

# **J D Wetherspoon plc**

ANNUAL REPORT AND FINANCIAL STATEMENTS 2015

**Wetherspoon owns and operates pubs throughout the UK and Ireland. The company aims to provide customers with good-quality food and drinks, 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.**

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## Financial calendar

Annual general meeting

**12 November 2015**

Interim report for 2016

**March 2016**

Year end

**24 July 2016**

Preliminary announcement for 2016

**September 2016**

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[www.jdwetherspoon.co.uk/investors](http://www.jdwetherspoon.co.uk/investors)

## FINANCIAL HIGHLIGHTS

## Before exceptional items

Revenue £1,513.9m  
(2014: £1,409.3m)  
+7.4%

Like-for-like sales  
+3.3%

Operating profit £112.5m  
(2014: £117.0m)  
-3.8%

Profit before tax and  
exceptional items<sup>1</sup> £77.8m  
(2014: £79.4m)  
-2.0%

Earnings per share  
(including shares held in trust) 47.0p  
(2014: 47.0p)  
Maintained

Free cash flow<sup>2</sup> £109.8m  
(2014: £92.9m)  
+18.2%

Free cash flow<sup>2</sup> per share 89.8p  
(2014: 74.1p)  
+21.2%

Full-year dividend 12.0p  
(2014: 12.0p)  
Maintained

After exceptional items<sup>1</sup>

Operating profit £106.5m  
(2014: £117.0m)  
-9.0%

Profit before tax £58.7m  
(2014: £78.4m)  
-25.1%

Earnings per share  
(including shares held in trust) 36.7p  
(2014: 32.8p)  
+11.9%

<sup>1</sup> Exceptional items as disclosed in the notes to financial statements, note 4.

<sup>2</sup> As defined in our accounting policies.

# CHAIRMAN'S STATEMENT

## Financial performance

I am pleased to report a year of progress for the company, with record sales and free cash flow. The company was founded in 1979 – and this is the 32nd year since incorporation in 1983. The table below outlines some key aspects of our performance during that period. Since our flotation in 1992, earnings per share before exceptional items have grown by an average of 15.0% per annum and free cash flow per share by an average of 17.7%.

## Summary accounts for the years ended July 1984 to 2015

Financial year	Total sales £000	Profit/(loss) before tax and exceptional items £000	Earnings per share before exceptional items pence	Free cash flow £000	Free cash flow per share pence
1984	818	(7)	0.0		
1985	1,890	185	0.2		
1986	2,197	219	0.2		
1987	3,357	382	0.3		
1988	3,709	248	0.3		
1989	5,584	789	0.6	915	0.4
1990	7,047	603	0.4	732	0.4
1991	13,192	1,098	0.8	1,236	0.6
1992	21,380	2,020	1.9	3,563	2.1
1993	30,800	4,171	3.3	5,079	3.9
1994	46,600	6,477	3.6	5,837	3.6
1995	68,536	9,713	4.9	13,495	7.4
1996	100,480	15,200	7.8	20,968	11.2
1997	139,444	17,566	8.7	28,027	14.4
1998	188,515	20,165	9.9	28,448	14.5
1999	269,699	26,214	12.9	40,088	20.3
2000	369,628	36,052	11.8	49,296	24.2
2001	483,968	44,317	14.2	61,197	29.1
2002	601,295	53,568	16.6	71,370	33.5
2003	730,913	56,139	17.0	83,097	38.8
2004	787,126	54,074	17.7	73,477	36.7
2005	809,861	47,177	16.9	68,774	37.1
2006	847,516	58,388	24.1	69,712	42.1
2007	888,473	62,024	28.1	52,379	35.6
2008	907,500	58,228	27.6	71,411	50.6
2009	955,119	66,155	32.6	99,494	71.7
2010	996,327	71,015	36.0	71,344	52.9
2011	1,072,014	66,781	34.1	78,818	57.7
2012	1,197,129	72,363	39.8	91,542	70.4
2013	1,280,929	76,943	44.8	65,349	51.8
2014	1,409,333	79,362	47.0	92,850	74.1
2015	1,513,923	77,798	47.0	109,778	89.8

### Notes

#### Adjustments to statutory numbers

1. Where appropriate, the earnings per share (EPS), as disclosed in the statutory accounts, have been recalculated to take account of share splits, the issue of new shares and capitalisation issues.

2. Free cash flow per share excludes dividends paid which were included in the free cash flow calculations in the annual report and accounts for the years 1995–2000.

3. The weighted average number of shares, EPS and free cash flow per share include those shares held in trust for employee share schemes.

4. Before 2005, the accounts were prepared under UKGAAP. All accounts from 2005 to date have been prepared under IFRS.

Like-for-like sales increased by 3.3% (2014: 5.5%), with total sales of £1,513.9m, an increase of 7.4% (2014: 10.0%). Like-for-like bar sales increased by 1.2% (2014: 2.7%), food sales by 7.3% (2014: 12.0%) and slot/fruit machine sales decreased by 2.8% (2014: decreased by 3.1%).

Operating profit before exceptional items decreased by 3.8% to £112.5m (2014: £117.0m). The operating margin, before exceptional items, decreased to 7.4% (2014: 8.3%), mainly as a result of a lower gross margin and increases in staff costs, utilities and depreciation.

Profit before tax and exceptional items decreased by 2.0% to £77.8m (2014: £79.4m). Earnings per share (including shares held in trust by the employee share scheme), before exceptional items, were 47.0p (2014: 47.0p).

Net interest was covered 3.3 times by operating profit before exceptional items (2014: 3.2 times). Total capital investment was £173.3m in the period (2014: £177.5m), with £106.3m invested in new pubs and extensions to existing pubs (2014: £97.7m). In addition, there was expenditure of £44.8m on existing pubs and IT infrastructure (2014: £56.2m) and £21.6m on freehold reversions, where Wetherspoon was already a tenant, and investment properties (2014: £23.6m).

Exceptional items totalled £12.6m (2014: £17.7m). An exceptional charge of £5.2m resulted from a change in our accounting policy regarding non-consumable inventories, including crockery, glassware and cutlery. These items were previously regarded as part of our year end stock-in-hand; we have now decided to expense these when received by the pubs. An impairment charge of £11.2m was realised in respect of underperforming pubs and a charge of £1.9m was incurred in relation to onerous leases. A charge of £0.8m resulted from a restructuring of our head office. The total cash effect of these exceptional items was £0.8m. These exceptional items led to an exceptional tax deduction of £1.6m.

We have reviewed the treatment of deferred tax on "rolled-over" capital gains and found that we had overestimated the tax liability. This has resulted in a deferred tax credit of £4.8m.

Free cash flow, after capital investment of £44.8m on existing pubs (2014: £56.2m), £6.8m in respect

of share purchases for employees (2014: £7.3m) and payments of tax and interest, increased by £16.9m to £109.8m (2014: £92.9m). The working capital inflow was £27.3m in the year (2014: £29.6m). Free cash flow per share was 89.8p (2014: 74.1p).

### Dividends and return of capital

The board proposes, subject to shareholders' approval, to pay a final dividend of 8.0p per share (2014: 8.0p per share), on 26 November 2015, to those shareholders on the register on 23 October 2015, giving a total dividend for the year of 12.0p per share (2014: 12.0p per share). The dividend is covered 3.1 times (2014: 2.8 times). In view of high levels of capital expenditure in recent years and the potential for advantageous investments in the future, the board has decided to maintain the dividend at its current level for the time being.

During the year, 3,618,827 shares (representing 2.9% of the issued share capital) were purchased by the company for cancellation, at a total cost of £26.9m, including stamp duty, representing an average cost per share of 743p.

### Financing

As at 26 July 2015, the company's total net debt, including bank borrowings and finance leases, but excluding derivatives, was £601.1m (2014: £556.6m), an increase of £44.5m. Factors which have led to the increase in debt are investment in new pubs and extensions of £106.3m, investment in existing pubs of £44.8m, the acquisition of freehold reversions of £21.6m, share buybacks of £12.7m and dividend payments of £14.6m. Year-end net-debt-to-EBITDA was 3.37 times (2014: 3.21 times).

As at 26 July 2015, the company had £240.9m (2014: £138.1m) of unutilised banking facilities and cash balances, with total facilities of £840.0m (2014: £690.0m). The company's existing interest-rate swap arrangements remain in place.

### Corporation tax

The overall tax charge (including deferred tax) on pre-exceptional items is 26.1% (2014: 25.8%). The UK standard average tax rate for the period was 20.7% (2014: 22.3%). The difference between the rate of 26.1% and the standard average rate of UK corporation tax of 20.7% is 5.4% (2014: 3.5%) which is due primarily to the level of non-qualifying depreciation (depreciation does not qualify for tax relief).

The pre-exceptional current tax rate, which excludes deferred tax, has increased by 6.3% to 27.7% (2014: 21.4%), owing mainly to a reduced amount of expenditure which qualifies for capital allowances.

### **The "living wage"**

Wetherspoon increased the minimum hourly rate for staff by 5% in October 2014 and by a further 8% at the end of July 2015. Both decisions were taken without the knowledge that the government was about to announce a new minimum wage, now called the "living wage". In addition, as Wetherspoon shareholders are aware, we pay about 40% of our profits (£30.7m in the year under review) as a bonus or free shares, over 80% of which is paid to people who work in our pubs.

We believe there to be two main economic issues with regard to the new living/minimum wage. The first is that pub wages are about 30% of sales. Therefore a pint purchased in a pub at the national average price of about £3.50 will represent about 85 pence in respect of wages. In contrast, a pint bought in a supermarket, at an estimated price of £1, will only represent about 10 pence of supermarket wages, since their wage percentage and selling prices are both far lower than those of pubs. By pushing up the cost of wages by a large factor, the government is inevitably putting financial pressure on pubs, many of which have already closed. This financial pressure will be felt most strongly in areas which are less affluent, since the price differential in those areas between pubs and supermarkets is far more important to customers. It is certain that high streets in less affluent areas, which already suffer from serious problems of empty shops and dereliction, will suffer further if pubs and other labour-intensive businesses close.

The second issue is that investment is bound to be affected if businesses feel that important issues, such as the minimum wage, are to be decided by one or two senior politicians on a whim, for political reasons, rather than being subject to careful consideration by organisations such as the Low Pay Commission.

### **Trade support for VAT equality**

Jacques Borel, who has campaigned successfully for lower VAT for bars and restaurants in many other countries, has also been campaigning in this country. A large number of companies have supported his campaign, including Heineken, Pizza Hut, Fuller's and St Austell, among others. It is disappointing to note that some of the biggest pub companies, including Enterprise Inns, Mitchells and Butlers, Greene King and Marston's have failed to support Jacques' campaign and have not campaigned themselves in any meaningful way for VAT equality between pubs and supermarkets. Pubs have lost 50% of their beer sales to supermarkets in the last 35 years (including many pubs owned by these companies), as VAT has climbed from 8% to 20%.

Of equal or greater concern to many thousands of individual publicans in Britain is that the main trade newspaper, the Publican Morning Advertiser (the PMA) has itself failed to support the VAT campaign in recent years, even though authoritative market research, as well as common sense, overwhelmingly indicates that publicans regard VAT equality as critical. In my view, the PMA, one of Britain's oldest newspapers, has entirely lost its legitimacy as a mouthpiece for individual licensees.

### **Contribution to the economy**

As we have previously stated, we believe that pubs are taxed excessively and that the government would create more jobs and receive higher levels of overall revenue, if it were to create tax equality among supermarkets, pubs and restaurants. Supermarkets pay virtually no VAT in respect of food sales, whereas pubs pay 20% – and this disparity enables supermarkets to subsidise their alcoholic drinks sales to the detriment of pubs and restaurants.

Wetherspoon is happy to pay its share of tax and, in this respect, is a major contributor to the economy. In the year under review, we paid total taxes of £632.4m, an increase of £32.2m, compared with the previous year, which equates to approximately 41.8% of our sales.

This equates to an average payment per pub of £673,000 per annum or £12,900 per week.

	<b>2015</b>	2014
	<b>£m</b>	£m
VAT	<b>294.4</b>	275.1
Alcohol duty	<b>161.4</b>	157.0
PAYE and NIC	<b>84.8</b>	78.4
Business rates	<b>48.7</b>	44.9
Corporation tax	<b>15.3</b>	18.1
Corporation tax credit	<b>(2.0)</b>	–
Machine duty	<b>11.2</b>	11.3
Climate change levies	<b>6.4</b>	6.3
Carbon tax	<b>3.7</b>	2.7
Fuel duty	<b>2.9</b>	2.1
Landfill tax	<b>2.2</b>	1.5
Stamp duty	<b>1.8</b>	2.1
Premise licence	<b>0.8</b>	0.7
TV licences	<b>0.8</b>	–
<b>Total tax</b>	<b>632.4</b>	600.2
<b>Tax per pub (£000)</b>	<b>673</b>	662
<b>Tax as % of sales</b>	<b>41.8%</b>	42.6%
<b>Pre-exceptional profit after tax</b>	<b>57.5</b>	58.9
<b>Profit after tax as % of sales</b>	<b>3.8%</b>	4.2%

### Corporate governance

In last year's statement, the view was advanced that many aspects of current corporate governance advice, as laid out in the Combined Code, were "deeply flawed". The statement pointed out that "compliant pub companies had often fared disastrously in comparison with non-compliant ones. In particular, pub companies in which the CEO became chairman and which had a majority of executives.....usually with previous experience of the pub trade, avoided making catastrophic errors to which compliant companies seem prone". It was also pointed out that setting targets for bonuses had also often backfired, encouraging companies to take reckless decisions in order to enhance earnings.

