J D Wetherspoon plc Annual report and accounts 2004

Wetherspoon owns and operates pubs throughout the UK. The company aims to provide customers with good-quality food and drink, served by well-trained and friendly staff, at reasonable prices. The pubs are individually designed, and the company aims to maintain them in excellent condition.

Contents

Financial calendar

Annual General Meeting
11 November 2004

Final dividend for 2004
26 November 2004

Interim report for 2005
March 2005

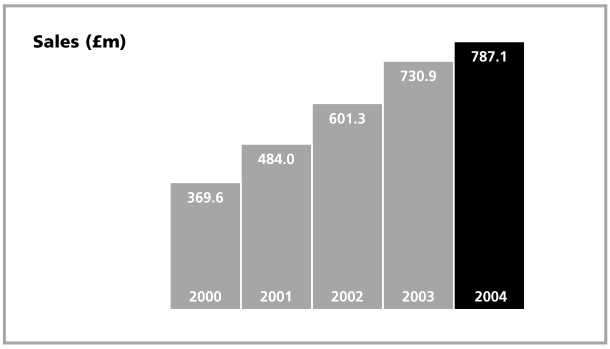
Interim dividend for 2005
May 2005

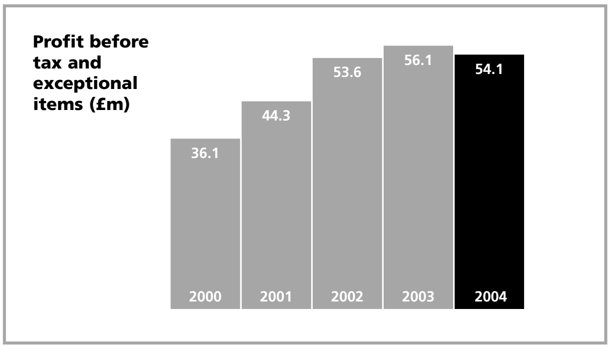
Year end
31 July 2005

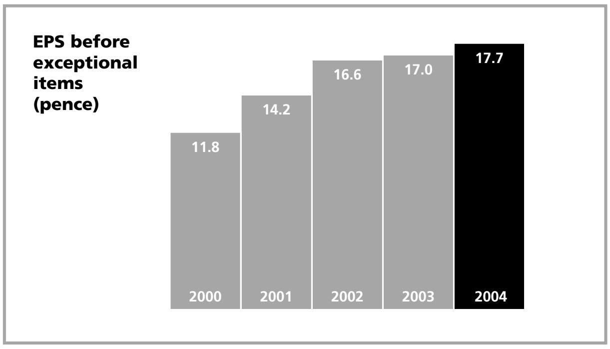
Preliminary announcement for 2005
September 2005

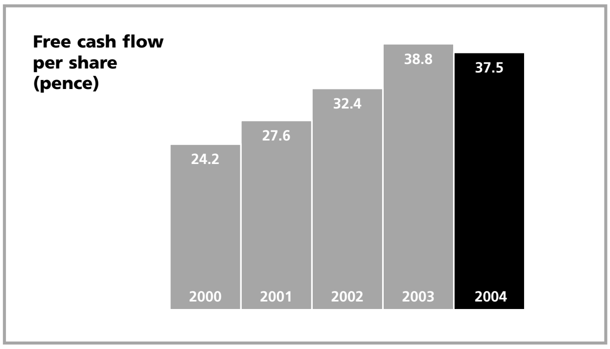
Report and accounts for 2005
October 2005

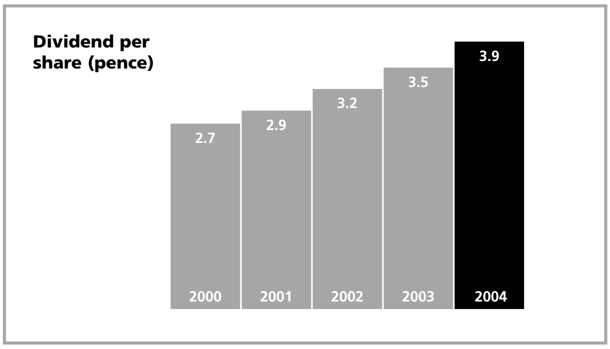
Financial highlights











Turnover up 8% to

£787.1m

Operating profit up 4% to

£77.6m

Net operating margin

9.9% (2003: 10.3%)

Profit before tax (before exceptional items) down 4% to

£54.1m

Profit before tax (after exceptional items)

£46.3m (2003: £52.5m)

Earnings per share (before exceptional items) up 4% to

17.7p

Earnings per share (after exceptional items)

14.6p (2003: 15.9p)

Free cash flow per share down 3% to

37.5p more than double EPS

Dividend per share increased by

10%

Chairman's statement and operating review

After a good first half to the financial year (six months to 25 January 2004), sales in the second half of the year slowed, which affected profits. For the year as a whole, sales increased by £56.2 million to £787.1 million, a rise of 8%. Operating margins were 9.9%, compared with 10.3% last year, mainly as a result of higher labour and other pub costs. Operating profit increased by 4% to £77.6 million, and profit before tax (before exceptional items) reduced by 4% to £54.1 million. Profit before tax (after exceptional items) was £46.3 million (2003: £52.5 million). Earnings per share (before exceptional items) increased by 4% to 17.7p, due to the benefit of share buybacks, with earnings per share (after exceptional items) being 14.6p (2003: 15.9p).

Cash outflow in respect of capital investment was £74.6 million, and net gearing at the year end was 117% (2003: 97%). This increase was due to the ongoing share buyback programme. Net interest was covered 3.3 times (2003: 4.0 times) by operating profit. Free cash flow, after payments of tax, interest and capital investment of £20.6 million in existing pubs, decreased by 10% to £75.0 million, resulting in free cash flow per share of 37.5p, more than double earnings per share. Free cash flow decreased, primarily as a result of both a higher cash tax charge and capital reinvestment in existing pubs rising from 2.2% of turnover to 2.6% of turnover.

..cash flow per share of 37.5p, more than double earnings per share...

Economic profit, calculated by adding back depreciation to profit before tax (before exceptional items) and subtracting capital expenditure on existing pubs and cash tax, decreased by 8% to £64.3 million. As with cash flow, economic profits were affected by a higher tax charge and an increased level of capital reinvestment.

The company recorded an exceptional loss in the year of £7.8 million before taxation. This included the sale of 20 pubs, together with provisions against the disposal of further properties.

We opened 28 pubs during the year, compared with 45 in the previous year. The total number of pubs now operated by the company is 643. As in previous years, the new pubs opened are bigger than the average of our estate and have helped average sales per pub to rise by 6% in the year under review. Like-for-like sales increased by 3.4%, although like-for-like profits declined by 1%, principally as a result of higher costs for labour and repairs.

DIVIDENDS

The board proposes, subject to shareholders' consent, to pay a final dividend of 2.56p per share on 26 November 2004 to those shareholders on the register on 29 October 2004, bringing the total dividend for the year to 3.89p per share, a 10% increase on the previous year.

FINANCE

The company had £74.7 million (2003: £103.1 million) of unutilised banking facilities and cash balances as at the balance sheet date, with total facilities of £412 million (2003: £412 million). The year's capital expenditure on new pub developments was more than covered by free cash flow. As a result of reductions in our planned new opening programme we, anticipate that, in the current financial year, the company is expected to generate a cash surplus after capital expenditure and dividends which will be available for debt reduction or share buybacks or both.

RETURN OF CAPITAL

During the year, 19,010,000 shares (representing approximately 9% of the issued share capital) were purchased by the company for cancellation, at a cost of £51.1 million, representing an average cost per share of 269p. £48.6 million of the cost was a cash outflow in the year under review.

REGULATION AND TAXATION

As we have indicated in previous years, pubs pay approximately 40% of their turnover in tax, equivalent to a contribution to public finances by Wetherspoon and its employees of approximately £315 million. This level of tax is about nine times our profit after tax (before exceptional items) and, like many businesses, we are very concerned about continuing increases in taxation of one type or another. In particular, the government has increased excise duty by considerable amounts in the last two years, collectively costing Wetherspoon approximately £7 million. Since the public is free to import alcohol from abroad at low or negligible rates of duty, the competitiveness of pubs and restaurants, important parts of the British economy, is being reduced.

THE TRADING ENVIRONMENT

Like-for-like sales declined from 4.8% in the first half to 1.9% in the second half of the financial year. Food sales growth remained strong, but bar sales came under increasing pressure, even leaving aside the impact of the Euro 2004 football tournament. We believe that this pressure is due to several factors, including greater competition from supermarkets, themselves responding, in part, to a growth in imports from the continent, leading to off-trade prices remaining at approximately the levels of 1997. Pub prices have continued to increase since 1997 at, or above, the level of inflation, so that a greater percentage of beer, wine and spirit consumption now takes place at home. When Wetherspoon started business, 25 years ago, off-trade sales accounted for about 20% of beer, wine and spirit consumption. Estimates suggest that off-sales rose to a record 40% of overall sales during Euro 2004 and that present trends indicate that off-sales could rise to about 50% by 2010.

This situation has put pressure on Wetherspoon's prices and margin, as well as on the pub trade generally, and we are today launching a new marketing campaign, emphasising a new traditional ale range, featuring Marston's Burton Bitter at £1.29 per pint and Marston's Pedigree at £1.49 per pint.

From 4 to 17 October 2004, we are holding our biggest-ever beer festival, featuring traditional ales from British and Irish regional and micro breweries. These festivals have been very successful in the past, but we are doubling the duration to two weeks this year and hope to sell one million pints of traditional ale during the fortnight, five times as much as the excellent CAMRA Great British Beer Festival held at Olympia annually.

We are also reducing the price of our biggest-selling standard-strength lager, Carling, to £1.49 per pint. Following the recommendation of the Glasgow Licensing Board, we have stopped all 2-for-1 offers and have stopped offering financial incentives to customers to buy double measures of spirits instead of singles. This has resulted in an increase in the number of single 25ml (equivalent to 1 unit of alcohol) measures of spirits, although it has reduced our sales and profits to some extent.

BINGE DRINKING

There has been a lot of media attention over the issue of binge drinking and there can be no doubt that attitudes to drinking need to change in some sections of society, as has successfully been achieved in the area of drink driving. However, it is doubtful whether binge drinking is a new phenomenon or uniquely applicable to young people or pubs. Approximately forty per cent of our sales now relate to food and soft drinks, a percentage which is increasing. We believe that our strong training ethos, recently winning the British Institute of Innkeeping Supreme Training Award for the second year in a row, combined with an average of six managers per pub, helps to create a safe and controlled environment. In addition, our non-music policy and relatively low pricing attract an older clientele, as well as young people, creating a more convivial atmosphere for the consumption of alcohol. The introduction of family areas in our pubs, so that families can dine until the early evening, has also contributed to a better pub environment.

We do not believe that competitive prices in our pubs lead to lower standards of behaviour. Companies like Wetherspoon and brewers such as Samuel Smith and Joseph Holt, as well as working men's clubs, have lower-than-average bar prices, but are not generally associated with rowdy behaviour in town centres on Friday and Saturday nights. We have tried to lead the way in areas such as the prohibition of 'selling-up', through the removal of financial incentives to do so, and have also been proactive in the marketing of food and soft drinks, alongside alcoholic products. In addition to our investment in management training, we participate actively, wherever we can, with bodies such as the police and local authorities, to improve matters in this difficult area.

MINIMUM PRICING

Several licensing authorities in Scotland and England, combined with the police and local publicans, are introducing minimum-pricing schemes in an effort to control anti-social behaviour. We believe that it would be better to introduce a broad range of measures, such as those relating to selling-up, training, making food available all day in pubs and so on. Minimum-pricing schemes for pubs will, in our opinion, dramatically improve the competitive position of supermarkets and will encourage people to drink at home and elsewhere, which is unlikely to result in an improvement in behaviour. It will also penalise those on a low income, including senior citizens and students, who are important customer groups. The pub industry has been repeatedly investigated during 1960–1980s, culminating in the beer orders in the late 1980s forcing brewers to divest their pubs. Brewers were deemed to be operating a monopoly and pushing up the price of a pint, beyond the level of inflation, which was seen to be against the public interest. It would be ironic if efforts to bring down the price of a pint were reversed by individual licensing authorities, often following consultation with local publicans, imposing their own views on the prices which customers should pay. The likely long-term winners of price-fixing will be the supermarkets; this may result in more alcohol consumption in circumstances where there is less control and supervision.

