	0.9	**–**	–
Debenture loans	**217.7**	217.6	**167.9**	167.8
	368.9	557.2	**302.9**	167.8

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

18 Creditors continued

Financial instruments

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

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

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

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

Interest rate risk

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

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

Liquidity risk

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

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

Currency risk

The Group has no material exposure to currency rate risk.

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 as follows:

	2001			2000		
	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Total £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Total £m
Debentures and loan stock	–	217.7	217.7	–	217.7	217.7
Revolving credit facility and bridging loan	50.0	108.0	158.0	203.0	–	203.0
Term loan	–	117.0	117.0	82.0	75.0	157.0
Other loans	–	0.5	0.5	–	0.7	0.7
Finance leases	–	0.9	0.9	–	1.5	1.5
Preference shares	–	0.1	0.1	–	0.1	0.1
	50.0	444.2	494.2	285.0	295.0	580.0

The effect of the Group's interest rate swaps and other hedging instruments is to treat £225.0m (2000: £75.0m) of borrowings in the above table as fixed. Floating rate borrowings bear interest based on LIBOR. The Group's debentures are secured by a floating charge in favour of the Law Debenture Trust Corporation plc, over the whole of the undertaking, property and assets of the Company, both present and future.

	2001 Fixed rate financial liabilities		2000 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	6.69	10	7.48	14

18 Creditors continued

Maturity of financial liabilities

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

	2001 Group £m	2001 Company £m	2000 Group £m	2000 Company £m
Due within one year	**140.9**	**140.1**	41.0	40.1
Due between one and two years	**43.0**	**–**	140.8	–
Due within two to five years	**92.5**	**–**	180.5	–
After five years	**217.8**	**167.9**	217.7	167.9
	494.2	**308.0**	580.0	208.0

An amount of £58.0m has been drawn under a four-year revolving credit facility expiring in 2004. Although this is negotiated annually it has been categorised as repayable between two and five years.

Financial assets

The Company held the following financial assets:

	2001 £m	2000 £m
Cash	**44.1**	7.8
Trade loans	**44.3**	76.2
	88.4	84.0

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

	2001 £m	2000 £m
Fixed	**12.9**	18.0
Floating	**31.4**	58.2
	44.3	76.2

The fixed rate trade loans had a weighted average interest rate of 1.32% (2000: 1.60%) and a weighted average period of 13 years (2000: 14 years). The reference rate for floating rate trade loans is mainly United Kingdom base rates.

Borrowing facilities

The Group has the following undrawn committed borrowing facilities available:

	2001 £m	2000 £m
Expiring after two years	**102.0**	100.0

Fair values of financial assets and liabilities

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

Primary financial instruments held or issued to finance the Group's operations	2001 Book value £m	2001 Fair value £m	2000 Book value £m	2000 Fair value £m
Debentures and loan stock	**217.7**	**273.1**	217.7	250.3
Revolving credit facility and bridging loan	**158.0**	**163.4**	203.0	206.9
Term loan	**117.0**	**119.4**	157.0	163.0
Other loans	**0.5**	**0.7**	0.7	0.1
Finance leases	**0.9**	**1.2**	1.5	1.6
Preference shares	**0.1**	**0.4**	0.1	0.3
Cash	**(44.1)**	**(44.1)**	(7.8)	(7.8)
Trade loans	**(44.3)**	**(44.3)**	(76.2)	(76.2)
	405.8	**469.8**	496.0	538.2
Derivative financial instruments held to manage interest costs				
Interest rate swaps	**–**	**(4.0)**	–	(1.3)
Interest rate collars	**–**	**–**	–	(0.3)
Forward start swaps	**–**	**(11.1)**	–	0.1

The fair values of the interest rate swaps, interest rate collars, forward start swaps and long-term hedging instruments which have no book value have been determined by reference to prices available from the markets on which the instruments involved are traded. All other fair values have been calculated by discounting cash flows at prevailing interest rates.

18 Creditors continued

Hedges

As explained above, the Group's policy is to hedge interest rate risk using interest rate swaps, caps and collars. 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 net gains/(losses) £m
At 30 September 2000	0.5	(2.0)	(1.5)
Arising in period	(0.5)	(13.1)	(13.6)
Unrecognised gains and losses on hedges at 29 September 2001	–	(15.1)	(15.1)
Expected to be recognised in greater than one year	–	(11.9)	(11.9)

Other instruments

Additional disclosure on financial instruments is made in the Financial review on pages 14 to 15.

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

19 Acquisition of subsidiary undertakings

Mansfield Brewery Limited

As intimated in last year's accounts we now report on the final goodwill figure arising on our acquisition of Mansfield Brewery, plc (now Limited).