Last year's statement was particularly critical of the Code itself, which placed a huge emphasis on meetings between directors and shareholders and placed almost no emphasis on directors taking account of the views of customers and employees which are far more important, in practice, to the future well-being of any company.

It was pointed out that the average institutional shareholder turns over his portfolio twice annually, so it would be absurd for directors to take account of the views of "Mr Market" (in the words of Benjamin Graham), certainly in regard to short-term shareholders.

Having presented our views in previous annual reports and press articles, without receiving any dissent from any shareholders or their representatives, I believe the following propositions represent the views of sensible shareholders:

- Modern annual reports are far too long and are often almost unreadable. They are full of semi-literate business jargon, including accounting jargon, and are cluttered with badly written and incomprehensible governance reports.
- The limitations of corporate governance systems should be recognised. Common sense, management skills and business savvy are more important to commercial success than board structures. All the major banks and many supermarket and pub companies have recently suffered colossal business and financial problems, in spite of, or perhaps because of, their adherence to governance guidelines.
- There should be an approximately equal balance between executives and non-executives. A majority of executives is not necessarily harmful, provided non-executives are able to make their voices heard.
- It is often better if a chairman has previously been the chief executive of the company. This encourages chief executives, who may wish to become chairmen in the future, to take a long-term view, avoiding problems of profit-maximisation policies in the years running up to the departure of a chief executive.
- A maximum tenure of 9 years for non-executive directors is not advisable, since inexperienced boards, unfamiliar with the effects of the "last recession" on their companies, are likely to reduce financial stability.
- An excessive focus on achieving financial or other targets for executives can be counter-productive. There's no evidence that the type of targets preferred by corporate governance guidelines actually work and there is considerable evidence that attempting to reach ambitious financial targets is harmful.
- It is far more important for directors to take account of the views of employees and customers than of the views of institutional shareholders. Shareholders should be listened to with respect, but caution should be exercised in implementing the views of short-term shareholders. It should also be understood that modern institutional shareholders may have a serious conflict of interest, as they are often concerned with their own quarterly portfolio performance, whereas corporate health often requires objectives which lie 5, 10 or 20 years in the future.

### Board of directors

Further to the 18 December 2014 statement that Ben Whitley had been appointed interim finance director, the board is pleased to announce today that Ben is being appointed to the board with effect from the forthcoming AGM.

### Further progress

As in previous years, the company has tried to improve as many areas of the business as possible. For example, our food hygiene ratings are at record levels. We have 858 pubs rated on the Food Standards Agency's website. The average score is 4.93, with 94.1% of the pubs achieving a top rating of five stars and 5.1% receiving four stars. We believe this to be the highest average rating for any substantial pub company. In the separate Scottish scheme, which records either a "pass" or a "fail", all of our 68 pubs have passed.

In the 2016 Good Beer Guide, a CAMRA publication, 296 of our pubs have been recommended, more than any other pub company. In addition, over 937 of our pubs are Cask Marque approved – Cask Marque is a pub-industry scheme, run in conjunction with several brewers, which checks and approves the quality of real ale in pubs. We continue to source our traditional ales from a large number of microbreweries of varying sizes and believe that we are the biggest purchaser of microbrewery beer in the UK.

We continue to run the world's biggest real-ale festival, twice per annum, and have added a cider festival in recent times, featuring a wide variety of suppliers from the UK, Europe and elsewhere in the world. Wetherspoon sells far more beers and ciders from craft and microbrewers throughout the year than any other pub company.

We paid £30.7m in respect of bonuses and free shares to employees in the year, slightly more than the previous year, of which 97.0% was paid to staff below board level and 81.5% was paid to staff working in our pubs.

In the field of charity, thanks to the work of our dedicated pub and head-office teams, we continue to raise record amounts of money for CLIC Sargent, which supports young cancer patients and their families. In the last year, we raised approximately £1.7m, bringing the total raised to over £11.0m – more than any other corporate partner has raised for this charity.

### Property

The company opened 30 pubs during the year, with 6 pubs sold or closed, resulting in a total estate of 951 pubs at the financial year end. The average development cost for a new pub (excluding the cost of freeholds) was £2.1m, compared with £1.6m a year ago; four of the pubs included hotel accommodation and the average size was around 20% bigger than the previous year, factors that contributed to increases in costs. The full-year depreciation charge was £66.7m (2014: £58.1m). We currently intend to open about 15 to 20 pubs in the year ending July 2016.

### Property litigation

We have previously referred to important property litigation between Wetherspoon and a number of individuals and companies. As a result of the importance of this litigation and the large sums of money involved, we intend to reproduce this information for the benefit of shareholders and the public for the foreseeable future:

As reported at the interim results in March 2013, Wetherspoon agreed on an out-of-court settlement with developer Anthony Lyons, formerly of property leisure agent Davis Coffey Lyons, and has received approximately £1.25m from Mr Lyons.

The payment relates to litigation in which Wetherspoon claimed that Mr Lyons had been an accessory to frauds committed by Wetherspoon's former retained agent Van de Berg and its directors Christian Braun, George Aldridge and Richard Harvey. Mr Lyons denied the claim – and the litigation was contested.

The claim related to properties in Portsmouth, Leytonstone and Newbury. The Portsmouth property was involved in the 2008/9 Van de Berg case itself. In that case, Mr Justice Peter Smith found that Van de Berg, but not Mr Lyons (who was not a party to the case), fraudulently diverted the freehold from Wetherspoon to Moorstown Properties Limited, a company owned by Simon Conway. Moorstown leased the premises to Wetherspoon. Wetherspoon is still a leaseholder of this property – a pub called The Isambard Kingdom Brunel.

The properties in Leytonstone and Newbury (the other properties in the case against Mr Lyons) were not pleaded in the 2008/9 Van de Berg case. Leytonstone was leased to Wetherspoon and trades today as The Walnut Tree public house. Newbury was leased to Pelican plc and became Café Rouge.



As we have also reported, the company agreed to settle its final claim in this series of cases and accepted £400,000 from property investor Jason Harris, formerly of First London and now of First Urban Group. Wetherspoon alleged that Harris was an accessory to frauds committed by Van de Berg. Harris contested the claim and has not admitted liability.

Before the conclusion of the above cases, Wetherspoon also agreed on a settlement with Paul Ferrari of London estate agent Ferrari Dewe & Co, in respect of properties referred to as the "Ferrari Five" by Mr Justice Peter Smith.

Further shareholder information about these cases is available in a short article which I wrote for the trade publication Propel, which is disclosed later in my chairman's statement.

### **Current trading and outlook**

The biggest danger to the pub industry, as Wetherspoon has previously pointed out is the VAT disparity between supermarkets and pubs. In the six weeks to 6 September 2015, like-for-like sales increased by 1.4%, with total sales increasing by 5.2%.

As previously stated on 15 July 2015, a number of factors likely to influence our trading performance this financial year are difficult to quantify at this early stage. Positive aspects include an increase in pub numbers, a better economy and slightly lower interest rates; less favourable aspects include heightened competition from supermarkets and restaurant groups and increased staff, repairs, bar and food costs. We continue to anticipate a trading performance similar to, or slightly above, that achieved in the last financial year.

### **Newspaper article**

The newspaper article below first appeared in the pub trade publication Propel and relates to the section on property litigation referred to above:

#### ***"Wed 22nd May 2013 – Propel Opinion Extra***

#### ***Lessons in the property market by Tim Martin***

*J D Wetherspoon has always been a buyer of freeholds. Our second, third and fourth pubs were freehold and, by the time of our 1992 flotation, 20 of our 44 pubs were freehold.*

*I negotiated our first 20 or so pubs myself, dealing directly with the owners' agents, before employing Christian Braun, of Van de Berg & Co, in about 1990. Little did I realise that Braun was a double agent or "mole", who was to burrow deep into our organisation, undermining the very property foundations that underpin any retailer.*

*Following a tip-off in 2005, we terminated VDB's contract and undertook a review of all our 600 or so property transactions, using a team of up to a dozen legal and paralegal staff. We discovered about 50 "back-to-back" transactions in which freeholds, which were available to buy, had been diverted by VDB to third parties, who had acquired them at the same time as JDW had taken a lease – the rent being set at a level which created an immediate uplift in the value of the reversion.*

*Proceedings were issued against VDB and its directors, Braun, George Aldridge and Richard Harvey, in respect of about a dozen of these transactions. In a 136-page judgment, Mr Justice Peter Smith found that VDB had fraudulently diverted properties to number of third parties, but he made no findings against the third parties themselves.*

*Following Mr Justice Smith's judgment, JDW issued proceedings against several third parties: Paul Ferrari of Braun's former employer Ferrari Dewe & Co; Anthony Lyons, formerly of Davis Coffey Lyons and Jason Harris, formerly of First London.*

*Liability was denied by all. The cases were contested and were settled out of court. JDW received substantial payments in all three cases.*

*A number of the pleaded properties in the VDB case, referred to by the judge as the "Ferrari Five", involved Jersey companies with nominee owners that were connected to Ferrari. Each of the Jersey companies had a different name – and care was taken to use different lawyers and nominees.*

*Profits from the purchasing companies were usually channelled to a Jersey holding company called Gecko and money was then transferred as loans or fees to companies controlled by VDB directors. In my opinion, the Lyons case is the most interesting for the property market and for prospective tenants and purchasers. Lyons stated in his defence that he was acting in his capacity as an employee and in accordance with his duties to Davis and Coffey (now Davis Coffey Lyons).*

The Lyons case concerned properties in Portsmouth, Leytonstone and Newbury, two of which became JDW pubs, with the third becoming a Café Rouge. The Portsmouth property belonged to British Gas – and Justice Smith found that VDB bid for the freehold, unbeknown to JDW, and, once the bid was accepted, agreed with Lyons for JDW to take a lease and for the freehold to be acquired by Moorstown Properties, owned by a friend, and subsequently a colleague, of Lyons – Simon Conway. No findings were made against Lyons, or indeed Conway, in the VDB case, and neither person was a party to the case.

Portsmouth was subsequently sold by Moorstown to Scottish American Investment Company, a few months later, with the benefit of a lease to JDW for a substantial profit. Illustrating the Byzantine complexity of the transactions, Lyons' defence stated that shares in Moorstown were "transferred", before the sale was completed, to Northcreek which, Companies House shows, was owned by Roger Myers, then chairman of Café Rouge owner Pelican, and his family.

The Newbury property was acquired by Riverside Stores, a company connected to Conway, and was leased at around the same time to Café Rouge. Newbury was sold shortly after completion for a substantial profit.

JDW did not allege, and is not alleging, that the Portsmouth and Newbury transactions are connected and is not alleging that Davis Coffey Lyons, Myers or Conway are dishonest, but it is a matter of public importance, as well as of importance to JDW and its shareholders, for there to be an explanation as to the circumstances in which Moorstown, a company which clearly benefited from the Portsmouth fraud by VDB, ended up belonging to the family of Myers.

A key legal and ethical question for the property market that emerges from these cases concerns the obligations of estate agents and investors, in circumstances in which a freehold property is first offered to a friend or colleague of an agent, who agrees to acquire it, and the property is then offered by the agent to a company like Wetherspoon on a "back-to-back" basis. What are the obligations of the introducing agent? In broad terms, the third parties in the Wetherspoon litigation argued that they owed no duties or obligations to Wetherspoon and were not,

therefore, liable to us. The great risk that all agents and investors run, in these circumstances, is if the retained agent, VDB in this instance, is itself be dishonest. If so, this may open up the possibility of a claim by an aggrieved "end user", such as Wetherspoon, that the introducing agent participated in the dishonesty of the retained agent.

JDW has lost many tens of millions of pounds as a result of the VDB frauds. Rent reviews and "yield compression" have exacerbated the damage over the years.

Our experience teaches a number of lessons. First, buyers and tenants should ask their agents to confirm in writing that they have no direct or indirect interest in any property they are acquiring and should ask their lawyers to take particular interest if a freehold is changing hands at the same time as they are acquiring a lease, or indeed the freehold. Professionals and investors should also get confirmation in writing from the "end user" in back-to-back deals that they have consented to the transaction. Take the retained agent's word for it at your peril.