PEOPLE

I would like to thank, again, our employees, partners and suppliers for their dedicated work in creating another year of progress for the company.

CURRENT TRADING AND OUTLOOK

Like-for-like sales in August were flat, and total company sales increased by 3%. Sales per pub in the last financial year recorded another increase to their highest level ever, although the rate of growth slowed over the summer months. Together with the initial impact of our competitive pricing initiatives and anticipated cost increases, this slowdown in sales will affect our profits – although it is certainly too early in the current financial year to predict the probable outcome.

Reflecting uncertainties in sales, the approach of licensing authorities and continued cost and taxation increases, we are reducing further the number of pubs we plan to open to about 15 in the current financial year, to maintain a cash flow surplus after all capital investment.

The competitive and political climate for pubs is challenging at the current time, but our track record over 25 years and our committed and experienced management team, combined with our strong cash flow, give confidence for our future prospects.

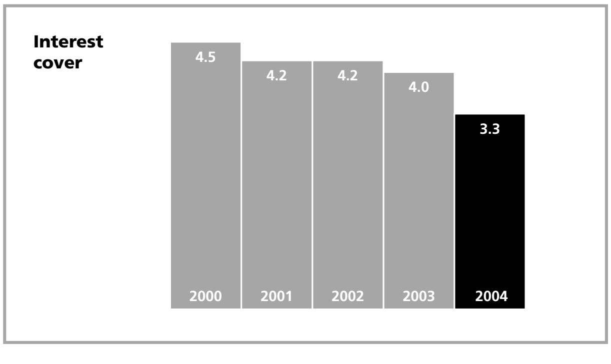
Tim Martin
Chairman
3 September 2004

SALES AND OPERATING PROFIT

In the year under review, total sales increased by 8% to £787.1 million. Bar sales increased by 7%, with a 10% increase in food sales which now represent 24% of total revenue. Operating profit increased by 4% to £77.6 million, and profit before tax (before exceptional items), of £54.1 million (after exceptional items £46.3 million), represents a 4% decrease on the previous year. Net operating margins, excluding interest, were 9.9%, compared with 10.3% in the previous year. Further information on the performance of the business is given in the chairman's statement and operating review on pages 2 to 4.

INTEREST

The net interest charge during the year increased from £18.8 million to £23.6 million. The increase in this charge was affected by the significant cash flow involved in the share buyback programme, which is covered in more detail below. The company took the decision, at the start of the year, to cease the capitalisation of interest on new pub developments, as the cash flow for new pubs is now funded by cash from operations. The previous financial year included capitalised interest of £2.0 million. The net interest charge also includes the amortisation of £1.6 million (2003: £0.3 million) with respect to refinancing fees, the majority of which was incurred in the year. The interest charge to the profit and loss account was covered 3.3 times (before exceptional items), compared with 4.0 in the previous year. Fixed-charge cover (interest and rent) was in line with last year, at 1.8 times (2003: 1.9 times). Excluding depreciation, fixed-charge cover (interest and rent), on a cash basis, was 2.4 times (2003: 2.7).



TAXATION

A full analysis of the taxation charge for the year is set out in note 7 to the accounts.

As previously reported, the accounting standard on the provision for deferred taxation (FRS19) requires a full provision for future tax liabilities, excluding any potential future benefit from ongoing capital investment. This results in an overall tax charge for the year of 36% (2003: 35%), in line with the previous year. The amount of corporation tax to be paid on the results for the year is 24% (2003: 24%), before the impact of exceptional items.

EXCEPTIONAL ITEMS

The company reported an exceptional loss during the year of £7.8 million (2003: £3.7 million). This comprised losses and anticipated losses on the disposal of 20 public houses of £6.2 million, together with a loss of £1.6 million in respect of non-trading properties.

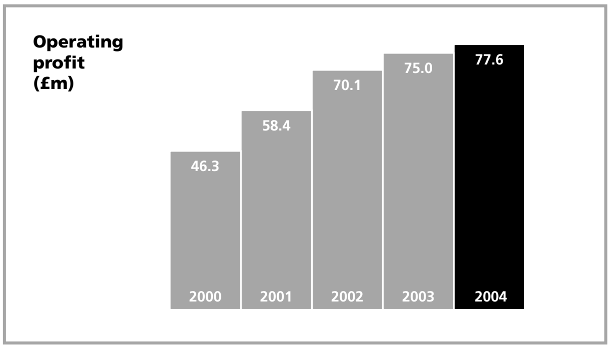
SHAREHOLDERS' RETURN

Earnings per share (before exceptional items) increased by 4% to 17.7p (with a decrease of 8% in earnings per share (after exceptional items) to 14.6p). Although the underlying free cash flow per share decreased by 3% to 37.5p, this figure remained at more than double earnings per share.

The proposed final dividend of 2.56p per share, together with the interim dividend of 1.33p per share, already paid, represents a 10% increase on the previous year. The total dividend per share will be covered 4.6 times by earnings per share (before exceptional items), compared with 4.8 times in the previous year. The company has maintained its previous policy of regular increases in dividends, while maintaining sufficient cash to fund capital expenditure. Shareholders' funds at the year end were £289.0 million.

The company purchased £51.1 million of its own shares during the year. The cash outflow in the year, with regard to share buybacks, was £48.6m, reflecting some timing differences on the settlement of share purchases at both the start and end of the financial year. These transactions represented a share buyback and cancellation of 9% of the share capital in issue at the start of the financial year, before the commencement of the buyback, in addition to the 4% cancelled in the previous financial year.

The middle-market quotation of the company's ordinary shares at the end of the financial year was 254.5p. The highest price during the year was 324.0p, while the lowest was 225.5p. The company's market capitalisation as at 25 July 2004 was £481.4 million.



CASH FLOW

As set out on page 21, the company continues to generate significant amounts of cash, with a net cash inflow from operating activities of £128.9 million. Free cash flow in the year, which is defined as cash from operations after deducting interest, taxation and the purchase of fixed assets for existing pubs, was £75.0 million, compared with the previous year's £83.3 million. This level of free cash flow covered all of our investment in new pub openings, producing a net cash inflow, before financing, of £18.7 million (2003: £11.1 million).

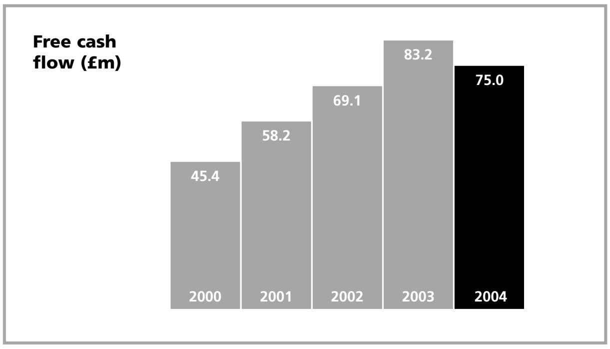
CAPITAL INVESTMENT

Twenty-eight new pubs were opened during the year, compared with 45 in the previous year. The cash outflow, with respect to these new pubs, totalled £54.1 million. Investment in existing pubs was £20.6 million, representing 2.6% of sales, compared with 2.2% of sales in the previous financial year.

FINANCIAL POSITION

Net debt at the year end amounted to £337.6 million, representing a balance sheet gearing ratio of 117% (2003: 97%). Excluding the cumulative impact of the reduction in shareholders' funds, owing to the adoption of FRS19 deferred taxation, the underlying level of balance sheet gearing is 95%, which compares with the previous year's 81%.

At the balance sheet date, the company had £74.7 million of unutilised banking facilities and cash balances. This level of unused facilities, coupled with the continuing strong cash generation, provides a significant cushion against any future changes in the expected cash flow position of the company. The company restructured a significant part of its UK banking facilities during the year. This consolidated some of the current facilities and also introduced two new banks to the existing bank group.



FINANCIAL RISKS AND TREASURY POLICIES

The company's main treasury risks relate to the availability of funds to meet its future requirements and fluctuations in interest rates. The treasury policy of the company is determined and monitored by the board.

The company has no foreign currency risk, given that the US senior loan notes are hedged into sterling. The impact of this is that there is no exposure to movements in the exchange rate between sterling and the dollar. As the company has no trading requirements in any foreign currency, the overall treasury policy in this area is to ensure that there are no currency risks attached to any part of its business. The interest payments under the US senior loan notes are also covered by an interest-rate swap, resulting in a floating sterling interest payment throughout the term of the notes.

The company's policy, with regard to interest-rate risk, is to monitor and review anticipated levels of expansion and expectations on future interest rates, in order to hedge the appropriate level of borrowings by entering into fixed- and floating-rate agreements, as appropriate.

At the balance sheet date, the company had entered into fixed interest-rate swap agreements over a total of £150 million of borrowings, covering a six-year period at an average rate of interest (excluding bank margin) of 6.46%. The board continues to explore current market opportunities in this area.

The company monitors its cash resources through short-, medium- and long-term cash-forecasting. Surplus cash is pooled into an interest-bearing account or placed on short-term deposit for periods of between one and three months.

The company monitors its overall level of financial gearing weekly, with our short- and medium-term forecasts showing underlying levels of gearing which remain within our targets.

ACCOUNTING POLICIES

As explained in note 1 to the accounts, the Urgent Issues Task Force (UITF) abstracts 17 (Employee Share Schemes), as amended, and 38 (Accounting for ESOP trusts) were adopted in the year. The comparative figures have been restated to comply with these extracts, although the changes are not material. All of the other accounting policies adopted in preparing these accounts are consistent with those used in the previous year.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The company will be required to adopt International Financial Reporting Standards (IFRSs) when preparing its accounts for 2005/06. In preparation for this, all existing IFRSs have been reviewed in detail, so as to assess their likely impact on our reported figures and the actions required to collect the necessary data.

Adoption of IFRS, with its focus on the balance sheet and the incorporation of fair-value accounting, together with the requirement to incorporate the market values of financial derivatives into our balance sheet will increase the volatility of reported profits. Where such derivatives can be demonstrated to have operated as an effective hedge against certain underlying financial instruments (which would normally be their intended purpose), the value of those instruments will also be adjusted in the balance sheet.

Our opening IFRS balance sheet will also be potentially affected by several other areas, including lease classification and the requirement to account for deferred tax on gains on sales of property rolled over into new assets and on previously reported gains on the revaluation of properties.

Jim Clarke
Finance Director
3 September 2004

Directors, officers and advisers

Tim Martin Non-Executive Chairman, aged 49

Tim founded the business in 1979, having previously studied law at Nottingham University and qualified as a barrister. He became executive chairman in 1983 and non-executive chairman in 2004.

John Hutson Chief Executive Officer, aged 39

John joined the company in 1991 and was appointed to the board in 1996. He is a graduate of Exeter University and previously worked with Allied Domeq.

Jim Clarke Finance Director and Company Secretary, aged 44

Jim joined the company and was appointed to the board in 1998, having previously worked for David Lloyd Leisure (a division of Whitbread plc) and HP Bulmer Holdings plc. He is a graduate of Stirling University and qualified as a chartered accountant in 1984.

Suzanne Baker Commercial Director, aged 41

Suzanne joined the company in 1992 and was appointed to the board in 1997. She has previously worked for Grand Metropolitan plc.

John Herring Senior Independent Non-Executive Director and Deputy Chairman, aged 46

John was appointed to the board in 1997 and is chairman of the audit committee, the remuneration committee and the nomination committee. A chartered accountant, he is an associate of Corbett Keeling Ltd. He is a non-executive director of Kensington Group plc and Workplace-Systems plc and is a former director of Kleinwort Benson Securities Ltd.

Tony Lowrie Non-Executive Director, aged 62

Tony was appointed to the board in 1987 and is a member of the audit committee, the remuneration committee and the nomination committee. He is a managing director of ABN AMRO Bank NV and a former chairman of ABN AMRO Asia Securities.

Brian Jervis Non-Executive Director, aged 69

Brian was appointed to the board in 1991 and is a member of the audit committee, the remuneration committee and the nomination committee. A chartered secretary, Brian is a former director of John Govett and Co Ltd.