	Book value £m	Revaluation £m	Alignment of accounting policies £m	Fair value adjustments £m	Final fair value of acquisition £m
Fixed assets	283.4	(54.3)	2.3	(1.6)	229.8
Investments	32.3	–	(0.1)	–	32.2
Stock	5.9	–	(0.1)	(0.9)	4.9
Debtors	21.6	–	(1.0)	(4.6)	16.0
Cash	(60.9)	–	–	–	(60.9)
Creditors	(85.7)	–	–	(18.7)	(104.4)
Taxation	–	–	–	1.6	1.6
Net assets acquired	196.6	(54.3)	1.1	(24.2)	119.2

	£m
Consideration	
Cash	129.1
Share capital	121.3
Total consideration	250.4
Goodwill arising on acquisition	**131.2**

The final goodwill figure is £6.8m higher than the provisional figure disclosed in the 2000 accounts. The principal components of this increase were £3.8m adjustment to fixed assets to reflect more accurate market values, £1.8m of additional bad debt provisions and certain other small adjustments.

The net cash outflow in respect of the purchase of subsidiary undertakings comprises:

	2001 £m	2000 £m
Cash consideration	–	(129.2)
Bank overdraft	–	(60.9)
	–	(190.1)

20 Share capital (Group and Company)

	Authorised				Issued and fully paid			
	2001		2000		**2001**		2000	
	Number 000	**Value £000**	Number 000	Value £000	**Number 000**	**Value £000**	Number 000	Value £000
Preference shares of £1 each (non-equity)	**75**	**75**	75	75	**75**	**75**	75	75
Ordinary shares of 25p each (equity)	**120,000**	**30,000**	120,000	30,000	**94,490**	**23,622**	94,414	23,603
Closing balance		**30,075**		30,075		**23,697**		23,678

A total of 76,251 ordinary shares were issued during the 52 week period ended 29 September 2001 pursuant to the exercise of Executive and SAYE share options at exercise prices ranging from 277.0p to 511.0p. The aggregate consideration in respect of these exercises was £308,644.

The 75,000 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 29 September 2001 there were 3,457,306 Executive share options outstanding at prices from 325.5p to 683.5p per share exercisable between 2001 and 2010 and 1,165,732 SAYE options outstanding at prices from 277.0p to 511.0p per share exercisable between 2001 and 2007. See page 20 for details of Directors' share options.

21 Reserves

	Group					Company				
	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Capital reserve £m	Profit and loss account £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Capital reserve £m	Profit and loss account £m
Balance at 30 September 2000	198.9	170.6	3.2	0.4	192.8	198.9	170.4	3.2	0.4	168.9
Premium arising on issue of shares	0.3	–	–	–	–	0.3	–	–	–	–
Disposal of properties	–	(7.7)	–	–	7.7	–	(7.7)	–	–	7.7
Transfer of additional depreciation charge on revalued properties	–	(1.0)	–	–	1.0	–	(1.0)	–	–	1.0
(Loss)/profit for the period transferred from/to reserves	–	–	–	–	(28.3)	–	–	–	–	7.0
Balance at 29 September 2001	**199.2**	**161.9**	**3.2**	**0.4**	**173.2**	**199.2**	**161.7**	**3.2**	**0.4**	**184.6**

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

	2001 £m	2000 £m
Operating profit after goodwill amortisation and exceptional items	**60.8**	64.8
(Loss)/profit on property and investment disposals	**(6.8)**	4.6
	54.0	69.4
Goodwill amortisation	**8.0**	7.0
Income from fixed asset investments	**(1.3)**	(1.7)
Depreciation charge	**30.6**	34.1
Loss/(profit) on sale of fixed assets	**7.1**	(4.5)
Pension cost provision	**0.2**	0.2
Decrease in stocks	**5.5**	0.9
Decrease in debtors	**4.2**	1.2
Unamortised arrangement costs of new bank loan	**0.5**	2.5
Decrease in creditors	**(4.1)**	(9.5)
Exceptional costs with no cash impact	**28.4**	17.9
Net cash inflow from operating activities	**133.1**	117.5

23 Analysis of net debt

	2001 £m	Cash flow £m	Non-cash flow £m	2000 £m
Cash at bank	**44.1**	36.3	–	7.8
Debt due within one year				
Loan stock	**(0.1)**	–	–	(0.1)
Bank loans	**(140.0)**	40.0	(140.0)	(40.0)
Other loans	**(0.2)**	0.3	(0.2)	(0.3)
Finance leases	**(0.6)**	0.6	(0.6)	(0.6)
	(140.9)	40.9	(140.8)	(41.0)
Debt due after one year				
Bank loans	**(135.0)**	45.0	140.0	(320.0)
Other loans	**(0.2)**	–	0.2	(0.4)
Finance leases	**(0.3)**	–	0.6	(0.9)
Debentures	**(217.7)**	–	(0.1)	(217.6)
	(353.2)	45.0	140.7	(538.9)
	(450.0)	122.2	(0.1)	(572.1)

24 Post-balance sheet events

An extraordinary general meeting is to be convened on 17 December 2001 to seek approval for the Company to return £100.0m to shareholders. If approved by shareholders this will result in 20.4m shares being cancelled. If this happens £3.6m of proposed dividends fully provided for in these financial statements will not be paid.