*Tim Martin is founder and chairman of J D Wetherspoon"*

### **Tim Martin**

Chairman

10 September 2015

# INCOME STATEMENT for the 52 weeks ended 26 July 2015

J D Wetherspoon plc, company number: 1709784

	Notes	52 weeks ended 26 July 2015 Before exceptional items £000	52 weeks ended 26 July 2015 Exceptional items (note 4) £000	52 weeks ended 26 July 2015 After exceptional items £000	52 weeks ended 27 July 2014 Before exceptional items £000	52 weeks ended 27 July 2014 Exceptional items (note 4) £000	52 weeks ended 27 July 2014 After exceptional items £000
<b>Revenue</b>	1	<b>1,513,923</b>	–	<b>1,513,923</b>	1,409,333	–	1,409,333
Operating costs		<b>(1,401,415)</b>	<b>(6,013)</b>	<b>(1,407,428)</b>	(1,292,329)	–	(1,292,329)
<b>Operating profit<sup>1</sup></b>	2	<b>112,508</b>	<b>(6,013)</b>	<b>106,495</b>	117,004	–	117,004
Property gains/(losses)	3	<b>(694)</b>	<b>(13,053)</b>	<b>(13,747)</b>	(1,429)	–	(1,429)
Finance income	6	<b>180</b>	–	<b>180</b>	67	–	67
Finance costs	6	<b>(34,196)</b>	–	<b>(34,196)</b>	(36,280)	(997)	(37,277)
<b>Profit/(loss) before taxation</b>		<b>77,798</b>	<b>(19,066)</b>	<b>58,732</b>	79,362	(997)	78,365
Income tax expense	7	<b>(20,343)</b>	<b>6,435</b>	<b>(13,908)</b>	(20,499)	(16,744)	(37,243)
<b>Profit/(loss) for the year</b>		<b>57,455</b>	<b>(12,631)</b>	<b>44,824</b>	58,863	(17,741)	41,122
<b>Earnings per ordinary share (p)</b>							
– Basic <sup>2</sup>	8	<b>48.6</b>	<b>(10.7)</b>	<b>37.9</b>	48.6	(14.7)	33.9
– Diluted <sup>3</sup>	8	<b>47.0</b>	<b>(10.3)</b>	<b>36.7</b>	47.0	(14.2)	32.8
<b>Operating profit per share (p)</b>							
– Diluted <sup>3</sup>		<b>92.0</b>	<b>(4.9)</b>	<b>87.1</b>	93.4	–	93.4

# STATEMENT OF COMPREHENSIVE INCOME for the 52 weeks ended 26 July 2015

	Notes	52 weeks ended 26 July 2015 £000	52 weeks ended 27 July 2014 £000
<i>Items which may subsequently be reclassified to profit or loss</i>			
Interest-rate swaps: gain/(loss) taken to other comprehensive income	23	<b>(9,807)</b>	13,879
Tax on items taken directly to other comprehensive income	7	<b>1,961</b>	(2,776)
Currency translation differences		<b>(2,189)</b>	7
<b>Net (loss)/gain recognised directly in other comprehensive income</b>		<b>(10,035)</b>	11,110
Profit for the year		<b>44,824</b>	41,122
<b>Total comprehensive income for the year</b>		<b>34,789</b>	52,232

<sup>1</sup> The prior year's operating profit of £115,575,000 has been restated to £117,004,000 to exclude property gains and losses to be in line with the company's new definition of operating profit. The definition of operating profit has been amended to more clearly show the company's underlying performance.

<sup>2</sup> Calculated excluding shares held in trust.

<sup>3</sup> Calculated using issued share capital which includes shares held in trust.

# CASH FLOW STATEMENT

for the 52 weeks ended 26 July 2015

J D Wetherspoon plc, company number: 1709784

	Notes	52 weeks ended 26 July 2015 £000	Free cash flow <sup>1</sup> 52 weeks ended 26 July 2015 £000	52 weeks ended 27 July 2014 £000	Free cash flow <sup>1</sup> 52 weeks ended 27 July 2014 £000
<b>Cash flows from operating activities</b>					
Cash generated from operations	9	210,181	210,181	212,505	212,505
Interest received		180	180	78	78
Interest paid		(31,931)	(31,931)	(33,996)	(33,996)
Corporation tax paid		(13,293)	(13,293)	(18,070)	(18,070)
Gaming machine settlement		–	–	(16,696)	–
<b>Net cash inflow from operating activities</b>		<b>165,137</b>	<b>165,137</b>	143,821	160,517
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		(37,577)	(37,577)	(46,300)	(46,300)
Purchase of intangible assets		(7,176)	(7,176)	(9,926)	(9,926)
Proceeds on sale of property, plant and equipment		723	–	505	–
Investment in new pubs and pub extensions		(106,339)	–	(97,694)	–
Freehold reversions		(21,612)	–	(14,823)	–
Investment properties		–	–	(8,754)	–
Lease premiums paid		(635)	–	(10)	–
<b>Net cash outflow from investing activities</b>		<b>(172,616)</b>	<b>(44,753)</b>	(177,002)	(56,226)
<b>Cash flows from financing activities</b>					
Equity dividends paid	11	(14,591)	–	(14,949)	–
Purchase of own shares for cancellation	28	(12,714)	–	(24,550)	–
Purchase of own shares for share-based payments		(6,831)	(6,831)	(7,338)	(7,338)
Advances under bank loans	10	47,898	–	92,151	–
Loan issue costs	10	(3,775)	(3,775)	(4,103)	(4,103)
Finance lease principal payments	10	(2,648)	–	(5,552)	–
<b>Net cash inflow/(outflow) from financing activities</b>		<b>7,339</b>	<b>(10,606)</b>	35,659	(11,441)
<b>Net (decrease)/increase in cash and cash equivalents</b>	10	<b>(140)</b>	–	2,478	–
Opening cash and cash equivalents	19	32,315	–	29,837	–
<b>Closing cash and cash equivalents</b>	19	<b>32,175</b>	–	32,315	–
<b>Free cash flow</b>	8	–	<b>109,778</b>	–	92,850
<b>Free cash flow per ordinary share</b>	8	–	<b>89.8p</b>	–	74.1p

<sup>1</sup> Free cash flow is a measure not required by accounting standards; a definition is provided in our accounting policies.

# BALANCE SHEET as at 26 July 2015

J D Wetherspoon plc, company number: 1709784

	Notes	26 July 2015 £000	27 July 2014 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	1,153,756	1,068,067
Intangible assets	13	29,997	26,838
Investment properties	14	8,651	8,713
Other non-current assets	15	10,028	9,766
Deferred tax assets	7	7,994	6,033
Derivative financial instruments	23	–	1,723
<b>Total non-current assets</b>		<b>1,210,426</b>	1,121,140
Assets held for sale	18	1,220	–
<b>Current assets</b>			
Inventories	16	19,451	22,312
Receivables	17	26,838	23,901
Cash and cash equivalents	19	32,175	32,315
<b>Total current assets</b>		<b>78,464</b>	78,528
<b>Total assets</b>		<b>1,290,110</b>	1,199,668
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	21	(2,051)	(2,636)
Derivative financial instruments	23	–	(3,149)
Trade and other payables	20	(283,227)	(243,160)
Current income tax liabilities		(10,053)	(3,872)
Provisions	22	(5,231)	(4,442)
<b>Total current liabilities</b>		<b>(300,562)</b>	(257,259)
<b>Non-current liabilities</b>			
Borrowings	21	(631,232)	(586,230)
Derivative financial instruments	23	(39,973)	(28,740)
Deferred tax liabilities	7	(77,771)	(83,686)
Provisions	22	(4,012)	(3,055)
Other liabilities	24	(13,667)	(13,530)
<b>Total non-current liabilities</b>		<b>(766,655)</b>	(715,241)
<b>Net assets</b>		<b>222,893</b>	227,168
<b>Shareholders' equity</b>			
Share capital	28	2,387	2,460
Share premium account		143,294	143,294
Capital redemption reserve		2,044	1,971
Hedging reserve		(31,979)	(24,133)
Retained earnings		107,147	103,576
<b>Total shareholders' equity</b>		<b>222,893</b>	227,168

The financial statements, on pages 9 to 42, approved by the board of directors and authorised for issue on 10 September 2015, are signed on its behalf by:

**John Hutson**  
Director

**Su Cacioppo**  
Director

# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

J D Wetherspoon plc, company number: 1709784

	Notes	Share capital £000	Share premium account £000	Capital redemption reserve £000	Hedging reserve £000	Currency translation reserve £000	Retained earnings £000	Total £000
<b>At 28 July 2013</b>		<b>2,521</b>	<b>143,294</b>	<b>1,910</b>	<b>(35,236)</b>	<b>–</b>	<b>102,426</b>	<b>214,915</b>
Total comprehensive income					11,103	7	41,122	52,232
Profit for the year							41,122	41,122
Interest-rate swaps: gain taken to equity	23				13,879			13,879
Tax on items taken directly to equity	7				(2,776)			(2,776)
Currency translation differences						7		7
Repurchase of shares		(61)		61			(24,428)	(24,428)
Tax on repurchase of shares							(122)	(122)
Share-based payments							7,521	7,521
Tax on share-based payments							(663)	(663)
Purchase of shares held in trust							(7,304)	(7,304)
Tax on purchase of shares held in trust							(34)	(34)
Dividends	11						(14,949)	(14,949)
<b>At 27 July 2014</b>		<b>2,460</b>	<b>143,294</b>	<b>1,971</b>	<b>(24,133)</b>	<b>7</b>	<b>103,569</b>	<b>227,168</b>
Total comprehensive income					(7,846)	(2,189)	44,824	34,789
Profit for the year							44,824	44,824
Interest-rate swaps: loss taken to equity	23				(9,807)			(9,807)
Tax on items taken directly to equity	7				1,961			1,961
Currency translation differences						(2,189)		(2,189)
Repurchase of shares		(73)		73			(26,766)	(26,766)
Tax on repurchase of shares							(134)	(134)
Share-based payments							8,907	8,907
Tax on share-based payments							351	351
Purchase of shares held in trust							(6,799)	(6,799)
Tax on purchase of shares held in trust							(32)	(32)
Dividends	11						(14,591)	(14,591)
<b>At 26 July 2015</b>		<b>2,387</b>	<b>143,294</b>	<b>2,044</b>	<b>(31,979)</b>	<b>(2,182)</b>	<b>109,329</b>	<b>222,893</b>

The balance classified as share capital represents proceeds arising on issue of the company's equity share capital, comprising 2p ordinary shares and the cancellation of shares repurchased by the company.

The capital redemption reserve increased owing to the purchase of a number of shares in the period.

Shares acquired in relation to the employee Share Incentive Plan and the 2005 Deferred Bonus Scheme are held in trust, until such time as the awards vest. At 26 July 2015, the number of shares held in trust was 4,063,604 (2014: 4,174,284), with a nominal value of £81,272 (2014: £83,486) and a market value of £28,993,815 (2014: 30,597,502) and are included in retained earnings.

Hedging gain/loss arises from the movement of fair value in the company's financial derivative instruments, in line with the accounting policy disclosed in section 2.

As at 26 July 2015, the company had distributable reserves of £75.2m (2014: £79.4m).

## 1 Revenue

Revenue disclosed in the income statement is analysed as follows:

	52 weeks ended 26 July 2015 £000	52 weeks ended 27 July 2014 £000
Sales of food, beverages, hotel rooms and machine income	<b>1,513,923</b>	1,409,333

## 2 Operating profit – analysis of costs by nature

This is stated after charging/(crediting):

	52 weeks ended 26 July 2015 £000	52 weeks ended 27 July 2014 £000
Concession rental payments	<b>19,300</b>	17,166
Minimum operating lease payments	<b>52,658</b>	52,538
Repairs and maintenance	<b>53,354</b>	56,603
Net rent receivable	<b>(1,334)</b>	(845)
Depreciation of property, plant and equipment (note 12)	<b>61,458</b>	54,459
Amortisation of intangible assets (note 13)	<b>4,775</b>	3,254
Depreciation of investment properties (note 14)	<b>62</b>	41
Amortisation of other non-current assets (note 15)	<b>373</b>	321
Share-based payments (note 5)	<b>8,907</b>	7,521
<b>Auditors' remuneration</b>	<b>52 weeks ended 26 July 2015 £000</b>	<b>52 weeks ended 27 July 2014 £000</b>
Fees payable for the audit of the financial statements	<b>177</b>	161
Fees payable for other services:		
– assurance services	<b>30</b>	30
– non-audit services	<b>13</b>	–
<b>Total auditors' fees</b>	<b>220</b>	191
<b>Analysis of continuing operations</b>	<b>52 weeks ended 26 July 2015 £000</b>	<b>52 weeks ended 27 July 2014 £000</b>
<b>Revenue</b>	<b>1,513,923</b>	1,409,333
Cost of sales	<b>(1,347,361)</b>	(1,241,584)
<b>Gross profit</b>	<b>166,562</b>	167,749
Administration costs	<b>(54,054)</b>	(50,745)
<b>Operating profit before exceptional items</b>	<b>112,508</b>	117,004
Exceptional items (note 4)	<b>(6,013)</b>	–
<b>Operating profit after exceptional items</b>	<b>106,495</b>	117,004

Included within cost of sales is £578.0m (2014: £531.2m) related to cost of inventory recognised as expense.