Registered Office

Wetherspoon House
Central Park
Reeds Crescent
Watford
WD24 4QL

Company Number

1709784

Registrars

Computershare Investor Services plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH

Registered Auditors

PricewaterhouseCoopers LLP

Solicitors

Macfarlanes

Bankers

Allied Irish Banks plc
Bank of Scotland
Bayerische Landesbank
Lloyds TSB Bank plc
National Australia Bank Ltd
Scotiabank Europe plc
The Royal Bank of Scotland plc

Financial Advisers

Dresdner Kleinwort Wasserstein Limited

Stockbrokers

Dresdner Kleinwort Wasserstein Securities Limited

The directors present their report and audited accounts for the year ended 25 July 2004.

Principal activities and business review
The principal activities of the company are the development and management of public houses. Details of progress and future developments are given on pages 2 to 4.

Results and dividends
The profit on ordinary activities (including exceptional items) for the year, after taxation, was £29,274,000.

On 26 November 2004, the company proposes to pay a final dividend for the year ended 25 July 2004 of 2.56 pence per share to shareholders on the share register as at the close of business on 29 October 2004.

Profit retained for the financial year amounted to £21,943,000 and will be transferred to reserves.

Return of capital
At the Annual General Meeting of the company, held on 11 November 2003, the company was given authority to make market purchases of up to 31,097,740 of its own shares. During the year to 25 July 2004 a total of 19,010,000 shares has been purchased at an average cost of 269p per share. As at 25 July 2004, the authority given to the company at the last Annual General Meeting remained outstanding in relation to 18,152,740 shares. As a result of the share buyback programme, the company expects earnings per share to be enhanced, in both the current and future years.

Directors
The directors listed on page 8 served throughout the financial year. Mr Martin, Mr Herring and Mr Lowrie retire by rotation and offer themselves for re-election. Details of the terms under which the directors, who were in office during the year, serve and their remuneration, together with their interests in the shares of the company, are given in the directors' remuneration report on pages 12 to 15.

No director has any material interest in any contractual agreement, subsisting during or at the end of the year, which is or may be significant to the company.

Insurance against the liabilities of directors and officers of the company was in place throughout the year, in respect of their duties as directors and officers of the company.

Company's shareholders
Details of the company's shareholders, including those beneficial interests notified to the company as accounting for over 3% of the issued share capital, are given on page 36.

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 of the profit or loss of the company for that period. The directors are required to prepare the financial statements on a going-concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 25 July 2004 and that applicable accounting standards have been followed.

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

The directors are responsible for the maintenance and integrity of the company's Web site: www.jdwetherspoon.co.uk. It is stated clearly on the Web site that information published on the Internet is accessible in many countries and that legislation in the United Kingdom, governing the preparation and dissemination of financial information, may differ from legislation in other jurisdictions.

Auditors
The company's auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be reappointed will be proposed at the Annual General Meeting.

Employment policies
Only through the skill and commitment of the company's employees will its objectives be met. All staff are encouraged to make a real commitment to the company's success and to progress to more senior roles as they, themselves, develop.

A heavy emphasis is placed on training programmes for all levels of staff; this highlights the importance placed by the company on providing service to its customers.

In selecting, training and promoting staff, the company has to take account of the physically demanding nature of much of its work. The company is committed to equality of opportunity and to the elimination of discrimination in employment. The company aims to create and maintain a working environment, terms & conditions of employment and personnel & management practices which ensure that no individual receives less favourable treatment on the grounds of his or her race, religion, nationality, ethnic origin, age, disability, gender, sexual orientation or marital status. Employees who become disabled will be retained, where possible, and retrained, where necessary.

The company has established a range of policies, covering issues such as diversity, employees' well-being and equal opportunities, aimed at ensuring that all employees are treated fairly and consistently.

Internal communications seek to ensure that staff are well informed about the company's progress, through the use of regular newsletters, monthly videos and briefings at staff meetings, at which employees' views are discussed and taken into account.

All staff participate in incentive bonus schemes related to profitability and/or service standards.

Policy on payment of suppliers
The company agrees on terms and conditions with all suppliers before business takes place and has a policy of paying agreed invoices in accordance with the terms of payment. Trade creditors at the year end represented 44 (2003: 44) days' purchases.

Political and charitable contributions
Contributions made by the company during the year, for charitable purposes, were £61,438 (2003: £40,320). No political contributions were made.

Business at the Annual General Meeting
On pages 37 and 38 is a notice convening the Annual General Meeting of the company for 11 November 2004, at which shareholders will be asked, as items of special business, to give power to the directors to allot shares, to disapply the pre-emption requirements of section 89 of the Companies Act 1985 and to give power to the directors to make market purchases of ordinary shares in the capital of the company, subject to certain conditions. The notice also sets out details of the ordinary business to be conducted at the Annual General Meeting.

Approval of the directors' remuneration report
Resolution 2 in the notice of Annual General Meeting, which will be proposed as an ordinary resolution, asks shareholders to approve the directors' remuneration report, set out on pages 12 to 15.

Re-election of Mr T Martin, Mr J Herring and Mr T Lowrie as directors
The company's Articles of Association require one-third of the directors to retire from office at each Annual General Meeting. In addition, any director who has, at the Annual General Meeting, been in office for more than three years since his or her last appointment or re-appointment should also retire and may offer him or herself for re-election.

Brief biographical details of each of the directors standing for re-election may be found on page 8. The re-election resolutions are set out as resolutions 4 to 6 in the notice of Annual General Meeting.

Re-appointment of PricewaterhouseCoopers LLP as auditors
Resolution 7, set out in the notice of Annual General Meeting, proposes that PricewaterhouseCoopers LLP should be reappointed as the company's auditors and authorises the directors to determine their remuneration.

Authority to allot
The general authority previously given to the directors to allot 'relevant securities' will expire at the end of the Annual General Meeting, convened for 11 November 2004.

Accordingly, resolution 8, set out in the notice of meeting, will be proposed as an ordinary resolution to authorise the directors (pursuant to section 80 of the Companies Act 1985) to allot ordinary shares in the capital of the company, up to a maximum nominal amount of £1,250,000, being approximately 33% of the nominal value of the ordinary shares currently in issue. The company does not currently hold any shares in treasury. The authority (unless previously varied, revoked or renewed) will expire on the earlier of 15 months from the date of the passing of the resolution and the conclusion of the Annual General Meeting held to approve the report and accounts for the year ending 31 July 2005.

The directors will exercise such authority to allot shares only when satisfied that it is in the interests of the company to do so. They have no present intention, however, of exercising the authority, except in connection with the issue of shares under the company's share option schemes and Share Incentive Plan.

Disapplication of pre-emption rights
The provisions of section 89 of the Companies Act 1985 (which confer on shareholders rights of pre-emption in respect of the allotment of 'equity securities' which are, or are to be, paid up in cash, other than by way of allotment to employees under an employees' share scheme) apply to the authorised, but unissued, ordinary shares of the company to the extent that they are not disapplied, pursuant to section 95 of the Companies Act 1985.

The existing disapplication of these statutory pre-emption rights will expire at the end of the Annual General Meeting convened by the notice of meeting. Accordingly, resolution 9, as set out in the notice of meeting, will be proposed as a special resolution to permit directors to allot shares without the application of these statutory pre-emption rights, first, in relation to rights issues and, secondly, in relation to the issue of ordinary shares in the capital of the company for cash up to a maximum aggregate nominal amount of £190,000 (representing approximately 5% of the nominal value of the ordinary shares of the company currently in issue).

The authority (unless previously varied, revoked or renewed) will expire on the earlier of 15 months from the date of passing of the resolution and the conclusion of the Annual General Meeting held to approve the report and accounts for the year ending 31 July 2005.

Repurchase of ordinary shares
In common with many other listed companies, the company proposes, once again, to seek an authority from shareholders to permit the company to purchase its own shares for cancellation. The directors intend to use this authority to buy back the company's shares in accordance with the buyback programme commenced in May 2003. Accordingly, resolution 10 will be proposed as a special resolution to authorise the company to make market purchases of up to just under 15% of the company's current issued ordinary share capital, at prices not less than the nominal value of an ordinary share and not exceeding 105% of the average of the middle-market quotations for the five business days before each purchase (exclusive of expenses). The authority will last until the earlier of 30 April 2006 and the conclusion of the next Annual General Meeting of the company. The directors envisage that purchases would be made only after considering the effects on earnings per share and the benefits for shareholders generally.

As at 3 September 2004, there were outstanding options over 7,679,320 ordinary shares, representing 4.1% of the company's issued ordinary share capital. If the authority under resolution 10 were to be exercised in full, this would increase to 4.8%.

By order of the board

Jim Clarke
Company Secretary
3 September 2004

This report outlines the company's policy on executive remuneration and gives details of directors' pay and pensions for 2004, the interest of directors in the company's shares and the fees of the non-executive directors. This report has been drawn up in accordance with, among other things schedule B of the Combined Code, as set out in the Listing Rules of the UK Listing Authority ('Combined Code'). This report will be put to an advisory vote of the company's shareholders at the Annual General Meeting on 11 November 2004.

Composition and role of the remuneration committee
The remuneration committee is appointed by the board and comprises John Herring (chairman), Brian Jervis and Tony Lowrie, all of whom are considered by the company to be independent non-executive directors.

The committee performs an annual review, covering elements of executive directors' remuneration. In addition, it approves all contractual and other compensation arrangements for the executive directors. The remuneration committee also approves any grant of share options and annual performance-related payments (whether in shares or cash) for executive directors.

The committee has access to advice from external consultants, as appropriate.

Remuneration policy
The aim of the company's remuneration policy is to provide the packages required to attract, retain and motivate directors and senior executives of high quality.

The following comprises the components of the remuneration of all executive directors:

■ Salary
Salaries and other benefits are determined annually after a review of the individual's performance, by reference to industry and other comparisons and consideration of reports from specialist consultants.

■ Annual performance-related payments
It is the policy of the company to operate bonus arrangements, at all levels of staff, which are performance-related, the primary performance measures being profitability and operating standards. The executive directors participate in a management bonus scheme, designed to incentivise senior management in the achievement of financial and personal targets. The financial targets are based on the company's performance on profits and cash flow having regard to internal and external factors.
The maximum bonus attainable under normal circumstances represents 35% of year-end salary. The executive directors also receive bonuses in shares under the Share Incentive Plan as described further below.

■ Pension provision
The company makes contributions to personal pension schemes on behalf of all staff who opt to participate in these schemes, including executive directors and senior executives. It does not operate any defined benefit pensions scheme.

■ Share schemes/share incentive plan
The company's policy on share incentives under its various employee schemes has been, and continues to be, to distribute them widely across the company's pub staff and head office employees. In this way, the company seeks to encourage and motivate those key employees involved at all levels of the company and, in particular, those employees who have direct interface with the public.

The company has monitored the debate on the question of share options and, in particular, both the dilutive impact on existing shareholders and the desire to create real employee shareholders, rather than simply option holders. As a result, it has been decided not to issue any further options in the foreseeable future (other than any options which may be granted in recruitment situations under the 2001 scheme). The company has established a new Share Incentive Plan (incorporating an Inland Revenue-approved element), with effect from 1 August 2003, as a replacement for new share option issues. The Share Incentive Plan is an 'all-employee plan' providing qualifying employees, including executive directors (normally those who have given at least 18 months' service), with bonuses in the form of shares in the company twice each year. The value of shares awarded has regard to performance over the preceding half year and currently provides for annual awards of up to 25% of annual salary. Awards under the Share Incentive Plan were made in March 2004 of between 5% and 15% of salary earned in the six month period. Shares will not vest for three years under this plan, and the cost of the shares will be reflected in the company's profit and loss account for financial years in which any part of the vesting period falls. There are no specific share option arrangements for directors, although the company allows executive directors to participate in the non-discretionary Save-As-You-Earn scheme, and the Share Incentive Plan.

The rules of the company's discretionary share option schemes, the Executive Share Option (ESOP) scheme, the New Discretionary Share Option (NDSO) scheme and the 2001 Executive scheme (2001 scheme) require certain performance criteria to be met before an option can be exercised. In the case of the ESOP options are exercisable only on condition that the earnings per share (excluding exceptional items) of the company, between the date of grant of an option and the date of an exercise, increase by at least the increase in RPI.

Both the NDSO scheme and the 2001 scheme require normalised earnings per share (excluding exceptional items) to exceed the growth in RPI, over any three-year period, by an average of at least 3% per annum.

These performance targets were set in line with remuneration trends when the schemes were introduced and are easily understood by the participants. Performance against these targets is measured by reference to government statistics for RPI and the company's accounts for earnings per share growth.