25 Operating lease commitments

At 29 September 2001 the Group was committed to making the following payments during the next year in respect of operating leases:

	Land and buildings		Other	
	2001 £m	2000 £m	2001 £m	2000 £m
Leases which expire:				
Within one year	**–**	–	**0.2**	0.2
Within two to five years	**0.1**	0.1	**1.1**	0.8
After five years	**5.9**	7.6	**–**	–
	6.0	7.7	**1.3**	1.0

Five-year record

	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Turnover					
Continuing operations	**565.4**	468.8	281.7	285.7	275.6
Acquisitions	**–**	130.0	133.8	–	–
Total	**565.4**	598.8	415.5	285.7	275.6
Profit before goodwill amortisation and exceptional items	**76.1**	65.0	50.2	45.0	43.0
Exceptional items	**(47.9)**	(34.5)	(41.8)	(0.9)	(2.7)
(Loss)/profit on property and investment disposals	**(6.8)**	4.6	0.7	0.1	(0.1)
Goodwill amortisation	**(8.0)**	(7.0)	(1.2)	–	–
Profit before taxation	**13.4**	28.1	7.9	44.2	40.2
Taxation	**(16.9)**	(15.6)	(11.8)	(12.3)	(10.6)
(Loss)/profit after taxation	**(3.5)**	12.5	(3.9)	31.9	29.6
Capital employed	**561.6**	589.6	478.7	390.4	425.6
(Loss)/earnings per ordinary share	**(3.7p)**	14.1p	(6.0p)	50.6p	43.9p
Goodwill amortisation	**8.6p**	7.9p	1.8p	–	–
Loss/(profit) on property and investment disposals	**7.2p**	(5.2p)	(1.1p)	(0.2p)	0.2p
Exceptional items	**45.9p**	35.6p	59.8p	1.2p	2.7p
Earnings per ordinary share before goodwill amortisation and exceptional items	**58.0p**	52.4p	54.5p	51.6p	46.8p
Dividend per ordinary share	**26.5p**	24.0p	22.6p	20.6p	18.7p
Retail price index	**109.6**	107.8	104.3	103.2	100.0
Earnings per share growth	**(8.4)**	32.1	(13.7)	115.3	100.0
Earnings per share before goodwill amortisation and exceptional items	**123.9**	112.0	116.5	110.3	100.0
Dividend growth	**141.7**	128.3	120.9	110.2	100.0

Equivalent market prices on 31 March 1982

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

Notice of meeting

Notice is hereby given that the one hundred and fourteenth annual general meeting of The Wolverhampton & Dudley Breweries, PLC will be held at Wolverhampton Wulfrun Hall, North Street, Wolverhampton WV1 1RQ on Friday 25 January 2002 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 29 September 2001.
2 To declare and to confirm dividends.
3 To elect S J Oliver as a Director.
4 To elect M Womack as a Director.
5 To re-elect M L B Emley as a Director.
6 To re-elect R G Findlay as a Director.
7 To re-appoint PricewaterhouseCoopers as Independent Auditors of the Company and to authorise the Directors to fix their remuneration.

Special business

To propose the following as ordinary resolutions:

8 That The Wolverhampton & Dudley Breweries Savings Related Share Option Scheme 2002 (the Scheme) be and is approved and adopted in the form presented to the meeting and in the manner described in the letter to shareholders dated 29 November 2001, and the Directors be and are hereby authorised to do all acts and things necessary to carry the Scheme into effect; and that the Directors be authorised to vote and be counted in the quorum on any matter connected with the Scheme, notwithstanding that they may be interested in the same (except that no Director may be counted in the quorum or vote in respect of his own participation).

9 That the Board be and it is hereby generally and unconditionally authorised 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 £7,866,262 provided that this authority shall expire on the date of the next annual general meeting of the Company after the passing of this resolution or, if earlier, 24 April 2003, 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:

10 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 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 a rights 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;

(b) to the allotment (otherwise than pursuant to sub paragraph (a) above) of equity securities up to an aggregate nominal value of £1,181,120 and that this authority shall expire on the date of the next annual general meeting of the Company after the passing of this resolution or, if earlier, 24 April 2003, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted 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.

11 That the Company be and it is generally and unconditionally authorised for the purposes of Section 166 of the Companies Act 1985 to make market purchases (as defined by Section 163(3) of the said Act) of ordinary shares of 25p each in its capital, subject as follows:

(a) the maximum number of shares which may be so acquired is 14,163,996;
(b) the minimum price which may be paid for such shares is 25p 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 on the date of the next annual general meeting of the Company after the passing of this resolution or, if earlier, 24 April 2003 (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
Leslie Porter *Secretary*
29 November 2001

Park Brewery
Wolverhampton

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 34 of the Uncertificated Securities Regulation 1995, specifies that only shareholders registered on the register of members of the Company at 6pm on 23 January 2002 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 6pm on 23 January 2002 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 Park Brewery during normal business hours from 21 December 2001 to 25 January 2002 and at 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.

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