### 3 Property gains and losses

	52 weeks ended 26 July 2015 Before exceptional items £000	52 weeks ended 26 July 2015 Exceptional items (note 4) £000	52 weeks ended 26 July 2015 After exceptional items £000	52 weeks ended 27 July 2014 Before exceptional items £000	52 weeks ended 27 July 2014 Exceptional items (note 4) £000	52 weeks ended 27 July 2014 After exceptional items £000
Loss on disposal of fixed assets	694	–	694	645	–	645
Impairment of property, plant and equipment (note 12)	–	10,705	10,705	1,192	–	1,192
Impairment of other assets (note 15)	–	490	490	(180)	–	(180)
Onerous lease provision/(reversals) (note 22)	–	1,858	1,858	(228)	–	(228)
<b>Total property (gains)/losses</b>	<b>694</b>	<b>13,053</b>	<b>13,747</b>	1,429	–	1,429

Impairment charges and onerous lease provisions were considered exceptional in the current year and not in the prior year, owing to the magnitude of the current year charge. Please refer to note 4 for further details on exceptional items.

### 4 Exceptional items

	52 weeks ended 26 July 2015 £000	52 weeks ended 27 July 2014 £000
<b>Operating exceptional items</b>		
Inventory valuation	5,231	–
Restructuring costs	782	–
	<b>6,013</b>	–
<b>Exceptional property losses</b>		
Onerous lease provision	1,858	–
Property impairment	11,195	–
	<b>13,053</b>	–
<b>Other exceptional items</b>		
Interest payable on gaming machine VAT repayment	–	997
Income tax expense – current tax	–	(4,375)
Exceptional tax items – deferred tax	(4,809)	21,119
Tax effect on operating exceptional items	(1,626)	–
	<b>(6,435)</b>	17,741
<b>Total exceptional items</b>	<b>12,631</b>	17,741

During the year, the company changed the method used for calculating the consumption of non-consumable inventories. Non-consumable inventories comprise items like glassware, plates, cutlery and cleaning products used in the pubs and hotels. The company has taken a more prudent view on recognition of non-consumable inventories as expenses. The change in the accounting policy for the expected life of those inventories resulted in an exceptional charge of £5,231,000 (2014: £Nil). The effect of this change was not presented as a prior-year adjustment, as management did not believe that previously reported results were materially affected and the treatment adopted provides full information.

In the table above, property impairment relates to the situation in which, owing to poor trading performance, pubs are unlikely to generate sufficient cash in the future to justify their current book value.

The onerous lease provision relates to pubs for which future trading profits, or income from subleases, are not expected to cover the rent. The provision takes several factors into account, including the expected future profitability of the pub, but also the amount estimated as payable on surrender of the lease, where this is a possible outcome. In the year, £1,858,000 (2014: £Nil) was charged in respect of onerous leases.



#### 4 Exceptional items continued

In the year, an exceptional charge of £11,195,000 (2014: £Nil) was incurred in respect of the impairment of property, plant and equipment, as required under IAS 36. This comprises an impairment charge of £12,383,000 (2014: £Nil), offset by impairment reversals of £1,188,000 (2014: £Nil).

A reduction in the deferred tax liability on rolled-over gains for differences between the tax-deductible cost and the residual value of the reinvestment assets has resulted in a credit of £4,809,000. Owing to the magnitude of the reduction and the fact that it relates to prior periods, it was considered exceptional.

#### 5 Employee benefits expenses

	52 weeks ended 26 July 2015 £000	52 weeks ended 27 July 2014 £000
Wages and salaries	406,821	368,335
Social Security costs	25,291	24,008
Other pension costs	3,500	3,213
Share-based payments	8,907	7,521
	<b>444,519</b>	403,077
<b>Directors' emoluments</b>	<b>2015 £000</b>	<b>2014 £000</b>
Aggregate emoluments	1,438	1,623
Aggregate amount receivable under long-term incentive schemes	971	346
Company contributions to money purchase pension scheme	97	113
	<b>2,506</b>	2,082

For further details of directors' emoluments, please see the directors' remuneration report on pages 51 to 59.

The totals below relate to the monthly average number of employees during the year, not the total number of employees at the end of the year (including directors on a service contract).

	2015 Number	2014 Number
<b>Full-time equivalents</b>		
Managerial/administration	4,233	4,419
Hourly paid staff	17,885	16,911
	<b>22,118</b>	21,330
	<b>2015 Number</b>	<b>2014 Number</b>
<b>Total employees</b>		
Managerial/administration	4,690	4,419
Hourly paid staff	30,041	28,216
	<b>34,731</b>	32,635

For details of the Share Incentive Plan and the 2005 Deferred Bonus Scheme, refer to the directors' remuneration report on pages 51 to 59.

The shares awarded as part of the above schemes are based on the cash value of the bonuses at the date of the awards. These awards vest over three years – with their cost spread equally over their three-year life. The share-based payment charge above represents the annual cost of bonuses awarded over the past three years.

The company operates two share-based compensation plans. In both schemes, the fair values of the shares granted are determined by reference to the share price at the date of the award. The shares vest at a nil exercise price and there are no market-based conditions to the shares which affect their ability to vest.

**6 Finance income and costs**

	52 weeks ended 26 July 2015 £000	52 weeks ended 27 July 2014 £000
<b>Finance costs</b>		
Interest payable on bank loans and overdrafts	17,202	14,290
Amortisation of bank loan issue costs	2,942	2,320
Interest payable on swaps	13,812	19,300
Interest payable on obligations under finance leases	240	370
Total pre-exceptional finance costs	34,196	36,280
Bank interest receivable	(180)	(67)
<b>Total pre-exceptional finance income</b>	<b>(180)</b>	<b>(67)</b>
Exceptional interest charge (note 4)	–	997
<b>Net finance costs</b>	<b>34,016</b>	<b>37,210</b>

Further details are provided in note 23.

The net finance costs during the year decreased from £37.2m to £34.0m. The finance costs in the income statement were covered 3.3 times (2014: 3.2 times), on a pre-exceptional basis.

## 7 Income tax expense

### (a) Tax on profit on ordinary activities

The standard rate of corporation tax in the UK changed from 21.0% to 20.0%, with effect from 1 April 2015. Accordingly, the company's profits for this accounting period are taxed at an effective rate of 20.7% (2014: 22.3%).

	52 weeks ended 26 July 2015 Before exceptional items £000	52 weeks ended 26 July 2015 Exceptional items (note 4) £000	52 weeks ended 26 July 2015 After exceptional items £000	52 weeks ended 27 July 2014 Before exceptional items £000	52 weeks ended 27 July 2014 Exceptional items (note 4) £000	52 weeks ended 27 July 2014 After exceptional items £000
Current income tax:						
Current income tax charge	19,885	(1,626)	18,259	17,004	(4,375)	12,629
Adjustment in respect of prior period	1,659	–	1,659	–	–	–
<b>Total current income tax</b>	<b>21,544</b>	<b>(1,626)</b>	<b>19,918</b>	<b>17,004</b>	<b>(4,375)</b>	<b>12,629</b>
Deferred tax:						
Origination and reversal of temporary differences	113	–	113	3,495	21,119	24,614
Adjustment in respect of prior period	(1,314)	(4,809)	(6,123)	–	–	–
Impact of change in UK tax rate	–	–	–	–	–	–
<b>Total deferred tax</b>	<b>(1,201)</b>	<b>(4,809)</b>	<b>(6,010)</b>	<b>3,495</b>	<b>21,119</b>	<b>24,614</b>
<b>Tax charge in the income statement</b>	<b>20,343</b>	<b>(6,435)</b>	<b>13,908</b>	<b>20,499</b>	<b>16,744</b>	<b>37,243</b>
	52 weeks ended 26 July 2015 Before exceptional items £000	52 weeks ended 26 July 2015 Exceptional items (note 4) £000	52 weeks ended 26 July 2015 After exceptional items £000	52 weeks ended 27 July 2014 Before exceptional items £000	52 weeks ended 27 July 2014 Exceptional items (note 4) £000	52 weeks ended 27 July 2014 After exceptional items £000
<b>Tax relating to items charged or credited through equity</b>						
Tax on share-based payment						
Current tax	(446)	–	(446)	–	–	–
Deferred tax	95	–	95	663	–	663
	(351)	–	(351)	663	–	663
Current tax charge on interest-rate swaps	(1,961)	–	(1,961)	2,776	–	2,776
<b>Tax charge taken through equity</b>	<b>(2,312)</b>	<b>–</b>	<b>(2,312)</b>	<b>3,439</b>	<b>–</b>	<b>3,439</b>

**7 Income tax expense** continued**(b) Reconciliation of the total tax charge**

The tax expense after exceptional items in the income statement for the year is higher (2014: lower) than the standard rate of corporation tax in the UK of 20.7% (2014: 22.3%), owing largely to less expenditure qualifying for capital allowances.

The differences are reconciled below:

	52 weeks ended 26 July 2015 Before exceptional items £000	52 weeks ended 26 July 2015 After exceptional items £000	52 weeks ended 27 July 2014 Before exceptional items £000	52 weeks ended 27 July 2014 After exceptional items £000
Profit before income tax	<b>77,798</b>	<b>58,732</b>	79,362	78,365
Profit multiplied by the UK standard rate of corporation tax of 20.7% (2014: 22.3%)	<b>16,078</b>	<b>12,138</b>	17,722	17,499
Abortive acquisition costs and disposals	<b>163</b>	<b>163</b>	78	78
Other disallowables	<b>155</b>	<b>2,469</b>	186	409
Other allowable deductions	<b>(33)</b>	<b>(33)</b>	(334)	(334)
Non-qualifying depreciation	<b>3,577</b>	<b>3,577</b>	3,654	3,654
Deduction for shares and SIPs	<b>29</b>	<b>29</b>	(69)	(69)
Remeasurement of other balance sheet items	<b>(342)</b>	<b>(342)</b>	(331)	(331)
Effect of different tax rates and unrecognised losses in overseas companies	<b>302</b>	<b>302</b>	–	–
Adjust opening and closing deferred tax to average of 20.7%	<b>69</b>	<b>69</b>	–	–
Prior period adjustment – current tax	<b>1,659</b>	<b>1,659</b>	–	(4,375)
Prior period adjustment – deferred tax	<b>(1,314)</b>	<b>(6,123)</b>	–	21,119
Adjustment to deferred tax in respect of change in tax rate	–	–	(407)	(407)
<b>Total tax expense reported in the income statement</b>	<b>20,343</b>	<b>13,908</b>	20,499	37,243

## 7 Income tax expense continued

### (c) Deferred tax

The deferred tax in the balance sheet is as follows:

Deferred tax liabilities	Accelerated tax depreciation £000	Other temporary differences £000	Total £000
At 27 July 2014	79,306	6,766	86,072
Prior year movement posted to the income statement	(1,515)	(4,813)	(6,328)
Movement during year posted to the income statement	304	(25)	279
<b>At 26 July 2015</b>	<b>78,095</b>	<b>1,928</b>	<b>80,023</b>

Deferred tax assets	Share- based payments £000	Capital losses carried forward £000	Interest-rate swaps £000	Total £000
At 27 July 2014	928	1,458	6,033	8,419
Movement during year posted to the income statement	166	–	–	166
Prior year movement posted to the income statement	–	(205)	–	(205)
Taken through equity	(95)	–	1,961	1,866
<b>At 26 July 2015</b>	<b>999</b>	<b>1,253</b>	<b>7,994</b>	<b>10,246</b>

The Finance Bill 2015 included legislation to reduce the main rate of corporation tax to 19% for the financial years beginning 1 April 2017, 1 April 2018 and 1 April 2019, and at 18% for the financial year beginning 1 April 2020. These changes had not been substantively enacted at the balance sheet date and consequently are not included in these financial statements. The effect of these proposed reductions would be to reduce the net deferred tax liability to £65.8m at 19% and £62.4m at 18%.

Deferred tax assets and liabilities have been offset as follows:

	2015 £000	2014 £000
Deferred tax liabilities	80,023	86,072
Offset against deferred tax assets	(2,252)	(2,386)
Deferred tax liability	77,771	83,686
Deferred tax assets	10,246	8,419
Offset against deferred tax liabilities	(2,252)	(2,386)
Deferred tax asset	7,994	6,033

## 8 Earnings and cash flow per share

Earnings per share are based on the weighted average number of shares in issue of 122,269,948 (2014: 125,312,581), including those held in trust in respect of employee share schemes. Earnings per share, calculated on this basis, are usually referred to as 'diluted', since all of the shares in issue are included.

Accounting standards refer to 'basic earnings' per share, these exclude those shares held in trust in respect of employee share schemes.