The discretionary All-Employee Share Option (AESOP) plan has previously granted modest levels of options to all staff meeting certain eligibility criteria; as such, there are no performance conditions attached to the exercise of an option under it.

Options granted under the Save-As-You-Earn (SAYE) scheme require a savings contract to be entered into for three or five years and for options to be exercised within six months of the completion of the savings contract. The SAYE scheme is open to all employees satisfying certain eligibility criteria.

Options are not normally exercisable for a period of three years from the date of grant.

Details about the participation of each of the executive directors in each of the above schemes can be found on pages 14 and 15.

■ Benefits in kind

A range of taxable benefits is available to executive directors. These benefits comprise principally the provision of a company car, fuel, life assurance and private medical insurance.

Directors' service contracts

The executive directors are employed on rolling contracts, requiring the company to give one year's notice of termination, while the director may give six months' notice. In the event of termination of employment with the company, without the requisite period of notice, executive directors' service contracts provide for the payment of a sum equivalent to the net value of salary and benefits to which the executive would have been entitled during the notice period. The executive is required to mitigate his or her loss, and such mitigation may be taken into account in any payment made. The company's policy on the duration of director's service contracts, notice periods and termination payments are all in accordance with best industry practice. The commencement dates for the executive directors' service contracts were as follows:

John Hutson	2 February 1998
Jim Clarke	2 March 1998
Suzanne Baker	2 February 1998

Non-executive directors

The non-executive directors hold their positions, pursuant to letters of appointment dated 1 November 2003 with terms of twelve months. During the year, Tim Martin resigned as executive chairman and was appointed non-executive chairman, and John Herring was appointed non-executive deputy chairman.

The non-executive directors are entitled to the fees to which they would have been entitled up to the end of their term, if their appointment is terminated early, and do not participate in the company's bonus or share schemes. Their fees are determined by the executive directors, following consultation with professional advisers, as appropriate.

Directors' remuneration
Audited information:

The table below shows a breakdown of the various elements of directors' remuneration for the year ended 25 July 2004.

	Salary/fees	Performance bonus – cash	Performance bonus – shares	Taxable benefits	Expense allowances	Pension contributions	**Total 2004 £000**	Total 2003 £000
Executive directors								
J Hutson	248	61	18	1	14	25	**367**	294
J Clarke	177	43	13	1	14	16	**264**	226
S Baker	133	36	10	–	14	12	**205**	158
Non-executive directors								
T R Martin	109	–	–	11	–	–	**120**	421
J Herring	42	–	–	–	–	–	**42**	31
B R Jervis	29	–	–	–	–	–	**29**	27
A C Lowrie	29	–	–	–	–	–	**29**	27
Total	**767**	**140**	**41**	**13**	**42**	**53**	**1,056**	–
2003	933	142	–	20	39	50	–	1,184

Taxable benefits include the provision of a company car, fuel and health cover. Directors may opt for a taxable allowance in lieu of a company car, shown above under expense allowances.

The performance bonus – shares consist of the value of bonuses paid in shares under the company's Share Incentive Plan (described above), which are subject to forfeiture on cessation of employment in certain circumstances. These shares are also included in the relevant director's interest shown in the table overleaf.

Directors' interests in shares – non-audited information:

The interests of the directors in the shares of the company, as at 25 July 2004, were as follows:

Ordinary shares of 2p each, held beneficially	**2004**	2003
T R Martin	**32,997,807**	32,997,807
B R Jervis	**34,549**	34,549
A C Lowrie	**7,471,619**	8,471,619
J Herring	**6,000**	6,000
J Hutson	**79,425**	57,812
J Hutson – Share Incentive Plan	**6,089**	–
J Clarke	**13,489**	13,489
J Clarke – Share Incentive Plan	**4,334**	–
S Baker	**16,919**	24,319
S Baker – Share Incentive Plan	**3,256**	–

There have not been any changes to these interests since 25 July 2004. Each of the executive directors (including Tim Martin who was previously an executive director) is also interested in all of the 91,457 shares held by the trustee of the J D Wetherspoon Restricted Share Plan Trust by virtue of being a potential beneficiary of that trust.

Directors' interest's in share options – audited information:

Share options have previously been granted under the various share option schemes at an exercise price based on the average share price over a number of days preceding the grant. The number of days used is detailed in the rules for each scheme. Share options are not granted at a discount, with the exception of grants under the SAYE scheme (granted at a 20% discount). Directors' share options under the various executive share option schemes comprise:

	28 July 2003	Options exercised	**25 July 2004**	Exercise price	Exercisable date	Expiry date	Scheme (see below)
J Hutson	50,000	50,000(a)	**–**	78.4p	25/10/97	25/10/04	ESOP
	15,000		**15,000**	92.4p	17/04/98	17/04/05	ESOP
	50,000		**50,000**	127.2p	16/11/98	16/11/05	ESOP
	49,750		**49,750**	244.2p	03/01/00	03/01/07	ESOP
	10,000		**10,000**	237.0p	10/04/00	10/04/07	ESOP
	40,000		**40,000**	299.0p	05/10/00	05/10/07	ESOP
	49,000		**49,000**	326.0p	16/04/01	16/04/08	ESOP
	14,000		**14,000**	167.0p	25/10/01	25/10/08	ESOP
	10,613	10,613(b)	**–**	159.0p	01/02/04	01/08/04	SAYE (5yr)
	2,500		**2,500**	268.0p	20/04/02	20/04/09	NDSO
	400		**400**	333.8p	09/09/02	09/09/09	NDSO
	25,420		**25,420**	356.5p	07/03/03	07/03/10	NDSO
	12,465		**12,465**	361.0p	15/09/03	15/09/10	NDSO
	6,750		**6,750**	343.6p	14/03/04	14/03/11	NDSO
	8,500		**8,500**	339.0p	12/09/04	12/09/11	NDSO
	20,000		**20,000**	301.5p	09/09/05	09/09/12	2001
J Clarke	107,362		**107,362**	326.0p	16/04/01	16/04/08	ESOP
	23,000		**23,000**	167.0p	25/10/01	25/10/08	ESOP
	2,500		**2,500**	268.0p	20/04/02	20/04/09	ESOP
	400		**400**	333.8p	09/09/02	09/09/09	NDSO
	11,230		**11,230**	356.5p	07/03/03	07/03/10	NDSO
	6,371		**6,371**	361.0p	15/09/03	15/09/10	NDSO
	3,450		**3,450**	343.6p	14/03/04	14/03/11	NDSO
	8,500		**8,500**	339.0p	12/09/04	12/09/11	NDSO
	3,166		**3,166**	300.0p	01/06/05	01/12/05	SAYE (3yr)
	17,000		**17,000**	301.5p	09/09/05	09/09/12	2001
S Baker	25,000		**25,000**	92.4p	17/04/98	17/04/05	ESOP
	50,000		**50,000**	127.2p	16/11/98	16/11/05	ESOP
	37,250		**37,250**	244.2p	03/01/00	03/01/07	ESOP
	10,000		**10,000**	237.0p	10/04/00	10/04/07	ESOP
	24,500		**24,500**	299.0p	05/10/00	05/10/07	ESOP
	91		**91**	326.0p	16/04/01	16/04/08	ESOP
	23,000		**23,000**	167.0p	25/10/01	25/10/08	ESOP
	2,500		**2,500**	268.0p	20/04/02	20/04/09	NDSO
	400		**400**	333.8p	09/09/02	09/09/09	NDSO
	11,230		**11,230**	356.5p	07/03/03	07/03/10	NDSO
	6,371		**6,371**	361.0p	15/09/03	15/09/10	NDSO
	3,450		**3,450**	343.6p	14/03/04	14/03/11	NDSO
	8,500		**8,500**	339.0p	12/09/04	12/09/11	NDSO
	3,166		**3,166**	300.0p	01/06/05	01/12/05	SAYE (3yr)
	17,000		**17,000**	301.5p	09/09/05	09/09/12	2001

ESOP – Executive Share Option scheme
NDSO – New Discretionary Share Option scheme
SAYE – Save-As-You-Earn scheme
2001 – 2001 Executive share scheme

(a) Mr J Hutson exercised this option during the year for a gain of £98,300. The market price on the date of exercising the option was 275.0p.
(b) Mr J Hutson exercised this option during the year for a gain of £15,177. The market price on the date of exercising the option was 302.0p.

Interests in the schemes which vested during the year were as follows:

	Number	Date awarded	Market price at award date	Market price at vesting date	Scheme
J Hutson	10,613	26/10/99	159.0p	277.0p	SAYE (5yr)
	12,465	15/09/00	355.5p	252.5p	NDSO
	6,750	14/03/01	355.5p	252.0p	NDSO
J Clarke	6,731	15/09/00	355.5p	252.5p	NDSO
	3,450	14/03/01	355.5p	252.0p	NDSO
S Baker	6,371	15/09/00	355.5p	252.5p	NDSO
	3,450	14/03/01	355.5p	252.0p	NDSO

NDSO – New Discretionary Share Option scheme
SAYE – Save-As-You-Earn scheme

There have not been any changes to these interests since 25 July 2004.

Details of the year end, the year high and the year low share price for the shares which are subject to the options detailed above can be found on page 36.

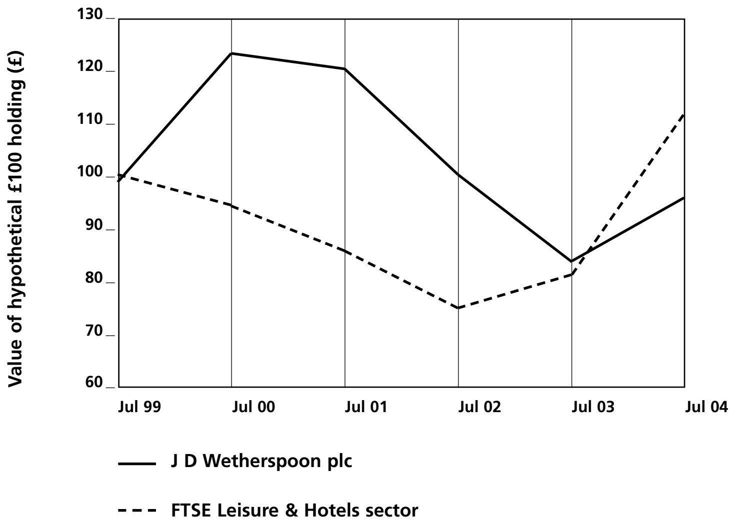
Share Incentive Plan – audited information:
The interests of directors in share options have not changed since the financial year end. In addition to the interest in shares and share options disclosed above, the following awards have been made of shares under the Share Incentive Plan during the year.

	Number of shares awarded in the year and still subject to awards at 25/07/04	Date awarded	Market price at award date	Date on which risk of forfeiture will cease
J Hutson	6,089	26/03/04	303.0p	26/03/07
J Clarke	4,334	26/03/04	303.0p	26/03/07
S Baker	3,256	26/03/04	303.0p	26/03/07

There were no shares subject to awards at the beginning of the financial year.

Performance graph – non-audited information:
This graph shows the total shareholder return (with dividends reinvested) of a holding of the company's shares against a hypothetical holding of shares in the FTSE Leisure and Hotels sector index for each of the last five financial years. The directors selected this index, as it contains most of the company's competitors and is considered to be the most appropriate index for the company.

Growth in the value of a hypothetical £100 holding since 28 July 1999, based on 30 trading day average values



On behalf of the board:

John Herring
Chairman of the remuneration committee
3 September 2004

Corporate social responsibility report

Supporting the people, communities and businesses around us

J D Wetherspoon is a central part of local communities all over the UK, bringing benefits to millions of people in their daily lives through social enjoyment, as well as providing direct or indirect employment for many thousands.

The company recognises the importance of environmental and social issues and has a dedicated corporate social responsibility (CSR) steering group chaired by the commercial director.

The company, under the CSR group's stewardship, is able to ensure that it is fostering the preservation and protection of the environment, while recognising its wider social responsibility throughout all of its commercial activities and operations.

The company is committed to continually challenging and reviewing its CSR policies and ensures that it protects itself from any significant risks to which it may be exposed.

It is the policy of the company to:

■ minimise the extent of the environmental impact of its operations, as far as is reasonably practical.

■ strive to minimise any emissions or effluents which may cause environmental damage.

■ conserve energy through minimising consumption and maximising efficiency.