<b>Weighted average number of shares</b>	<b>52 weeks ended 26 July 2015</b>	52 weeks ended 27 July 2014
Shares in issue (used for diluted EPS)	<b>122,269,948</b>	125,312,581
Shares held in trust	<b>(4,063,604)</b>	(4,174,284)
Shares in issue less shares held in trust (used for basic EPS)	<b>118,206,344</b>	121,138,297

The weighted average number of shares held in trust for employee share schemes has been adjusted to exclude those shares which have vested, but which remain in the trust.

### 52 weeks ended 26 July 2015

	Profit £000	Basic EPS pence per ordinary share	Diluted EPS pence per ordinary share
Earnings (profit after tax)	44,824	37.9	36.7
Exclude effect of exceptional items after tax	12,631	10.7	10.3
Adjusted earnings before exceptional items	57,455	48.6	47.0

### 52 weeks ended 27 July 2014

	Profit £000	Basic EPS pence per ordinary share	Diluted EPS pence per ordinary share
Earnings (profit after tax)	41,122	33.9	32.8
Exclude effect of exceptional items after tax	17,741	14.7	14.2
Adjusted earnings before exceptional items	58,863	48.6	47.0

### Free cash flow per share

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 current pubs, after funding interest, corporation tax, all other reinvestment in pubs open at the start of the period and the purchase of own shares under the employee Share Incentive Plan ('free cash flow'). It is calculated before taking account of proceeds from property disposals, inflows and outflows of financing from outside sources and dividend payments and is based on the weighted average number of shares in issue, including those held in trust in respect of the employee share schemes.

<b>Free cash flow per share</b>	<b>52 weeks ended 26 July 2015</b>	52 weeks ended 27 July 2014
Free cash flow (£000)	<b>109,778</b>	92,850
Free cash flow per share (p)	<b>89.8</b>	74.1

## 9 Cash generated from operations

	52 weeks ended 26 July 2015 £000	52 weeks ended 27 July 2014 £000
Profit for the year	44,824	41,122
Adjusted for:		
Tax	13,908	37,243
Net impairment charge	11,195	1,012
Net onerous lease provision	1,858	(228)
Loss on disposal of property, plant and equipment	694	645
Depreciation of property, plant and equipment	61,458	54,459
Amortisation of intangible assets	4,775	3,254
Amortisation of other non-current assets	373	321
Depreciation on investment properties	62	41
Aborted properties costs	787	339
Share-based charges	8,907	7,521
Interest receivable	(180)	(67)
Amortisation of bank loan issue costs	2,942	2,320
Interest payable	31,254	33,960
Exceptional interest	–	997
	<b>182,857</b>	182,939
Change in inventories	2,861	(2,455)
Change in receivables	(2,937)	39
Change in payables	27,400	31,982
<b>Cash flow from operating activities</b>	<b>210,181</b>	212,505

## 10 Analysis of changes in net debt

	At 27 July 2014 £000	Cash flows £000	Non-cash movement £000	At 26 July 2015 £000
<b>Borrowings</b>				
Cash in hand	32,315	(140)	–	32,175
Finance lease creditor – due in one year	(2,636)	2,648	(2,063)	(2,051)
Current net borrowings	29,679	2,508	(2,063)	30,124
Bank loans – due after one year	(584,167)	(44,123)	(2,942)	(631,232)
Finance lease creditor – due after one year	(2,063)	–	2,063	–
Non-current net borrowings	(586,230)	(44,123)	(879)	(631,232)
<b>Net borrowings</b>	(556,551)	(41,615)	(2,942)	(601,108)
<b>Derivatives</b>				
Interest-rate swaps – due before one year	(3,149)	–	3,149	–
<b>Current derivatives</b>	(3,149)	–	3,149	–
Interest-rate swap asset – due after one year (note 23)	1,723	–	(1,723)	–
Interest-rate swap liability – due after one year (note 23)	(28,740)	–	(11,233)	(39,973)
<b>Non-current derivatives</b>	(27,017)	–	(12,956)	(39,973)
<b>Total derivatives</b>	(30,166)	–	(9,807)	(39,973)
<b>Net debt</b>	(586,717)	(41,615)	(12,749)	(641,081)

### Non-cash movements

The non-cash movement in bank loans due after one year relates to the amortisation of bank loan issue costs.

The movement in interest-rate swaps of £9.8m relates to the change in the 'mark to market' valuations for the year.

**11 Dividends paid and proposed**

	52 weeks ended 26 July 2015 £000	52 weeks ended 27 July 2014 £000
Declared and paid during the year:		
Dividends on ordinary shares:		
– final for 2012/13: 8.0p (2011/12: 8.0p)	–	9,987
– interim for 2013/14: 4.0p (2012/13: 4.0p)	–	4,962
– final for 2013/14: 8.0p (2012/13: 8.0p)	9,761	–
– interim for 2014/15: 4.0p (2013/14: 4.0p)	4,830	–
Dividends paid	<b>14,591</b>	14,949
Proposed for approval by shareholders at the AGM:		
– final dividend for 2014/15: 8.0p (2013/14: 8.0p)	<b>9,782</b>	9,751
Dividend cover (times)	<b>3.1</b>	2.8

As detailed in the interim accounts, the board declared and paid an interim dividend of 4.0p for the financial year ended 26 July 2015. Dividend cover is calculated as profit after tax and exceptional items over dividend paid.

**12 Property, plant and equipment**

	Freehold and long-leasehold property £000	Short- leasehold property £000	Equipment, fixtures and fittings £000	Assets under construction £000	Total £000
Cost:					
At 28 July 2013	702,446	412,955	426,346	36,272	1,578,019
Additions	55,124	17,272	49,721	45,401	167,518
Transfers	23,574	1,995	2,620	(28,189)	–
Disposals	(1,316)	(2,692)	(4,429)	–	(8,437)
Reclassification	8,471	(8,471)	–	–	–
At 27 July 2014	788,299	421,059	474,258	53,484	1,737,100
Additions	63,804	11,366	46,054	39,395	160,619
Transfers	22,383	663	7,054	(30,100)	–
Exchange differences	(6)	(38)	(114)	–	(158)
Transfer to held for sale	(1,532)	–	(482)	–	(2,014)
Disposals	(43)	(4,584)	(5,989)	–	(10,616)
Reclassification	3,116	(3,116)	–	–	–
<b>At 26 July 2015</b>	<b>876,021</b>	<b>425,350</b>	<b>520,781</b>	<b>62,779</b>	<b>1,884,931</b>
Accumulated depreciation and impairment:					
At 28 July 2013	141,044	183,304	296,202	541	621,091
Provided during the period	12,196	13,352	28,911	–	54,459
Impairment loss	2,234	(1,179)	137	–	1,192
Disposals	(895)	(2,910)	(3,904)	–	(7,709)
Reclassification	2,434	(2,434)	–	–	–
At 27 July 2014	157,013	190,133	321,346	541	669,033
Provided during the period	13,335	14,272	33,851	–	61,458
Exchange differences	(1)	(6)	(18)	–	(25)
Impairment loss (reversal)	3,589	4,838	2,278	–	10,705
Transfer to held for sale	(441)	–	(353)	–	(794)
Disposals	–	(4,112)	(5,090)	–	(9,202)
Reclassification	954	(413)	–	(541)	–
<b>At 26 July 2015</b>	<b>174,449</b>	<b>204,712</b>	<b>352,014</b>	<b>–</b>	<b>731,175</b>
<b>Net book amount at 26 July 2015</b>	<b>701,572</b>	<b>220,638</b>	<b>168,767</b>	<b>62,779</b>	<b>1,153,756</b>
Net book amount at 27 July 2014	631,286	230,926	152,912	52,943	1,068,067
Net book amount at 28 July 2013	561,402	229,651	130,144	35,731	956,928



## 12 Property, plant and equipment continued

### Impairment of property, plant and equipment

In assessing whether a pub has been impaired, the book value of the pub is compared with its anticipated future cash flows. Assumptions are used about sales, costs and profit, using a pre-tax discount rate for future years of 8% (2014: 9%).

If the value, based on future anticipated cash flows, is lower than the book value, the difference is written off as property impairment.

As a result of this exercise, a net impairment loss of £10,705,000 (2014: £1,192,000) was charged to property losses in the income statement, as described in note 3.

Management believes that a reasonable change in any of the key assumptions, for example the discount rate applied to each pub, could cause the carrying value of the pub to exceed its recoverable amount, but that the change would be immaterial.

### Finance leases

Certain items of IT equipment are subject to finance leases.

The carrying value of these assets, held under finance leases at 26 July 2015, included in equipment, fixtures and fittings, was as follows:

	2015 £000	2014 £000
Net book value	5,862	8,580

**13 Intangible assets**

	£000
Cost:	
At 28 July 2013	35,493
Additions	9,926
At 27 July 2014	45,419
Additions	7,934
<b>At 26 July 2015</b>	<b>53,353</b>
Accumulated amortisation:	
At 28 July 2013	15,327
Amortisation during the period	3,254
At 27 July 2014	18,581
Amortisation during the period	4,775
<b>At 26 July 2015</b>	<b>23,356</b>
<b>Net book amount at 26 July 2015</b>	<b>29,997</b>
Net book amount at 27 July 2014	26,838
Net book amount at 28 July 2013	20,166

Amortisation of £4,775,000 (2014: £3,254,000) is included in operating costs in the income statement.

The majority of intangible assets relates to computer software and software development. Examples include the development costs of our SAP accounting system and our 'Wisdom' property maintenance system.

Included in the intangible assets is £5,046,000 of software in the course of development (2014: £9,298,000).

**Finance leases**

Certain intangible assets, for example EPOS and accounting systems, have been purchased using finance leases. The amounts below show the reduction in the net book value of assets held under finance leases which are released from security when the debt is repaid.

	2015 £000	2014 £000
Net book value	<b>580</b>	696

## 14 Investment properties

The company owns three freehold properties with existing tenants and these assets have been classified as investment properties.

	£000
Cost:	
At 28 July 2013	–
Additions	8,754
At 27 July 2014	8,754
Additions	–
<b>At 26 July 2015</b>	<b>8,754</b>
Accumulated depreciation:	
At 28 July 2013	–
Depreciation during the period	41
At 27 July 2014	41
Depreciation during the period	62
<b>At 26 July 2015</b>	<b>103</b>
<b>Net book amount at 26 July 2015</b>	<b>8,651</b>
Net book amount at 27 July 2014	8,713
Net book amount at 28 July 2013	–

Rental income received in the period from investment properties was £378,000 (2014: £328,000). Operating costs incurred in relation to these properties amounted to £58,000 (2014: £41,000).

In the opinion of the directors, the cost as stated above is equivalent to the fair value of the properties.

**15 Other non-current assets**

These assets relate to lease premiums whereby the company has paid a landlord a sum of money to take over the benefit of a lease.

	Lease premiums £000
Cost:	
At 28 July 2013	14,070
Additions	10
At 27 July 2014	14,080
Additions	1,125
<b>At 26 July 2015</b>	<b>15,205</b>
Accumulated amortisation and impairment:	
At 28 July 2013	4,173
Amortisation during the period	321
Impairment reversal	(180)
At 27 July 2014	4,314
Amortisation during the period	373
Impairment loss	490
<b>At 26 July 2015</b>	<b>5,177</b>
<b>Net book amount at 26 July 2015</b>	<b>10,028</b>
Net book amount at 27 July 2014	9,766
Net book amount at 28 July 2013	9,897

**16 Inventories**

Bar, food and non-consumable stock held at our pubs and national distribution centre.

	2015 £000	2014 £000
Goods for resale at cost	<b>19,451</b>	22,312

The carrying value of inventories has reduced in the year, owing to a change in the accounting policy for non-consumable inventories, please see note 4.

## 17 Receivables

Receivables relate to situations in which third parties owe the company money. Examples include rebates from suppliers and overpayments of certain taxes.

Prepayments relate to payments which have been made in respect of liabilities after the period end.

	2015 £000	2014 £000
Other receivables	1,306	2,568
Prepayments and accrued income	25,532	21,333
	<b>26,838</b>	23,901

At the balance sheet date, the company was exposed to a maximum credit risk of £1.3m, of which £0.2m was overdue. The company holds no collateral for these receivables.

Within accrued income is £2.0m (2014: £1.8m) of amounts due from suppliers for commercial agreements.

## 18 Assets held for resale

This relates to situations in which the company has decided to sell a property, but the transaction is not yet under contract. As at 26 July 2015, one site was classified as held for sale (2014: none). The major classes of assets held, comprising the site classified as held for sale, was as follows:

	2015 £000	2014 £000
Property, plant and equipment	1,220	–

## 19 Cash and cash equivalents

	2015 £000	2014 £000
Cash at bank and in hand	32,175	32,315

Cash at bank earns interest at floating rates, based on daily bank deposit rates.

## 20 Trade and other payables

This category relates to money owed by the company to suppliers and the government.

Accruals refer to allowances made by the company for future anticipated payments to suppliers and other creditors.

	2015 £000	2014 £000
Trade payables	135,619	130,476
Other payables	26,401	10,291
Other tax and Social Security	45,777	42,413
Accruals and deferred income	75,430	59,980
	<b>283,227</b>	243,160

## 21 Borrowings

	2015 £000	2014 £000
<b>Current (due within one year)</b>		
Finance lease obligations	2,051	2,636
<b>Non-current (due after one year)</b>		
<b>Bank loans</b>		
Variable-rate facility	638,245	590,347
Unamortised bank loan issue costs	(7,013)	(6,180)
	631,232	584,167
<b>Other</b>		
Finance lease obligations	–	2,063
<b>Total non-current borrowings</b>	<b>631,232</b>	586,230

The finance lease is secured against the company's till system assets.

## 22 Provisions

	Self-insurance £000	Onerous lease £000	Total £000
<b>At 27 July 2014</b>	3,323	4,174	7,497
Charged to the income statement:			
- Additional charges	3,372	2,699	6,071
- Unused amounts reversed	(395)	(841)	(1,236)
- Used during year	(2,175)	(914)	(3,089)
<b>At 26 July 2015</b>	<b>4,125</b>	<b>5,118</b>	<b>9,243</b>

	2015 £000	2014 £000
Current	5,231	4,442
Non-current	4,012	3,055
<b>Total provisions</b>	<b>9,243</b>	7,497

### Self-insurance

The amounts represent a provision for ongoing legal claims brought against the company by customers and employees in the normal course of business. Owing to the nature of our business, we expect to have a provision for outstanding employee and public liability claims on an ongoing basis.

### Onerous lease

The amount represents a provision for future rent payments on sites which are not expected to generate sufficient profits to cover rents. Also included are provisions on any sublet properties for which rent is not fully recovered. This provision is expected to be utilised over a period of up to 26 years.

## 23 Financial instruments

The table below analyses the company's financial liabilities which will be settled on a net basis into relevant maturity groupings, based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

### Maturity profile of financial liabilities

	Within 1 year £000	1–2 years £000	2–3 years £000	3–4 years £000	4–5 years £000	More than 5 years £000	Total £000
<b>At 26 July 2015</b>							
Bank loans	18,130	18,130	18,130	18,130	700,034	–	772,554
Finance lease obligations	2,102	–	–	–	–	–	2,102
Trade and other payables	237,451	–	–	–	–	–	237,451
Derivatives	26,915	19,763	19,657	13,035	12,924	23,106	115,400
<b>At 27 July 2014</b>							
Bank loans	14,543	14,543	14,543	609,881	–	–	653,510
Finance lease obligations	2,801	2,101	–	–	–	–	4,902
Trade and other payables	200,749	–	–	–	–	–	200,749
Derivatives	13,887	12,098	4,949	4,830	12,819	35,937	84,520

At the balance sheet date, the company had loan facilities of £840m (2014: £690m) as detailed below:

- Unsecured revolving-loan facility of £820m
  - Matures February 2020
  - 11 participating lenders
- Overdraft facility of £20m

The company has hedged its interest-rate liabilities to its banks by swapping the floating-rate debt into fixed-rate debt which fixed £400m of these borrowings at rates of between 2.43% and 5.52%. The effective weighted average interest rate of the swap agreements is 4.03% (2014: 5.33%), fixed for a weighted average period of 2.3 years (2014: 0.9 years).

In addition, the company has entered into forward-starting interest-rate swaps as detailed in the table below.

### Weighted average by swap period:

Total swap value £m	From	To	Weighted average interest %
400	12/11/2014	30/07/2016	3.53
400	31/07/2016	30/07/2018	2.19
400	31/07/2018	30/07/2021	3.74
150	31/07/2021	30/07/2023	3.82

At the balance sheet date, £690m (2014: £600m) was drawn down under the £820m unsecured-term revolving-loan facility. The amounts drawn under this agreement can be varied, depending on the requirements of the business. It is expected that the draw-down required by the company will not drop below £400m for the duration of the interest-rate swaps detailed above.

**23 Financial instruments** continued**Interest-rate and currency risks of financial liabilities**

An analysis of the interest-rate profile of the financial liabilities, after taking account of all interest-rate swaps, is set out in the following table.

	2015 £000	2014 £000
Analysis of interest-rate profile of the financial liabilities		
Bank loans		
Floating-rate due after one year	<b>231,232</b>	184,167
Fixed-rate due after one year	<b>400,000</b>	400,000
	<b>631,232</b>	584,167
Finance lease obligation		
Fixed-rate due in one year	<b>(2,051)</b>	(2,636)
Fixed-rate due after one year	–	(2,063)
	<b>(2,051)</b>	(4,699)

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

**Capital risk management**

The company's capital structure comprises shareholders' equity and loans. The objective of capital management is to ensure that the company is able to continue as a going concern and provide shareholders with returns on their investment, while managing risk.

The company does not have a specific measure for managing capital structure; instead, the company plans its capital requirements and manages its loans, dividends and share buybacks accordingly. The company measures loans using a ratio of net debt to EBITDA which was 3.37 times (2014: 3.21 times) at the year end.

Section 2 on page 42 discusses the financial risks associated with financial instruments, including credit risk and liquidity risk.

**Obligations under finance leases**

The minimum lease payments under finance leases fall due as follows:

	2015 £000	2014 £000
Within one year	<b>2,101</b>	2,801
In the second to fifth year, inclusive	–	2,101
	<b>2,101</b>	4,902
Less future finance charges	<b>(50)</b>	(203)
<b>Present value of lease obligations</b>	<b>2,051</b>	4,699
Less amount due for settlement within one year	<b>(2,051)</b>	(2,801)
Amount due for settlement during the second to fifth year, inclusive	–	1,898

All finance lease obligations are in respect of various equipment and software used in the business. No escalation clauses are included in the agreements.



## 23 Financial instruments continued

### Fair values

In some cases, payments which are due to be made in the future by the company or due to be received by the company have to be given a fair value.

The table below highlights any differences between book value and fair value of financial instruments.

	2015 Book value £000	2015 Fair value £000	2014 Book value £000	2014 Fair value £000
<b>Loans and receivables</b>				
Cash and cash equivalents	32,175	32,175	32,315	32,315
Receivables	1,306	1,306	2,568	2,568
	<b>33,481</b>	<b>33,481</b>	34,883	34,883
<b>Financial liabilities at amortised cost</b>				
Trade and other payables	(237,451)	(237,451)	(200,749)	(200,749)
Finance lease obligations	(2,051)	(2,051)	(4,699)	(4,751)
Long-term borrowings	(631,232)	(644,736)	(584,167)	(616,384)
	<b>(870,734)</b>	<b>(884,238)</b>	(789,615)	(821,884)
<b>Derivatives used for hedging</b>				
Interest-rate swap liabilities: cash flow hedges	(39,973)	(39,973)	(31,889)	(31,889)
Interest-rate swap assets: cash flow hedges	–	–	1,723	1,723
	<b>(39,973)</b>	<b>(39,973)</b>	(30,166)	(30,166)

The fair value of finance leases has been calculated by discounting the expected cash flows at the year end's prevailing interest rates.

The fair value of derivatives has been calculated by discounting all future cash flows by the market yield curve at the balance sheet date.

The fair value of borrowings has been calculated by discounting the expected future cash flows at the year end's prevailing interest rates.

### Interest-rate swaps

At 26 July 2015, the company had fixed-rate swaps designated as hedges of floating-rate borrowings. The floating-rate borrowings are interest-bearing borrowings at rates based on LIBOR, fixed for periods of up to six months.

The interest-rate swaps of the floating-rate borrowings were assessed to be effective; a cumulative net loss of £39,973,000 (2014: a loss of £30,166,000), with a deferred tax credit of £7,994,000 (2014: a credit of £6,033,000), relating to the hedging instrument, is included in equity. A debit of £9,807,000 (2014: credit of £13,879,000) before deferred tax for the year is reflected in equity.

### Fair value of financial assets and liabilities

IFRS 7 requires disclosure of fair value measurements by level, using the following fair value measurement hierarchy:

- Quoted prices in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included in level 1 which are observable for the asset or liability, either directly or indirectly (level 2)
- Inputs for the asset or liability which are not based on observable market data (level 3)

The fair value of the interest-rate swaps of £40.0m is considered to be level 2. All other financial assets and liabilities are measured in the balance sheet at amortised cost, and their valuation is also considered to be level 2.

## 23 Financial instruments continued

## Offsetting financial assets and financial liabilities

	Gross amounts of recognised financial liabilities £000	Gross amounts of recognised financial assets set off in the balance sheet £000	Net amounts of financial liabilities presented in the balance sheet £000	Related amounts not set off in the balance sheet	
				Financial instruments £000	Net amount £000
<b>As at 26 July 2015</b>					
Interest-rate swap	39,973	–	39,973	–	39,973
Long-term borrowings	690,266	(59,034)	631,232	–	631,232
Trade payables	135,619	–	135,619	–	135,619
<b>Total</b>	<b>865,858</b>	<b>(59,034)</b>	<b>806,824</b>	<b>–</b>	<b>806,824</b>

<b>As at 27 July 2014</b>					
Interest-rate swap	31,889	–	31,889	(284)	31,605
Long-term borrowings	603,185	(19,018)	584,167	–	584,167
Trade payables	130,476	–	130,476	–	130,476
<b>Total</b>	<b>765,550</b>	<b>(19,018)</b>	<b>746,532</b>	<b>(284)</b>	<b>746,248</b>

	Gross amounts of recognised financial assets £000	Gross amounts of recognised financial liabilities set off in the balance sheet £000	Net amounts of financial assets presented in the balance sheet £000	Related amounts not set off in the balance sheet	
				Financial instruments £000	Net amount £000
<b>As at 26 July 2015</b>					
Interest-rate swap	–	–	–	–	–
Other receivables	1,371	(65)	1,306	–	1,306
<b>Total</b>	<b>1,371</b>	<b>(65)</b>	<b>1,306</b>	<b>–</b>	<b>1,306</b>

<b>As at 27 July 2014</b>					
Interest-rate swap	1,723	–	1,723	(284)	1,439
Other receivables	2,703	(135)	2,568	–	2,568
<b>Total</b>	<b>4,426</b>	<b>(135)</b>	<b>4,291</b>	<b>(284)</b>	<b>4,007</b>

## 24 Other liabilities

	2015 £000	2014 £000
Operating lease incentives	<b>13,667</b>	13,530

Included in other liabilities are lease incentives on leases where the lessor retains substantially all of the risks and benefits of ownership of the asset. The lease incentives are recognised as a reduction in rent over the lease term and shown as a liability on the balance sheet.

The weighted average period to maturity of operating lease incentives is 6.5 years (2014: 6.8 years).

## 25 Financial commitments

About 51% of the company's pubs are leasehold. New leases are normally for 30 years, with a break clause after 15 years. Most leases have upwards-only rent reviews, based on open-market rental at the time of review, but most new pub leases have an uplift in rent which is fixed at the start of the lease.

The minimum aggregate contractual operating lease commitments fall due as follows:

<b>Land and buildings</b>	2015 £000	2014 £000
Within one year	<b>64,603</b>	67,083
Between two and five years	<b>239,783</b>	252,484
After five years	<b>829,201</b>	841,857
	<b>1,133,587</b>	1,161,424

The company has some lease commitments, with rentals determined in relation to sales. An estimate of the future minimum rental payments under such leases of £64.6m (2014: £67.1m) is included above.

The company has sublet certain units or receives a rental income with respect to properties with space ancillary to that of the pub. The minimum aggregate contractual operating lease rentals due to the company are as follows:

<b>Land and buildings</b>	2015 £000	2014 £000
Within one year	<b>2,010</b>	1,773
Between two and five years	<b>6,455</b>	6,234
After five years	<b>10,161</b>	9,566
	<b>18,626</b>	17,573

## 26 Capital commitments

The company had £8.2m of capital commitments, relating to the purchase of three sites, for which no provision had been made, in respect of property, plant and equipment, at 26 July 2015 (2014: £3.0m).

The company had some other sites in the property pipeline; however, any legal commitment is contingent on planning and licensing. Therefore, there are no commitments at the balance sheet date.

## 27 Related-party disclosures

No transactions have been entered into with related parties during the year.

J D Wetherspoon is the owner of the share capital of the following companies:

Company name	Country of incorporation	Ownership
J D Wetherspoon (Scot) Limited	Scotland	Wholly owned
J D Wetherspoon Property Holdings Limited	England	Wholly owned
Moon and Spoon Limited	England	Wholly owned
Moon and Stars Limited	England	Wholly owned
Moon on the Hill Limited	England	Wholly owned
Moorsom & Co Limited	England	Wholly owned
Sylvan Moon Limited	England	Wholly owned

All of these companies are dormant and contain no assets or liabilities and are, therefore, immaterial. As a result, consolidated accounts have not been produced. The company has an overseas branch located in the Republic of Ireland.

As required by IAS 24, the following information is disclosed about key management compensation.