■ minimise the use of materials which may be harmful to the environment.

■ promote efficient purchasing which will both minimise waste and allow materials to be recycled, where appropriate.

■ adopt efficient waste-management strategies which reduce the amount of waste going to landfill or to other disposable sites.

■ embrace the use of recycled materials and ensure that materials or waste generated by the business are recycled, where appropriate.

■ raise awareness of environmental issues among all of its employees and suppliers/partners.

■ ensure appropriate training, in environmental issues, of all employees.

These aims are incorporated and developed within the company's environmental management system which is implemented throughout the business.

The CSR steering group has ensured that significant progress continues to be made across all of the areas listed opposite. Successful initiatives in the last twelve months include:

■ Hi-tech taps introduced in new openings save 400 litres of water every single day – that's the equivalent of over 4 million litres a year.

■ By using specialist motor-controllers on our air-handling units, we have achieved savings of up to 27% on our energy usage on our new openings. A similar system on our fridge and freezer units has achieved savings of up to 12% on our energy usage on our new openings.

■ This year, we will recycle 44,985 litres of oil from recycled water. This demonstrates significant progress since 2002, when we recycled just 547 litres.

■ Our brand-new central distribution centre in Daventry will enable us to develop a single drop-off point for recyclable materials, eliminating millions of lorry miles. Our strategy in this area will develop more fully in the next twelve months.

■ All of our pubs and staff are encouraged to engage actively in raising money for our chosen charity CLIC – Cancer and Leukaemia in Childhood. Such is the enthusiasm of this activity that we have doubled our initial pledge to raise £1,000,000 to £2,000,000.

The company is in active dialogue with all of its suppliers to ensure that they play an integral role in achieving our business objectives and meeting our social and environmental policies. We believe that a shared approach in addressing the issues ensures the most practical identification of opportunities. This approach has enabled the setting of some key environmental targets for 2004/05, the progress of which will be reported on in the next annual report. These include:

■ An overall reduction of packaging materials used across the business of 2%
■ Reduce energy consumption by 5% across the business
■ Reduce water usage across the business by 5%
■ Reduce the volume of solid waste into the waste stream by 30% by redirecting waste into the recycling stream

The environmental policy is reviewed at least annually by the board of directors, so as to ensure that it reflects the business's needs and addresses all current and relevant environmental issues.

The company once again participated in the annual survey by EIRIS (Ethical Investment Research Service) and, for the fourth consecutive year, was included in the FTSE4Good index, designed to identify those companies with good records in corporate social responsibility. The main selection criteria cover three areas:

■ Working towards environmental sustainability
■ Developing positive relationships with stakeholders
■ Upholding and supporting universal human rights

Corporate governance

The company is committed to the highest standards of corporate governance as set out in section 1 of the Combined Code. The company is considering the revisions made to the code by the Financial Reporting Council in July 2003 which are effective for reporting periods beginning on or after November 2003. A full explanation to shareholders will be provided, where any diversions from the new code are considered appropriate.

This report refers to and sets out how the principles identified in the Combined Code effective for the year under review have been applied to the company.

Statements of compliance
The company complied with the requirements of section 1 of the Combined Code throughout the year.

The board of directors
The board comprises Tim Martin, the non-executive chairman, John Hutson, the chief executive officer, Jim Clarke, the finance director and company secretary, Suzanne Baker, the commercial director, and three non-executive directors. The senior independent non-executive director is John Herring. The members of the board are described on page 8, and the board considers that all the non-executive directors (other than Tim Martin) are independent of the executive team and of the company, which provides a good balance for the proper governance of the company. The board meets formally at least eight times each year, with other meetings as appropriate, and has a formal schedule of matters reserved to it for decision. Directors are given appropriate and timely information for each board meeting, including monthly reports on the current financial and trading position of the business.

All directors have access to independent professional advice, if required, at the company's expense. The directors' responsibilities in respect of the financial statements are detailed on page 9.

On appointment, all executive directors undertake a comprehensive induction programme, covering all aspects of the company's operations. Formal appraisals take place bi-annually, with any training and development needs evaluated as part of that process.

The articles require that one-third of directors retire by rotation, subject to the requirement that each director seek re-election every three years.

Nomination committee
A formal nomination committee has been established, comprising John Herring (chairman), Brian Jervis and Tony Lowrie. The nomination committee meets as appropriate and considers all possible board appointments and also the re-election of directors, both executive and non-executive. No director is involved in any decision about his or her own re-appointment.

Audit committee
The audit committee comprises all of the non-executive directors and is chaired by John Herring. The committee meets at least three times a year with the external auditors and one or more executive directors, as appropriate. The audit committee, which has written terms of reference, is responsible for reviewing the company's internal controls, risk-management procedures and the audit process, both internally and externally, and seeks to ensure that the financial and non-financial information supplied to shareholders is complete and accurate, presenting a balanced assessment of the company's position. The committee reviews the objectivity and independence of the external auditors and also considers the scope of their work and their fees.

Particular attention is paid to the engagement of the company's auditors on non-audit work. For several years, the company has separated the provision of taxation compliance from the provision of audit services. In the current year, additional fees were paid for non-audit work to the company's auditors with regard to a review of the company's long-term funding strategy as detailed on page 25.

Communications with shareholders
Representatives of the company have regular meetings and dialogue with institutional shareholders. The Annual General Meeting is considered to be an important forum for communicating with private shareholders, allowing them to raise questions with the board.

Going concern
The directors have made enquiries into the adequacy of the company's financial resources, through a review of the company's budget and medium-term financial plan, including capital expenditure plans, cash flow forecasts and facilities available to the company, and have satisfied themselves that the company will continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going-concern basis in preparing the company's financial statements.

Risk assessment
To ensure that the company has an ongoing process for identifying, evaluating and managing the significant risks faced by the company, the board has established a risk-management group which contains senior representatives from all aspects of the business and is chaired by the finance director. This group is responsible for the administration of a risk register which looks at all areas of the business and formulates detailed action plans to mitigate any risks identified.

On behalf of the board, the audit committee reviews the effectiveness of the risk-management group and, where appropriate, identifies any matters requiring specific consideration by the board. Similarly, the audit committee reviews the scope of the work undertaken by the internal auditor and receives regular updates on its work and findings and monitors the implementation of recommended actions.

This process has been in place throughout the year under review and up to the date of approval of the annual report and accounts. It has been regularly reviewed by the board and accords with the Combined Code.

Internal control

The directors acknowledge their responsibility for the company's system of internal control, which can be defined as the controls established in order to provide reasonable assurance that the assets have been protected against unauthorised use, that proper accounting records have been maintained and that the financial information which is produced is reliable. Such a system can, however, provide only reasonable and not absolute assurance against material misstatement or loss. The directors recognise that, in attaining long-term shareholder value, they are responsible for providing a return which is consistent with a responsible assessment and mitigation of risks. The key procedures in place to enable this responsibility to be discharged are as follows:

■ A comprehensive budgeting process is in place, with a detailed operating plan for twelve months and a mid-term financial plan, both approved by the board. Business results are reported weekly for key items and monthly in full and compared with budget. Forecasts are prepared regularly throughout the year, for review by the board.
■ Clearly defined authority limits and controls are in place over cash-handling, purchasing commitments and capital expenditure.
■ A retail audit function monitors the control of cash, stock and operating procedures, in operating units. A separate internal audit function also looks at the overall business risks facing the company and reviews general business processes.
■ Complex treasury instruments are not used. Decisions on treasury matters are reserved for the board.
■ The directors confirm that they have reviewed the effectiveness of the system of internal control.

Independent auditors' report to the members of J D Wetherspoon plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the note of historical cost profits and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ('the auditable part').

Respective responsibilities of directors and auditors

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

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

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

We read the other information contained in the annual report and consider the implications for our report, if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement and operating review, the finance review the corporate social responsibility report and the corporate governance statement.

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

Basis of audit opinion

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

We planned and performed our audit so as to obtain all of the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors' remuneration report are free from material 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 the company's affairs at 25 July 2004 and of its profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
3 September 2004

Profit and loss account for the year ended 25 July 2004

	Notes	Before exceptional items 2004 £000	Exceptional items (note 4) 2004 £000	After exceptional items 2004 £000	Before exceptional items 2003 £000	After exceptional items 2003 £000
Turnover		**787,126**	**–**	**787,126**	730,913	730,913
Operating profit	2	**77,628**	**–**	**77,628**	74,983	74,983
Loss on disposal of tangible fixed assets	4	**–**	**(7,758)**	**(7,758)**	–	(3,688)
Net interest payable	5	**(23,554)**	**–**	**(23,554)**	(18,844)	(18,844)
Profit on ordinary activities before taxation	6	**54,074**	**(7,758)**	**46,316**	56,139	52,451
Tax on profit on ordinary activities	7	**(18,727)**	**1,685**	**(17,042)**	(19,744)	(18,407)
Profit on ordinary activities after taxation		**35,347**	**(6,073)**	**29,274**	36,395	34,044
Dividends	8	**(7,331)**	**–**	**(7,331)**	(7,434)	(7,434)
Retained profit for the year	19	**28,016**	**(6,073)**	**21,943**	28,961	26,610
Earnings per ordinary share	9	**17.7p**		**14.6p**	17.0p	15.9p
Diluted earnings per ordinary share	9	**17.6p**		**14.6p**	16.9p	15.9p

All activities relate to continuing operations.

The company has no recognised gains or losses, other than the profit above; therefore, no separate statement of recognised gains and losses has been presented.

Note of historical cost profits

	2004 £000	2003 £000
Reported profit on ordinary activities before taxation	**46,316**	52,451
Difference between historical cost depreciation charge and actual depreciation charge for the year, calculated on the revalued amount	**574**	606
Realisation of property (deficits)/surplus of previous years	**(1,252)**	341
Historical cost profit on ordinary activities before taxation	**45,638**	53,398
Historical cost profit for the year retained after taxation and dividends	**21,265**	27,557

Cash flow statement for the year ended 25 July 2004

	Notes	2004 £000	2004 £000	2003 £000	2003 £000
Net cash inflow from operating activities	10	**128,874**	**128,874**	130,565	130,565
Returns on investments and servicing of finance					
Interest received		**20**	**20**	109	109
Interest paid		**(19,329)**	**(19,329)**	(21,251)	(21,251)
Refinancing costs paid		**(1,325)**		–	
Net cash outflow from returns on investment and servicing of finance		**(20,634)**		(21,142)	
Taxation					
Corporation tax paid		**(13,942)**	**(13,942)**	(10,277)	(10,277)
Capital expenditure and financial investment					
Purchase of tangible fixed assets for existing pubs		**(20,590)**	**(20,590)**	(15,896)	(15,896)
Proceeds of sale of tangible fixed assets		**7,891**		10,732	
Purchase of own shares for ESOP trust		**–**		(153)	
Purchase of own shares for Employee Share Incentive Plan		**(1,556)**		–	
Investment in new pubs and pub extensions		**(54,056)**		(77,275)	
Net cash outflow from capital expenditure and financial investment		**(68,311)**		(82,592)	
Equity dividends paid		**(7,322)**		(5,438)	
Net cash inflow before financing		**18,665**		11,116	
Financing					
Issue of ordinary shares		**1,219**		233	
Purchase of own shares		**(48,583)**		(17,369)	
Repayment of bank loans		**(25,000)**		(25,000)	
Advances under bank loans		**47,928**		32,527	
Advances under US senior loan notes		**271**		44	
Net cash (outflow) from financing		**(24,165)**		(9,565)	
Decrease/increase in cash	11	**(5,500)**		1,551	
Free cash flow	9		**75,033**		83,250
Cash flow per ordinary share	9		**37.5p**		38.8p

Balance sheet at 25 July 2004

	Notes	2004 £000	2003 £000 Restated
Fixed assets			
Tangible assets	13	**783,574**	773,823
Current assets			
Stocks		**12,009**	10,752
Assets held for resale		**1,933**	–
Debtors due after more than one year	14	**9,005**	8,448
Debtors due within one year	14	**11,897**	12,655
Cash		**9,660**	15,160
		44,504	47,015
Creditors due within one year	15	**(150,368)**	(140,150)
Net current liabilities		**(105,864)**	(93,135)
Total assets less current liabilities		**677,710**	680,688
Creditors due after more than one year	16	**(322,512)**	(299,942)
Provisions for liabilities and charges	17	**(66,244)**	(62,419)
Total net assets		**288,954**	318,327
Capital and reserves			
Called up share capital	18	**3,783**	4,149
Share premium account	19	**128,340**	126,739
Capital redemption reserve	19	**545**	165
Revaluation reserve	19	**23,117**	22,439
Profit and loss account	19	**133,169**	164,835
Equity shareholders' funds	19	**288,954**	318,327

The accounts on pages 20 to 34
were approved by the board on 3 September 2004
and signed on its behalf by:

John Hutson
Jim Clarke
Directors

1 Principal accounting policies
The financial statements are prepared under the historical cost convention, as modified by the revaluation of property, and in accordance with applicable accounting standards.

The Urgent Issues Task Force (UITF) abstracts 17 (Employee Share Schemes), as amended, and 38 (Accounting for ESOP trusts) have been adopted in the current year and have given rise to a prior year adjustment, as disclosed in note 19. The net results in respect of the current and prior periods are unchanged, but reserves have reduced by £301,000 in respect of prior years.

A summary of the more important accounting policies, which are being applied consistently, other than as set out below, follows.

Comparative amounts
Comparative balance sheet amounts have been restated, where necessary, to conform to current presentation. This has had no impact on net assets or equity shareholders' funds.

Prior to 27 July 2003, interest on new pub developments was capitalised and excluded from free cash flow; reflecting the then current treatment of interest incurred on new pub developments. The comparative figures have been amended to include all interest as a deduction from free cash flow.

Turnover
The company's operations comprise pub retailing and the provision of lodge accommodation in the United Kingdom. Turnover excludes value added tax.

Tangible fixed assets
Tangible fixed assets are stated at cost or historic valuation less accumulated depreciation.

Depreciation is calculated so as to write off the cost or valuation of a fixed asset on a straight-line basis over its estimated useful life, taking account of expected residual values, based on prices prevailing at the date of acquisition or subsequent valuation, using the following rates:

Freehold and long leasehold property	50 years
Leasehold property	Shorter of life of lease or 50 years
Renovations of properties already trading, fixtures and fittings, computer equipment	At rates from 10% to 33% pa

Depreciation commences when the relevant public house begins trading.

Valuation of properties
Following the adoption of FRS15 in the year ended 30 July 2000, the company stopped its policy of cyclically revaluing its properties. In accordance with the transitional rules of FRS15, all properties are now shown at cost or, where a valuation has been applied before 2 August 1999, at that valuation.

The carrying values of tangible fixed assets are reviewed for impairment, if events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in the value of fixed assets below depreciated historical cost is charged to the profit and loss account.

Capitalised interest
In prior years, interest costs relating to the financing of the development of a public house were capitalised before the public house was substantially complete. Capitalisation of interest ceased when the relevant public house commenced business. Since the start of the year, interest is no longer capitalised on new pub developments, reflecting the fact that all cash invested in new pubs is now funded from organic cash flow.

Stocks
Stocks are held for resale and are stated at the lower of invoiced cost and net realisable value.

Deferred taxation
Deferred tax is recognised on all timing differences which have originated, but not reversed, at the balance sheet date. Timing differences represent accumulated differences between the company's taxable profit and its financial profit and arise primarily from the difference between accelerated capital allowances and depreciation. Deferred tax liabilities and assets are not discounted.

Pensions
The company makes contributions to defined contribution personal pension schemes, the costs of which are accounted for as they become due.

Operating leases
The costs of operating leases, in respect of land, buildings and other assets, are charged on a straight-line basis over the lease term, except where, on acquisition of a property, a reverse premium or capital contribution is granted by the lessor. Where such amounts arise, they are released to profit from the date on which the pub opened through to the date of the first rent review to market value, usually on the fifth anniversary of the lease.

Financial instruments
The company uses derivative instruments to hedge its exposure to fluctuations in interest rates. Instruments accounted for as hedges are designated as a hedge at the inception of contracts. Receipts and payments on interest-rate instruments are recognised on an accruals basis, over the life of the instrument.

Monetary liabilities denominated in foreign currencies are retranslated at the rate fixed by the relevant forward exchange contract.

Unrecognised gains and losses on financial instruments are not accounted for in the profit and loss account.

Investments in own shares
The Urgent Issues Task Force (UITF) abstracts 17 (Employee Share Schemes), as amended, and 38 (Accounting for ESOP Trusts) have been adopted in the current year. This has resulted in shares held by the Trust being reclassified as a reduction in shareholders funds, rather than within current asset investments.

2 Analysis of continuing operations

	2004 £000	2003 £000
Turnover	**787,126**	730,913
Cost of sales	**(672,332)**	(621,894)
Gross profit	**114,794**	109,019
Administrative expenses	**(37,166)**	(34,036)
Operating profit	**77,628**	74,983

Cost of sales includes distribution costs and all pub operating costs.

3 Employee information

The average weekly number of persons employed during the year was as follows:

	2004 Number	2003 Number
Total employees		
Managerial/administration	**3,898**	3,806
Hourly paid staff	**11,472**	10,497
	15,370	14,303

	2004 Number	2003 Number
Full-time equivalents		
Managerial/administration	**3,898**	3,806
Hourly paid staff	**5,810**	5,541
	9,708	9,347

Employment costs were:

	2004 £000	2003 £000
Wages and salaries	**185,592**	167,236
Social Security costs	**13,148**	11,102
Other pension costs	**741**	671
Total direct costs of employment	**199,481**	179,009

A detailed numerical analysis of directors' remuneration and share options forms part of these accounts. This analysis is included in the directors' remuneration report on pages 12 to 15 and shows the highest-paid director and the number of directors accruing benefits under money-purchase personal pension schemes.

4 Exceptional items

	2004 £000	2003 £000
Non-operating items:		
Net loss on disposal and anticipated disposal of trading properties	**6,159**	2,732
Provision against future disposal of non-trading properties	**1,249**	956
Net loss on disposal of non-trading properties	**350**	–
	7,758	3,688

5 Net interest payable

	2004 £000	2003 £000
Interest payable on bank loans and overdraft	**17,629**	16,429
Interest payable on US senior loan notes	**4,915**	4,850
Refinancing costs	**1,602**	329
Less:		
Interest capitalised	**–**	(1,954)
Interest receivable	**(592)**	(810)
Charge to profit and loss account	**23,554**	18,844

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	2004 £000	2003 £000
Depreciation	**43,948**	43,209
Repairs and maintenance	**24,111**	19,666
Auditors' remuneration for: audit	**89**	82
: other services*	**49**	14
Rent receivable	**(434)**	(457)
Loss on disposal of fixed assets	**6,509**	2,732
Provision against future disposal of non-trading properties	**783**	956
Operating lease rentals:		
– property rents	**46,437**	41,493
– equipment and vehicles	**405**	587

* Payment is in relation to a review of the interim statements as part of the half-year results announcement and tax consultancy fees with regard to a review of the company's long-term funding strategy.

7 Taxation

a) Analysis of current period tax charge

	2004 £000	2004 £000	2003 £000	2003 £000
Current tax				
UK corporation tax on profits before exceptional items	**13,165**		13,317	
Current tax on exceptional items	**52**		70	
Total current tax (note 7(b))		**13,217**		13,387
Deferred tax				
Origination and reversal of timing differences	**5,562**		6,427	
Movement arising from disposals (exceptional items)	**(1,737)**		(1,407)	
Total deferred tax		**3,825**		5,020
Total tax charge		**17,042**		18,407

b) Factors affecting current period tax charge

The current year tax charge for the year is less than the statutory rate of corporation tax in the UK of 30%. The reasons for this difference are explained below:

	2004 £000	2004 %	2003 £000	2003 %
Profit on ordinary activities before tax	**46,316**		52,451	
Current tax on profit on ordinary activities calculated at the standard rate of corporation tax in the UK of 30%	**13,895**	**30**	15,735	30
Accelerated capital allowances	**(4,820)**	**(10)**	(5,884)	(11)
Capitalised interest allowable for tax purposes	**–**	**–**	(472)	(1)
Movement in other short-term timing differences	**(467)**	**(1)**	–	–
Disposals	**1,953**	**4**	1,107	2
Other allowable deductions	**(371)**	**(1)**	(182)	–
Expenses not deductible for tax purposes	**3,027**	**7**	3,083	6
Current tax charge for period (note 7(a))	**13,217**	**29**	13,387	26

c) Factors which may affect future tax charges

Current levels of investment ensure that capital allowance claims exceed depreciation; while this will continue, the company would expect the excess of capital allowances over depreciation to diminish over time.

No provision has been made for deferred tax on gains recognised on revaluing properties to their market value. Such tax would become payable only if the properties were sold without it being possible to claim roll-over relief. The total amount unprovided for is approximately £6.9 million. At present, it is not envisaged that any tax will become payable in respect of such properties in the foreseeable future.

8 Dividends

	2004 £000	2003 £000
Interim paid of 1.33p per share (2003: 1.21p)	**2,488**	2,600
Final proposed of 2.56p per share (2003: 2.33p)	**4,843**	4,834
	7,331	7,434

9 Earnings and cash flow per share

The calculation of basic earnings per share is based on profits on ordinary activities after taxation and exceptional items of £29,274,000 (2003: £34,044,000) and on 200,067,030 (2003: 214,312,883) ordinary shares, being the weighted average number of ordinary shares in issue and ranking for dividend during the period.

Earnings per share before exceptional items is calculated as follows:

	Earnings £000 2004	Earnings £000 2003	Earnings per share (p) 2004	Earnings per share (p) 2003
Earnings and basic earnings per share	**29,274**	34,044	**14.6**	15.9
Exceptional costs, net of tax	**6,073**	2,351	**3.1**	1.1
Earnings and earnings per share before exceptional items	**35,347**	36,395	**17.7**	17.0

Diluted earnings per share has been calculated in accordance with FRS14 and is after allowing for the dilutive effect of the conversion into ordinary shares of the weighted average number of options outstanding during the period. The number of shares used for the diluted calculation is 200,636,714 (2003: 214,725,340).

The calculation of free cash flow per share is based on the net cash generated by business activities and available for investment in new pub developments and extensions to existing pubs, after funding interest on existing pubs, tax and all other reinvestment in those pubs open at the start of the period ('free cash flow'). It is calculated before taking account of proceeds from property disposals, inflows and outflows of financing from outside sources, purchase of own shares and dividend payments and is based on the same number of shares in issue as that for the calculation of basic earnings per share. Prior to 27 July 2003, interest on new pub developments was capitalised and excluded from free cash flow; reflecting the then current treatment of interest incurred on new pub developments. The comparative figures have been amended to include all interest as a deduction from free cash flow.

10 Net cash inflow from operating activities

	2004 £000	2003 £000
Operating profit	**77,628**	74,983
Depreciation of tangible fixed assets	**43,948**	43,209
Employee Share Incentive Plan charge	**149**	–
Change in stocks	**(1,257)**	(1,007)
Change in debtors	**(37)**	(1,238)
Change in creditors	**8,443**	14,618
Net cash inflow from operating activities	**128,874**	130,565

11 Reconciliation of net cash flow to movement in net debt

	2004 £000	2003 £000
(Decrease)/increase in cash in the year	**(5,500)**	1,551
Cash inflow from increase in debt financing	**(23,199)**	(7,571)
Movement in net debt during the period	**(28,699)**	(6,020)
Opening net debt	**(308,860)**	(302,840)
Closing net debt	**(337,559)**	(308,860)

12 Analysis of net debt

	2003 £000	Cash flow £000	Non-cash movement £000	2004 £000
Cash at bank and in hand	15,160	(5,500)	–	**9,660**
Debt due within one year	(24,799)	24,799	(25,000)	**(25,000)**
Debt due after one year	(299,221)	(47,998)	25,000	**(322,219)**
Net debt	(308,860)	(28,699)	–	**(337,559)**

13 Tangible fixed assets

	Freehold and long leasehold property £000	Short leasehold property £000	Equipment, fixtures and fittings £000	Expenditure on unopened properties £000	Total £000
Cost or valuation					
At 28 July 2003	397,236	311,810	208,636	25,507	943,189
Reclassification	8,980	3,210	–	(12,190)	–
Additions	21,013	21,983	22,419	8,128	73,543
Transfer to assets held for resale	–	(1,765)	(178)	(1,683)	(3,626)
Disposals	(11,895)	(4,112)	(5,402)	(1,769)	(23,178)
At 25 July 2004	**415,334**	**331,126**	**225,475**	**17,993**	**989,928**
Depreciation					
At 28 July 2003	19,912	41,503	107,495	456	169,366
Charge for the year	7,164	8,533	28,251	–	43,948
Transfer to assets held for resale	–	(945)	(66)	–	(1,011)
Disposals	(936)	(1,105)	(3,452)	(456)	(5,949)
At 25 July 2004	**26,140**	**47,986**	**132,228**	**–**	**206,354**
Net book value					
At 25 July 2004	**389,194**	**283,140**	**93,247**	**17,993**	**783,574**
At 27 July 2003	377,324	270,307	101,141	25,051	773,823

Included in the cost of fixed assets at 25 July 2004 is £16,954,000 (2003: £17,304,000) of capitalised interest. No interest was capitalised during the year (2003: £1,954,000).