### Key management compensation

	2015 £000	2014 £000
Short-term employee benefits	2,370	2,763
Post-employment pension benefits	194	193
Other long-term benefits	1,859	765
	<b>4,423</b>	3,721

Key management comprises the executive directors and management board, as on page 48.

For additional information about directors' emoluments, please refer to the directors' remuneration report on pages 51 to 59.

### Directors' interests in employee share plans

Details of the shares held by executive members of the board of directors are included in the remuneration report on pages 51 to 59 which forms part of these financial statements.

**28 Share capital**

	Number of shares 000	Share capital £000
At 28 July 2013	126,036	2,521
Repurchase of shares	(3,068)	(61)
At 27 July 2014	122,968	2,460
Repurchase of shares	(3,619)	(73)
<b>At 26 July 2015</b>	<b>119,349</b>	<b>2,387</b>

The total authorised number of 2p ordinary shares is 500 million (2014: 500 million). All issued shares are fully paid. In the year, there were no proceeds from the issue of shares (2014: £Nil).

During the year, 3,618,827 shares were repurchased by the company for cancellation, representing approximately 2.9% of the issued share capital, at a cost of £26.9m, including stamp duty, representing an average cost per share of 743p. At the year end, the company had a liability for share purchases of £14.2m which was settled post year end.

While the memorandum and articles of association allow for preferred, deferred or special rights to attach to ordinary shares, no shares carried such rights at the balance sheet date.

**29 Events after the balance sheet date**

There were no significant events after the balance sheet date.

The financial statements of J D Wetherspoon plc (the 'Company') for the year ended 26 July 2015 were authorised for issue by the board of directors on 10 September 2015, and the balance sheet was signed on the board's behalf by J Hutson and S Cacioppo.

J D Wetherspoon plc is a public limited company, incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on the London Stock Exchange.

The Company's financial statements have been prepared in accordance with the EU-endorsed IFRSs and IFRSIC (IFRS Interpretations Committee) interpretations as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006 as applicable to companies reporting under IFRS. The principal accounting policies adopted by the Company are set out on pages 37 to 40.

# ACCOUNTING POLICIES

## **Basis of preparation**

The financial statements of the Company have been prepared in accordance with IFRSs as adopted by the EU, IFRSIC interpretations and the Companies Act 2006, applicable to companies reporting under IFRS. The financial statements have been prepared on the going-concern basis, using historical cost convention, except for the revaluation of financial instruments.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 26 July 2015. These policies have been consistently applied to all of the years presented, unless otherwise stated.

## **Important estimates and judgements**

Estimates and judgements are based on historical experience and other factors, including expectations of future events which are believed to be reasonable and constitute management's best judgement at the date of the financial statements. Actual experience may differ from these estimates. Complex areas on judgement or estimates involving sums which are significant to the accounts are disclosed below.

### *Impairment of property, plant and equipment*

The Company determines whether a trading pub should be impaired by comparing its net book value with future cash flows ('value in use'), having made certain assumptions about sales, costs and profit and applying a pre-tax discount rate for future years of 8%.

Pubs and pub sites which the Company intends to sell, or might sell, are impaired if the expected net sale proceeds ('fair value') are less than the book value.

Fair value (less the costs of selling the assets) is determined using external and internal estimates of the value of the Company's pubs.

The value in use is calculated using the estimated earnings and cash flows derived by management estimates and applying a suitable pre-tax discount rate to these cash flows.

At each reporting date, the Company assesses whether an asset may be impaired.

Any changes in the level of forecast earnings or cash flows, the discount rate applied to those or the estimate in sale proceeds/fair value could give rise to an additional or reduced impairment provision.

If a previously recognised impairment loss is reversed, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount which would have been determined, net of depreciation, had no impairment loss been recognised for the asset in previous years. After such a reversal, the

depreciation charge is adjusted in future periods, to allocate the asset's revised carrying amount, less any residual value, over its remaining useful life.

### *Onerous leases*

A provision for onerous leases is made for pubs for which future trading profits, or income from subleases, are not expected to cover rent. The provision takes several factors into account, including the expected future profitability of the pub and the amount estimated as payable on surrender of the lease, where this is a possible outcome.

### *Hedging*

The Company adopts hedge accounting, meaning that the effective portion of the changes in the fair value of the derivatives is dealt with in other comprehensive income. Any gain or loss relating to the ineffective portion would be recognised immediately in the income statement.

The Company makes assumptions on the requirements for future borrowings, as well as future interest rates, when assessing the effectiveness of interest-rate swaps. Changes in the forecast amount of future borrowings or interest rates may result in all or part of the gain or loss, which was originally reported in equity, being transferred to the income statement.

### *Exceptional items*

A degree of judgement is required in determining whether certain transactions merit separate presentation to allow shareholders to better understand financial performance in the year, when compared with previous years and trends.

### *Taxation*

Significant judgement is required to determine the provision for taxes, as the tax treatment for some transactions cannot be fully determined until a formal resolution has been reached with the tax authorities. Tax benefits are not recognised until it is probable that the benefit will be obtained.

## **Segmental reporting**

The Company operates predominantly one type of business (pubs) in the United Kingdom and the Republic of Ireland. Given the immaterial size of the Company's hotel business and trading presence in the Republic of Ireland, these have not been separately disclosed as a business segment.

## **Exceptional items**

The Company presents, on the face of the income statement, those material items of income and expense which, because of the nature and magnitude of the event giving rise to them, merit separate presentation to allow shareholders to better understand the elements of financial performance in the year. This helps to facilitate comparison with previous years and to better assess trends in financial performance.

**Property gains and losses**

The Company defines property gains and losses as those items of income and expenditure which are the result of owning and leasing assets which are non-recurring in nature. These include the impairment of fixed assets, movements in the onerous lease provision and proceeds and costs from the disposal of assets. These items are presented on the face of the income statement to more clearly show the Company's underlying performance.

**Property, plant and equipment**

Property, plant and equipment is stated at cost or deemed cost, less accumulated depreciation and any impairment in value.

Cost of assets includes acquisition costs, as well as other directly attributable costs in bringing the asset into use.

Depreciation is charged on a straight-line basis, over the estimated useful life of the asset as follows:

Freehold land is not depreciated.

Freehold and long-leasehold buildings are depreciated to their estimated residual values over 50 years.

Short-leasehold buildings are depreciated over the lease period.

Equipment, fixtures and fittings are depreciated over 3 to 10 years.

Unopened properties are not depreciated until such time as economic benefits are derived.

Residual values and useful economic lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Profits and losses on disposal of property, plant and equipment reflect the difference between the net selling price and the carrying amount at the date of disposal and are recognised in the income statement.

Impairment losses are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

**Intangible assets**

Intangible assets are carried at cost, less accumulated amortisation and accumulated impairment losses.

Intangible assets with a finite life are amortised on a straight-line basis over their expected useful life, as follows:

Computer software, including related development and implementation costs – 3 to 10 years.

The carrying value of intangible assets is reviewed annually for impairment, in case there has been an event

or change in circumstances indicating that the carrying value may not be recoverable.

**Investment property**

Freehold properties which are held primarily to derive a rental income and for which there is no immediate intention to develop into Wetherspoon pubs are classified as investment properties.

These properties are stated at cost, less accumulated depreciation and any impairment in value and depreciated in line with the accounting policy for freehold land and buildings.

**Lease premiums**

Payments made on entering into or acquiring leaseholds which are accounted for as operating leases represent prepaid lease payments. These are amortised on a straight-line basis, over the lease term to the next break clause. Lease premiums are disclosed as other non-current assets.

**Assets held for sale**

Where the value of an asset will be recovered through a sale transaction, rather than continuing use, the asset is classified as held for sale. Assets held for sale are valued at the lower of book value and fair value, less any costs of disposal, and are no longer depreciated.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on a weighted average basis, with net realisable value being the estimated selling price, less any costs of disposal. Provision is made for obsolete, slow-moving or damaged inventory, where appropriate.

Bar and food inventory is recognised as an expense when sold. Non-consumable inventory is recognised as an expense immediately on receipt at a pub or hotel. The policy on non-consumable inventory was introduced in the current financial period.

**Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the obligation's amount.

**Revenue recognition**

Revenue recognised at the time of sale is the fair value of bar, food, slot machine and hotel room sales, after deducting discounts and sales-based taxes.

Revenue from hotel rooms is recognised when rooms are occupied and as services are provided, after deduction of discounts and sales-based taxes.

**Leases**

Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as



finance leases. Assets acquired under finance leases are capitalised at the lower of their fair value and the present value of future lease payments. The corresponding liability is included in the balance sheet as a finance lease payable. Finance charges included in lease payments are charged as an expense to the income statement, while the asset is depreciated in line with the accounting policy for property, plant and equipment.

Leases where the lessor retains substantially all of the asset's risks and benefits of ownership are classified as operating leases. If the operating lease is subject to fixed uplifts over the term of the lease, rental payments are charged to the income statement on a straight-line basis, over the period of the lease, in line with adopted accounting standards. If the operating lease is subject to open-market rents, rental payments are charged at the prevailing rates.

The Company also has concession rentals payable, based on turnover. These are charged to operating profit at the higher of minimum contractual obligations under the agreements or based as a percentage of turnover.

#### **Lease incentives**

Lease incentives are recognised as a reduction of rental expense to the break clause. These are amortised on a straight-line basis.

#### **Borrowing costs**

Borrowing costs are recognised as an expense in the period in which they are incurred, unless the requirements by the adopted accounting standards for the capitalisation of borrowing costs relating to assets are met.

#### **Income taxes**

Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities, based on tax rates and laws which are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from an asset or liability in a transaction which, at the time of the transaction, affects neither accounting nor taxable profit or loss.
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried-forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured at the tax rates which are expected to apply when the related asset is realised or liability settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity, if it relates to items which are credited or charged to equity. Otherwise, income tax is recognised in the income statement.

#### **Free cash flow**

The calculation of free cash flow is based on the net cash generated by business activities after funding interest, corporation tax, loan issue cost, all reinvestment in information technology, head office and pubs trading at the start of the period (excluding extensions) and the purchase of own shares under the employee share-based plan.

#### **Financial instruments**

Financial assets and liabilities are recognised on the date on which the Company becomes party to the contractual provisions of the instrument giving rise to the asset or liability.

#### **Financial assets**

The Company classifies its financial assets as loans and receivables. The Company has no assets which would fall into a category outside of loans and receivables.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables comprise 'other receivables' and 'cash and cash equivalents' on the balance sheet.

#### *Receivables*

Other receivables are recognised initially at fair value and carried at amortised cost less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

#### *Cash and cash equivalents*

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits. For the purpose of the cash flow statement, cash and cash equivalents comprise cash and short-term deposits as defined above. Bank overdrafts are shown within current financial liabilities on the balance sheet.

#### **Financial liabilities**

The Company classifies its financial liabilities as other financial liabilities. The Company currently has no liabilities which would fall outside of this category, with the exception of interest-rate swaps which are described below in the section dealing with hedging and are classified as fair value through profit and loss.

Other financial liabilities are measured at fair value on initial recognition and subsequently measured at amortised cost, using the effective-interest method.

**Trade and other payables**

Trade and other payables are recognised initially at fair value and subsequently at amortised cost, using the effective-interest method.

**Bank loans and borrowings**

Interest-bearing bank loans and other borrowings are recorded initially at fair value of consideration received, net of direct issue costs. Borrowings are subsequently recorded at amortised cost, with any difference between the amount recorded initially and the redemption value recognised in the income statement over the period of the bank loans, using the effective-interest method.

Bank loans and loan notes are classified as current liabilities, unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**Derivative financial instruments and hedging activities**

Derivative financial instruments used by the Company are stated at fair value on initial recognition and at subsequent balance sheet dates.

Hedge accounting is used only where, at the inception of the hedge, there is formal designation and documentation of the hedging relationship, it meets the Company's risk-management objective for undertaking the hedge and it is expected to be highly effective.

**Interest-rate swaps**

Interest-rate swaps are classified as hedges where they hedge exposure to cash flow variability in interest rates.

For interest-rate swaps, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement within 'fair value gain/loss on financial derivatives'. Amounts taken to equity are transferred to the income statement only when the hedged transaction is assessed to be ineffective, when considering the Company's forecast debt levels for the period of time for which the swaps are in place.

**Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**Foreign currencies**

Transactions denominated in foreign currencies are recorded at the rates of exchange prevailing at the date of transaction. Monetary assets and liabilities are translated at the year-end exchange rates, with the resulting exchange differences taken to the income statement.

**Retirement benefits**

Contributions to personal pension schemes are recognised in the income statement in the period in which they fall due. All contributions are in respect of a defined contribution scheme. The Company has no future payment obligations, once the contributions have been paid.

**Dividends**

Dividends recommended by the board, but unpaid at each period end, are not recognised in the financial statements until they are paid (in the case of the interim dividend) or approved by shareholders at the annual general meeting (in the case of the final dividend).

**Changes in net debt**

Changes in net debt are both the cash and non-cash movements of the year, including movements in derivative financial instruments, of finance leases, borrowings, cash and cash equivalents.