Reclassifications represent the transfer of development costs incurred on properties completed in the year from unopened properties to other fixed asset captions.

Where the company's properties have been subject to revaluation in previous financial periods, they have been valued on an existing-use basis by Christie & Co, a specialist licensed property-valuer.

13 Tangible fixed assets continued

Excluding the effects of revaluation, properties, if stated at cost, would be:

	Freehold and long leasehold property £000	Short leasehold property £000	Total £000
Cost	410,653	308,415	719,068
Depreciation	(25,536)	(43,262)	(68,798)
Net book value 25 July 2004	**385,117**	**265,153**	**650,270**
Net book value 27 July 2003	366,040	259,527	625,567

The valuations were performed during financial years as follows:

	Freehold and long leasehold property £000	Short leasehold property £000	Total £000
Net book value of revalued properties:			
31 July 1997 and prior	20,167	20,676	40,843
31 July 1998	4,815	62,039	66,854
31 July 1999	2,154	43,819	45,973
	27,136	126,534	153,670
Net book value of properties held at cost	362,058	156,605	518,663
Net book value	**389,194**	**283,139**	**672,333**

14 Debtors

	2004 £000	2003 £000 Restated
Amounts falling due after more than one year:		
Other debtors	**9,005**	8,448
Amounts falling due within one year:		
Other debtors	**4,801**	3,860
Prepayments	**7,096**	8,795
	11,897	12,655

15 Creditors due within one year

	2004 £000	2003 £000
Bank loans (note 20)	**25,000**	24,799
Trade creditors	**52,661**	57,559
Corporation tax	**7,067**	7,792
Other tax and Social Security	**21,888**	22,616
Other creditors	**3,989**	3,875
Dividend payable	**4,843**	4,834
Accruals and deferred income	**34,920**	18,675
	150,368	140,150

16 Creditors due after more than one year

	2004 £000	2003 £000
Bank loans repayable by instalments (note 20)	**235,228**	212,274
US senior loan notes repayable in a single instalment in 2009 (note 20)	**86,991**	86,947
	322,219	299,221
Other creditors (note 20)	**293**	721
	322,512	299,942

17 Provisions for liabilities and charges

	2004 £000	2003 £000
Deferred tax		
Accelerated capital allowances	**57,509**	54,151
Other timing differences	**8,735**	8,268
Full provision for deferred tax	**66,244**	62,419
Provision at start of year	**62,419**	57,399
Deferred tax charge in profit and loss account for year	**3,825**	5,020
Provision at end of year	**66,244**	62,419

The factors which influence the timing of subsequent reversals of the company's deferred tax provision are detailed in note 7(c): Factors which may affect future tax charges.

18 Called up share capital

	2004 £000	2003 £000
Authorised:		
500,000,000 ordinary shares of 2p each (2003: 500,000,000)	**10,000**	10,000
Allotted and fully paid:		
189,164,068 ordinary shares of 2p each (2003: 207,456,573)	**3,783**	4,149

405,448 ordinary shares were issued during the year, on the exercise of share options.

312,047 shares were issued under the Qualifying Employee Share Ownership Trust (QUEST) arrangements.

19,010,000 ordinary shares were purchased by the company and cancelled during the year.
Further details are provided in the directors' report on page 9.

19 Capital, reserves and shareholders' funds

	Called up share capital £000	Share premium account £000	Capital redemption reserve £000	Revaluation reserve £000	Profit and loss account £000	2004 Shareholders' funds £000
At start of year as previously stated	4,149	126,739	165	22,439	165,136	**318,628**
Prior year adjustment – UITF17 and UITF38	–	–	–	–	(301)	**(301)**
At start of year	4,149	126,739	165	22,439	164,835	**318,327**
Allotments	8	715	–	–	–	**723**
Transfer	–	–	–	678	(678)	**–**
Share Incentive Plan	–	–	–	–	(1,407)	**(1,407)**
Purchase of shares	(380)	–	380	–	(51,129)	**(51,129)**
Profit for the year	–	–	–	–	29,274	**29,274**
Dividends	–	–	–	–	(7,331)	**(7,331)**
QUEST transfer	6	886	–	–	(395)	**497**
At end of year	**3,783**	**128,340**	**545**	**23,117**	**133,169**	**288,954**

The company has adopted Urgent Issues Task Force (UITF) abstracts 17 (Employee Share Schemes), as amended, and 38 (Accounting for ESOP trusts) and the previous years' shareholders' funds have been restated.

20 Financial instruments

The company's objectives and policies on the use of financial instruments, including derivatives, can be found in the finance review on page 6 under the heading 'financial risks and treasury policies'. Amounts dealt with in this note exclude short-term assets and liabilities, except cash and bank loans repayable in one year or less.

Interest rate and currency risks of financial liabilities

The company has entered into a cross-currency swap in respect of the $140 million US senior loan notes. The effect of this transaction is to remove any exposure to currency risk with regard to the settlement of this financial liability in 2009.

An analysis of the interest-rate profile of the financial liabilities, after taking account of all interest-rate swaps and the cross-currency swap on US senior loan notes, is set out in the following table.

	2004 £000	2003 £000
Floating-rate borrowings	**197,219**	227,020
Fixed-rate borrowings	**150,000**	97,000
Non-interest-bearing liabilities	**293**	721
	347,512	324,741

The floating-rate borrowings are interest-bearing borrowings at rates based on LIBOR, fixed for periods of up to six months.

The fixed-rate borrowings comprise floating-rate borrowings hedged using fixed-rate swaps with an effective weighted average interest rate (excluding bank margin) of 6.46% (2003: 6.46%) and are fixed for a weighted average period of 5.0 years (2003: 6.0 years).

The weighted average period to maturity of non-interest-bearing liabilities is 1.9 years (2003: 2.1 years).

Financial assets

Financial assets at the balance sheet date comprised:	2004 £000	2003 £000
Cash and short-term deposits	**9,660**	15,160
Debtors due after one year	**9,005**	8,448
Total financial assets	**18,665**	23,608

All cash and short-term deposits are floating-rate financial assets, earning interest at commercial rates.
The long-term debtor, representing deferred proceeds on a sale & leaseback arrangement, earns interest at 10% compound until repayment in September 2005.

20 Financial instruments continued

Maturity profile of financial liabilities

	Total £000	Bank loans (note 16) £000	US senior notes (note 16) £000	Other long-term creditors £000
Between one and two years	25,207	25,000	–	207
Between two and five years	210,087	210,001	–	86
After five years	87,218	–	87,218	–
Due after more than one year	322,512	235,001	87,218	293
Due within one year	25,000	25,000	–	–
Total at 25 July 2004	**347,512**	**260,001**	**87,218**	**293**
Between one and two years	155,356	154,928	–	428
Between two and five years	50,161	49,868	–	293
After five years	94,425	7,478	86,947	–
Due after more than one year	299,942	212,274	86,947	721
Due within one year	24,799	24,799	–	–
Total at 27 July 2003	324,741	237,073	86,947	721

The company has total UK committed loan facilities of £325 million which comprise a drawn £75-million unsecured term loan facility, repayable within four years of the balance sheet date, together with a £250-million unsecured revolving-loan facility, maturing in 2009. All UK committed loan facilities are at floating rates based on LIBOR. The company has entered into swap agreements which fix £150 million of these borrowings at a rate of 6.46% (excluding bank margin). At the balance sheet date, £185 million was drawn down under the revolving-loan facilities, with interest rates set for periods of between one week and six months, at which point monies are repaid and, if appropriate, redrawn. The undrawn facility expires between four and five years.

In addition to the UK facilities, in September 1999, the company issued $140 million unsecured US senior notes due in 2009, carrying a fixed rate of interest of 8.48%. The company entered into currency and swap agreements covering the duration of these notes which remove all US dollar exposure and convert the interest rate to one based on LIBOR.

Fair values

The table below compares, by category, the book value and fair values of the company's financial assets and liabilities as at 25 July 2004.

	2004 Book value £000	**2004 Fair value £000**	2003 Book value £000	2003 Fair value £000
Financing instruments				
Cash deposits	**9,660**	**9,660**	15,160	15,160
Debtors due after one year	**9,005**	**8,695**	8,448	8,714
Long-term borrowings	**(322,219)**	**(321,479)**	(299,221)	(311,344)
Other long-term creditors	**(293)**	**(261)**	(721)	(656)
Derivative instruments				
Interest-rate and currency swaps	**–**	**(8,145)**	–	(1,705)

The fair value of derivative instruments is calculated by discounting all future cash flows by the market yield curve at the balance sheet date.

20 Financial instruments continued

Unrecognised gains and losses on interest rate and currency swaps

	Gains £000	Losses £000	Net gains/(losses) £000
Unrecognised gains/(losses) at 27 July 2003	16,580	(18,285)	(1,705)
Gains/(losses) arising in previous years which were recognised in 2004	(2,927)	4,399	1,472
Gains/(losses) arising before 28 July 2003, not recognised in 2004	**13,653**	**(13,886)**	**(233)**
Gains/(losses) arising in 2004, not recognised during 2004	(13,653)	5,741	(7,912)
Unrecognised gains/(losses) at 25 July 2004	**0**	**(8,145)**	**(8,145)**
Of which:			
Gains/(losses) expected to be recognised in less than one year	0	(1,714)	(1,216)
Gains/(losses) expected to be recognised after more than one year	0	(6,431)	(6,929)
	0	**(8,145)**	**(8,145)**

21 Financial commitments

	2004 £000	2003 £000
Capital expenditure contracted, but not provided for	**3,717**	7,975

22 Lease commitments

	2004 £000	2003 £000
The company operates a number of leasehold public houses and occupies leasehold office accommodation. The total annual rental due under these leases in the next twelve months is as follows:		
Expiry between one and two years	**–**	–
Expiry between two and five years	**–**	–
Expiry in greater than five years	**50,557**	44,363
	50,557	44,363
The annual rentals pertaining to other leases, primarily motor vehicles, are as follows:		
Expiry within one year	**119**	127
Expiry between one and two years	**57**	112
Expiry between two and five years	**14**	64
	190	303

24 Share options

	28 July 2003	Granted	Exercised	Lapsed	**25 July 2004**	Exercise price per share	Exercisable from	Expiry date
ESOP scheme								
Date granted								
April 1994	7,500	–	7,500	–	**–**	69.4p	18/04/97	18/04/04
October 1994	75,000	–	75,000	–	**–**	78.4p	25/10/97	25/10/04
April 1995	46,250	–	–	–	**46,250**	92.4p	17/04/98	17/04/05
November 1995	174,750	–	17,250	–	**157,500**	127.2p	16/11/98	16/11/05
April 1996	17,250	–	4,925	300	**12,025**	176.0p	11/04/99	11/04/06
January 1997	231,720	–	25,250	–	**206,470**	244.2p	03/01/00	03/01/07
April 1997	71,250	–	12,500	–	**58,750**	237.0p	10/04/00	10/04/07
October 1997	207,680	–	–	7,350	**200,330**	299.0p	05/10/00	05/10/07
April 1998	286,113	–	–	9,755	**276,358**	326.0p	16/04/01	16/04/08
October 1998	275,900	–	47,000	–	**228,900**	167.0p	25/10/01	25/10/08
	1,393,413	–	189,425	17,405	**1,186,583**			
SAYE scheme								
Date granted								
February 1999 (5yr)	365,703	–	332,899	19,222	**13,582**	159.0p	01/02/04	01/08/04
January 2002 (3yr)	704,263	–	–	237,597	**466,666**	300.0p	01/06/05	01/12/05
	1,069,966	–	332,899	256,819	**480,248**			
AESOP plan								
Date granted								
December 1996	148,275	–	25,900	10,500	**111,875**	243.0p	15/12/99	15/12/06
April 1997	29,500	–	5,750	4,000	**19,750**	234.5p	12/04/00	12/04/07
October 1997	194,125	–	–	17,000	**177,125**	301.0p	08/10/00	08/10/07
April 1998	223,975	–	–	26,000	**197,975**	326.0p	16/04/01	16/04/08
	596,875	–	31,650	57,500	**506,725**			
NDSO scheme								
Date granted								
December 1998	393,495	–	155,676	3,326	**234,493**	191.5p	17/12/01	17/12/08
April 1999	818,172	–	28,697	74,500	**714,975**	268.0p	20/04/02	20/04/09
September 1999	249,900	–	–	50,400	**199,500**	333.8p	10/09/02	10/09/09
March 2000	1,188,000	–	–	163,847	**1,024,153**	356.5p	07/03/03	07/03/10
September 2000	743,734	–	–	109,221	**634,513**	361.0p	15/09/03	15/09/10
March 2001	496,510	–	–	82,575	**413,935**	343.6p	14/03/04	14/03/11
September 2001	1,092,115	–	–	181,095	**911,020**	339.0p	12/09/04	12/09/11
	4,981,926	–	184,373	664,964	**4,132,589**			
2001 scheme								
Date granted								
September 2002	1,887,121	–	–	339,768	**1,547,353**	301.5p	09/09/05	09/09/12

At 25 July 2004, there were 61 members of the Executive Share Option (ESOP) scheme, with average option holdings of 19,452 shares; there were 404 members of the Save-As-You-Earn (SAYE) scheme, with average holdings of 1,189 shares; there were 311 members of the All-Employee Share Option (AESOP) plan, with average holdings of 1,629 shares; there were 1,665 members of the New Discretionary Share Option (NDSO) scheme, with average holdings of 2,482 shares; there were 3,002 members of the 2001 Executive scheme, with average option holdings of 515.

The exercise of an option under the ESOP scheme, the NDSO scheme and the 2001 scheme will, in accordance with institutional shareholder guidelines, be conditional on the achievement of performance conditions. In respect of the ESOP scheme, options are exercisable only on condition that the earnings per share of the company, between the date of grant of an option and the date of exercise, increase by at least the increase in the RPI.
In respect of the NDSO scheme and the 2001 scheme, options are exercisable three years after they have been granted and only if the company's normalised earnings per share (excluding exceptional items), over any three-year period, have exceeded the growth in the RPI by an average of at least 3% per annum. As the AESOP plan is available to all staff, there are no performance conditions attached to the exercise of options under it.
The options in issue shown above include those of the directors shown on page 14.

Financial record for the five years ended 25 July 2004

	2000 £000	2001 £000	2002 £000	2003 £000	**2004** **£000**
Sales and results					
Turnover from continuing operations	369,628	483,968	601,295	730,913	**787,126**
Operating profit from continuing operations	46,278	58,380	70,085	74,983	**77,628**
Net interest payable	(10,226)	(14,063)	(16,517)	(18,844)	**(23,554)**
Profit on ordinary activities before exceptional items and taxation	36,052	44,317	53,568	56,139	**54,074**
Exceptional items	–	–	–	(3,688)	**(7,758)**
Taxation	(11,996)	(14,457)	(18,152)	(18,407)	**(17,042)**
Profit after taxation	24,056	29,860	35,416	34,044	**29,274**
Dividends	(5,599)	(6,185)	(6,902)	(7,434)	**(7,331)**
Retained profit for the year	18,457	23,675	28,514	26,610	**21,943**
Net assets employed					
Fixed assets	504,996	625,903	745,041	773,823	**783,574**
Net current assets/(liabilities)	(8,599)	(50,921)	(84,797)	(93,135)	**(105,864)**
Non current liabilities	(213,979)	(253,581)	(292,915)	(299,942)	**(322,512)**
Provision for liabilities and charges	(35,688)	(47,803)	(57,399)	(62,419)	**(66,244)**
Shareholders' funds	246,730	273,598	309,930	318,327	**288,954**
Ratios					
Operating margin	12.5%	12.1%	11.7%	10.3%	**9.9%**
Basic earnings per share (excl. exceptional items)	11.8p	14.2p	16.6p	17.0p	**17.7p**
Free cash flow per share	24.2p	27.6p	32.4p	38.8p	**37.5p**
Dividends per share	2.67p	2.93p	3.22p	3.54p	**3.89p**

Notes to the financial record

(a) The summary of accounts has been extracted from the annual audited financial statements of the company for the five years shown.

(b) All of the above figures have been adjusted to reflect the impact of adopting FRS19 deferred taxation and to reflect Urgent Issues Task Force (UITF) abstracts 17 (Employee Share Schemes) and 38 (Accounting for ESOP Trusts).

(c) Free cash flow per share has been adjusted to reflect the current treatment of interest incurred on new pub developments, whereby all interest is included as a deduction from the free cash flow.

Information for shareholders

Ordinary shareholdings at 25 July 2004

Shares of 2p each	Number of shareholders	% of total shareholders	Number	% of total shares held
Up to 2,500	5,044	85.99	2,859,308	1.51
2,501 to 10,000	480	8.18	2,239,325	1.18
10,001 to 250,000	270	4.60	14,618,677	7.73
250,001 to 500,000	21	0.36	8,162,378	4.32
500,001 to 1,000,000	14	0.24	9,743,333	5.15
Over 1,000,000	37	0.63	151,541,047	80.11
	5,866	**100.00**	**189,164,068**	**100.00**

Substantial shareholdings
In addition to certain of the directors' shareholdings set out on page 14, the company has been notified of the following substantial holdings in the share capital of the company at 3 September 2004:

	Number of ordinary shares	% of share capital
Federated Investors Inc.	22,252,736	11.12
Fidelity International Ltd	18,732,648	9.36
Goldman Sachs Securities	14,222,298	7.11
The Capital Group Companies, Inc.	8,130,428	4.06

Share prices

27 July 2003	233.5p
Low	225.5p
High	324.0p
25 July 2004	254.5p

Annual reports
Further copies of this annual report are available from the company secretary, at the registered office.
Telephone requests can be made: 01923 477764

This annual report is also available on our Web site: www.jdwetherspoon.co.uk

Copies can also be obtained through the Financial Times' annual reports service.
For details, see the London share service pages of the Financial Times.

If you would like to contact us, please write to J D Wetherspoon plc, Wetherspoon House, Central Park, Reeds Crescent, Watford, WD24 4QL or telephone us on 01923 477777.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the company will be held at The Crosse Keys, 9 Gracechurch Street, London, EC3V 0DR on Thursday 11 November 2004 at 10.00am for the following purposes:

Ordinary business

1 To receive the report of the directors and the audited accounts of the company for the financial year ended 25 July 2004.

2 To receive and approve the directors' remuneration report for the year ended 25 July 2004.

3 To declare a final dividend for the year ended 25 July 2004 of 2.56 pence per ordinary share of 2 pence in the capital of the company.

4 To re-elect Mr T Martin as a director.

5 To re-elect Mr J Herring as a director.

6 To re-elect Mr A Lowrie as a director.

7 To reappoint PricewaterhouseCoopers LLP as auditors of the company and to authorise the directors to fix their remuneration.

Special business

To consider and, if thought fit, to pass the following resolutions, in the case of the resolution numbered 8, as an ordinary resolution and, in the case of the resolutions numbered 9 and 10, as special resolutions.

8 THAT:
(A) the directors be and are hereby generally and unconditionally authorised, pursuant to section 80 of the Companies Act 1985 ('the Act'), to exercise all or any powers of the company to allot relevant securities (as defined in that section) to such persons, at such times and on such terms as they think proper, up to a maximum nominal amount of £1,250,000 during the period ('the period of authority') from the date of the passing of this resolution until the earlier of:

(i) 15 months from the date of the passing of this resolution; and

(ii) the conclusion of the Annual General Meeting of the company held to approve the report and accounts of the company for the financial year of the company ending on 31 July 2005, on which date such authority will expire, unless previously varied, revoked or renewed by the company in general meeting (save that, during the period of authority, the directors shall be entitled to make an offer or agreement which would or might require relevant securities to be allotted in pursuance of such an offer or agreement, as if the authority conferred by this resolution had not expired); and

(B) the authority to allot, given to the directors by this resolution, be in substitution for any and all authorities previously conferred on the directors for the purposes of section 80 of the Act, without prejudice to any allotments made pursuant to the terms of such authorities.

9 THAT:
conditionally, on the passing of the resolution numbered 8 above and in place of all existing powers, the directors be and are hereby empowered, pursuant to section 95 of the Act, to allot equity securities (as defined in section 94(2) of the Act) for cash, pursuant to the authority conferred by the resolution numbered 8 above, as if section 89(1) of the Act did not apply to such allotment, such power to expire (unless previously varied, revoked or renewed by the company in general meeting) at the earlier of 15 months from the date of passing of this resolution and the conclusion of the Annual General Meeting of the company held to approve the report and accounts of the company for the financial year of the company ending on 31 July 2005 (save that the directors shall be entitled, before such expiry, to make an offer or agreement which would or might require equity securities to be allotted after such expiry, and the directors may allot equity securities in pursuance of such an offer or agreement, as if the power conferred by this resolution had not expired) and to be limited to:

(i) the allotment of equity securities for cash in connection with or pursuant to an issue or offer, by way of rights, open offer or otherwise in favour of the holders of equity securities, where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be) to the respective number of equity securities held by them on the record date for such allotment, subject only to such exceptions, exclusions or other arrangements which are, in the opinion of the directors, necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of any territory or the requirements of any recognised regulatory body or any other stock exchange or otherwise in any territory; and

(ii) the allotment (otherwise than as referred to in subparagraph (i) above) of equity securities for cash, up to an aggregate nominal amount of £190,000.

10 THAT:
the company be and is hereby authorised, pursuant to section 166 of the Act, to make market purchases (as defined by section 163(3) of the Act) of ordinary shares in the capital of the company on such terms and in such manner as the directors of the company shall determine, subject to the following conditions:

(i) the maximum number of ordinary shares which may be purchased is 28,374,610;

(ii) the price at which ordinary shares may be purchased shall not exceed 105% of the average of the middle-market quotations for the ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days preceding the date of purchase and shall not be less than the nominal value, from time to time, of an ordinary share, in both cases exclusive of expenses; and

(iii) this authority (unless previously revoked, varied or renewed) will expire at the earlier of the conclusion of the next Annual General Meeting of the company held to approve the report and accounts of the company for the financial year of the company ending on 31 July 2005 and 30 April 2006, except that the company may, before such authority expires, enter into a contract of purchase under which such purchase may be completed or executed wholly or partly after the expiry of the authority.

By order of the board

Jim Clarke
Company Secretary

21 September 2004

Registered office:

Wetherspoon House
Central Park
Reeds Crescent
Watford
WD24 4QL

Notes:

1 A member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the company.

2 A form of proxy is enclosed which holders of ordinary shares in the company are invited to complete and return in the envelope provided. Completion and return of the form of proxy, in accordance with the instructions on it, will not prevent such shareholders from attending and voting at the Annual General Meeting in person, should they so wish.

3 To be valid for the Annual General Meeting, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is executed or a notarially certified copy of such authority must be deposited at the offices of the company's registrars, Computershare Investor Services plc, PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH, not later than 10.00am on 9 November 2004, being 48 hours before the time appointed for the holding of the Annual General Meeting.

4 There are available for inspection at the registered office of the company during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) and there will be available for inspection at the place of the Annual General Meeting from at least 15 minutes prior to and until the conclusion of the Annual General Meeting:

(a) copies of the directors' service agreements with the company, other than those agreements expiring or determinable by the company without payment of compensation within one year; and

(b) the register of directors' interests.

5 Only those shareholders registered in the register of members of the company as at 10.00am on 9 November 2004 shall be entitled to attend or vote at the meeting in respect of the number of ordinary shares registered in their name at that time. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the meeting (regulation 41 of the Uncertificated Securities Regulations 2001).

Designed by WLG Design Limited
Printed by Perivan Group
English language advice by www.future-perfect.co.uk

J D Wetherspoon plc
Wetherspoon House
Central Park
Reeds Crescent
Watford
WD24 4QL

Telephone 01923 477777
www.jdwetherspoon.co.uk