**Share-based charges**

The Company has an employee share incentive plan which awards shares to qualifying employees; there is also a deferred bonus scheme which awards shares to directors and senior managers, subject to specific performance criteria.

The cost of the awards in respect of these plans is measured by reference to the fair value at the date at which they are granted and is amortised as an expense over the vesting period. In valuing these transactions, no account is taken of any vesting conditions, other than market conditions linked to the price of the shares of the Company.

The Company currently has no other share-based transactions.

**Changes in standards**

The following new standards, amendments to standards or interpretations were mandatory for the first time for the financial year beginning 28 July 2014 and have a minimal impact on the financial statements:

- IFRS 10, 'Consolidated financial statements'
- Amendments to IAS 32, 'Financial instruments: Presentation'
- Amendments to IAS 36, 'Impairment to assets'
- Amendments to IAS 39, 'Financial instruments: Recognition and measurement'

The following amendments were mandatory for the first time for the financial year beginning 28 July 2014, but are not relevant for the Company:

- IFRS 11, 'Joint arrangements'
- IFRS 12, 'Disclosure of interests in other entities'
- Amendments to IFRS 10, 12 and IAS 27, on consolidation for investment entities
- Amendments to IAS 39, 'Novation of derivatives and hedge accounting'
- IFRIC 21, 'Levies'

# STRATEGIC REPORT

## Strategy

The Company's strategy is to acquire freehold and leasehold buildings and to obtain the necessary permissions to convert them into Wetherspoon pubs. The buildings are normally in or near town centres or in suburban locations. Our aim is to increase like-for-like sales, profits and earnings per share.

Our strategy is to seek a return on capital in excess of the cost of the capital which will provide profit for new pub developments, dividends and funds for reinvestment in the existing business.

## Business model

Wetherspoon owns and operates pubs throughout the UK and aims to sell high-quality products, at reasonable prices, in attractive and well-maintained premises. The Company aims to make lots of small improvements to its pubs, once they are open, so that sales and profit are maintained or improved.

The Company aims to recruit and retain a high standard of employee, partly by allocating a considerable percentage of profit as bonuses to pub employees and partly through a number of training programmes which help to achieve these objectives.

## Business review and future trends

A review of the Company's business and the key measures of its performance, sometimes called key performance indicators (KPIs), can be found in the chairman's statement under the financial performance section. The chairman's statement also discusses trends and factors likely to affect the future development, performance and position of the Company.

## Environment and human rights

As regards human rights, our policy is to observe a wide range of legislation, designed to encourage and promote equal opportunities and protect human rights. Wetherspoon's main contribution in this area relates to creating jobs for large numbers of people, paying a reasonable percentage of its profits as bonus for those working in our pubs and head office, training large numbers of staff and paying a significant percentage of our sales as taxes to the government. All of these factors help to create income for employees and the government, contributing directly and indirectly to the promotion of human rights.

Further information about the Company's environmental, employee and social policies is published on the Company's website: [www.jdwetherspoon.co.uk](http://www.jdwetherspoon.co.uk)

## Employee diversity

The table below shows the breakdown of directors, senior managers and employees.

	Male	Female
Directors	5	3
Senior managers	809	527
All employees	17,865	18,621

## Principal risks and uncertainties facing the Company

In the course of normal business, the Company continually assesses significant risks faced and takes action to mitigate their potential impact.

The following risks, while not intended to be a comprehensive analysis, constitute (in the opinion of the board) the principal risks and uncertainties currently facing the Company:

### Strategic risks

#### *Economic outlook*

The Company aims to improve its customer offering continually, so that it remains competitively placed in the market in which it operates. Adverse economic conditions can theoretically have an effect on the Company's performance, although, historically, these effects have been muted.

#### *Regulation of the sale of alcohol*

The pub business is highly regulated, with frequent increases in alcohol duty and other taxes – a feature of the industry for many decades.

### Commercial risks

#### *Cost increases*

Inflationary pressures on the Company's costs pose a risk to profits, although the Company has been able to achieve satisfactory arrangements with its suppliers, up until now, in both good and difficult economic conditions.

### Operational risks

#### *Health and safety*

The Company endeavours to ensure that all reasonable standards of health and safety are met, by trying to identify risks and taking action to avert problems.

#### *Supply chain risks*

It is fundamental to our operations that we should be able to supply our pubs with the required goods and services.

We work closely with our suppliers and central distribution partners, in order to maintain availability of products, at all times.

#### *Head office and national distribution centre*

Any disasters at the Company's head office (in Watford) or its national distribution centre (in Daventry) could seriously disrupt its daily operations. Various measures have been undertaken by the Company, including a comprehensive disaster-recovery plan, seeking to minimise the impact of any such incidents.

#### *Information technology*

The Company's daily operations are increasingly reliant on its information technology systems. Any prolonged or significant failure of these systems could pose a risk to trading. The Company seeks to minimise this risk by ensuring that there are policies and procedures to ensure protection of hardware, software and information (by various means), including a disaster-recovery plan, a system of backups and external hardware and software.

### **Reputational risk**

The Company is aware that, in operating in a consumer-facing business, its business reputation, built over many years, can be damaged in a significantly shorter timeframe. The Company, therefore, in its daily business, maintains substantial efforts in this area to improve operational controls.

### **Financial risks**

#### *Capital risk management*

The Company aims to maintain reasonable levels of capital and debt.

Debt always involves risk, although the Company has always been able to fulfil its obligations under its loan agreements. Sales, profitability, debt requirements and cash flow are reviewed weekly by a team which includes the chairman, chief executive, finance director and senior finance managers.

#### *Interest-rate risk*

The Company has dealt with the risks of an increase in interest rates by swapping the majority of its floating-rate borrowings into fixed rates which expire in 2023 (see note 23).

During the 52 weeks ended 26 July 2015, if the interest rates on UK-denominated borrowings had been 1% higher, with all other variables constant, pre-tax profit for the year would have been reduced by £2,471,000 and equity increased by £27,039,000. The movement in equity arises from a change in the 'mark to market'

valuation of the interest-rate swaps into which the Company has entered, calculated by a 1% shift of the market yield curve. The Company considers that a 1% movement in interest rates represents a reasonable sensitivity to potential changes. However, this analysis is for illustrative purposes only.

#### *Credit risk*

The Company does not have a significant concentration of credit risk, as the majority of its revenue is in cash.

At the balance sheet date, the Company was exposed to a maximum credit risk of £1.3m, of which £0.2m was overdue.

Cash deposits with financial institutions and derivative transactions are permitted with investment-grade financial institutions only.

The Company receives a small amount of income from properties which it has sublet to third parties, but the sums involved from any one letting are immaterial.

#### *Liquidity risk*

The Company regularly monitors cash flow forecasts and endeavours to ensure that there are enough funds, including committed bank and finance lease facilities, to meet its business requirements and comply with banking covenants.

The risks in this area relate to miscalculating cash flow requirements, being unable to renew credit facilities or a substantial fall in sales and profits.

#### *Foreign currency*

Foreign exchange exposure is currently not significant to the Company. The Company monitors the growth and risks associated with its overseas operations and will undertake hedging activities as and when they are required.

By order of the board

#### **Nigel Connor**

Company Secretary  
10 September 2015

## Report on the financial statements

### Our opinion

In our opinion, J D Wetherspoon plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 26 July 2015 and of its profit and cash flows for the 52 week period (the "period") then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### What we have audited

The financial statements comprise:

- the balance sheet as at 26 July 2015;
- the income statement and statement of comprehensive income for the period then ended;
- the cash flow statement for the period then ended;
- the statement of changes in shareholders' equity for the period then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Financial Statements (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

### Our audit approach

#### Overview

The context to our audit

Our 2015 audit was planned and executed having regard to the fact that J D Wetherspoon's operations were largely unchanged in nature from the previous year and the UK economy had a level of underlying low growth with no significant regulatory changes impacting the pub sector. In light of this, our approach to the audit in terms of scoping and areas of focus was largely unchanged, albeit we no longer had the determination of deferred tax liabilities as a heightened risk following the agreement reached by J D Wetherspoon in the prior year with HMRC as to items that would be deemed as qualifying capital expenditure for capital allowance purposes. We also had regard to the heightened regulatory focus on commercial income, but whilst we increased our work on this area, it was not a significant area of focus given the size of the amounts involved and the relative lack of complexity.

### Our audit approach

#### Overview

##### Materiality

- Overall materiality: £3.89m which represents 5% of profit before tax and before exceptional items.

##### Audit scope

- The Company comprises one legal entity in the UK with an immaterial branch in the Republic of Ireland and, accordingly, our audit is focused on J D Wetherspoon plc in the UK. No significant work is performed on the Republic of Ireland branch as a standalone entity, owing to its immateriality.

##### Areas of focus

- Impairment of property, plant and equipment.
- Provisions for onerous leases.
- Exceptional items.

### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

**Area of focus***Impairment of property, plant and equipment*

As set out in note 12 to the financial statements the Company has a large portfolio of pubs with a net book value of £1.2 billion. Given the size of the amounts capitalised and the risk attendant with any sizeable retail business that some units may prove to be unprofitable, we focused on the assessment made by management of any impairment of property, plant and equipment required at an individual pub level.

**How our audit addressed the area of focus**

We assessed management's impairment paper and underlying analysis and challenged the assumptions adopted by management in performing its review. These included discount rates and individual pub profitability forecasts. We tested the profitability forecast on an individual pub basis and focused our detailed work on those pubs which had either previously been impaired or where anticipated future cash flows suggested that a potential impairment may be required. We used our valuation specialists and external market data to assess the appropriateness of the discount rate used. We considered that the discount rate applied was appropriate.

We tested management's budgeting accuracy by comparing a sample of individual pub's budgeted profit against forecast profits for the 2015 year end for evidence of the reliability of the Company's budgeting process. We factored the results of this work into our broader impairment assessment.

We tested, with reference to the entire pub estate, that all pubs which initial assessments identified as potentially not generating sufficient cash to cover the capital base, were subject to more detailed scrutiny. No issues arose from this work.

We discussed the action plans in place and evaluated the reasonableness of those plans, where possible, for underperforming pubs where no impairment had been booked. We further tested whether the required pub profitability improvement had been attained by the relevant pub historically. We then scrutinised detailed analyses of individual pub's performance and action plans in place to enhance profitability to corroborate explanations provided to us by management as to the decision to impair or not or to reverse a previous impairment. In addition we challenged management in relation to certain pubs where impairments were booked as to whether their decision to impair was appropriate. Our view was that whilst the process that management followed to determine any impairment/reversal involved significant judgements it was robust and that impairments and reversals booked were reasonable. Furthermore we found no obvious indication of bias in the adjustments booked.

In instances where pubs had been sold, or surrender premiums agreed, we agreed this back to third-party documentation.

Area of focus	How our audit addressed the area of focus
<p><i>Provisions for onerous leases</i></p> <p>Of the portfolio of pubs noted in the area of focus above, a large number are leasehold and, as a result, the company is committed to significant future lease payments as set out in note 24 to the financial statements.</p> <p>In the case of the Company's leasehold pubs, there is a risk that underperforming pubs may not be able to generate sufficient profit to cover their lease obligations and, as a result, require an onerous lease provision. As set out in note 22 the company holds a provision of £5.1m for future lease obligations where the cost of those obligations exceeds the economic benefits expected to be received under the lease. We focused on this area because of the size of the leasehold portfolio, the significant judgements involved in identifying which pubs require a provision and the estimates involved in the calculation of the provision, including estimation of future cash flows at each pub and appropriate discount rates.</p>	<p>We checked and validated that all pubs in the portfolio were considered in the process which management used to identify pubs which were potentially subject to onerous leases.</p> <p>We tested details of rental obligations to rental agreements for a sample of pubs in order to assess whether the rental commitments used by management in its calculations were appropriate with no issues arising from this work.</p> <p>We checked the calculations used by management to identify pubs where indications existed, for individual pubs, that future profits were not expected to cover future lease commitments associated with the related pub. We discussed the action plans in place and evaluated the reasonableness of those plans, where possible, for underperforming pubs where no provision had been booked. No issues arose to suggest that any pubs had been inappropriately excluded from the provision calculation.</p> <p>For all pubs identified as potentially having onerous leases we tested the calculation of the net present value of future cash flows used to determine the provisions recorded. Additionally we assessed the discount rate used for appropriateness by comparing it with the Company's marginal borrowing rate satisfying ourselves that the provisions booked were appropriate. We further checked that the disclosures in the financial statements, in relation to onerous lease provisions fairly reflected the results of the calculations undertaken.</p>
<p><i>Exceptional items</i></p> <p>As set out in note 4 the financial statements include a net charge of £12.6m in respect of exceptional items. We focused on this area because exceptional items are not defined by IFRSs as adopted by the European Union and it therefore requires judgment by the directors to identify such items. Consistency in identifying and disclosing items as exceptional is important to maintain comparability of the results year on year.</p>	<p>We tested the presentation of the exceptional items in the financial statements by assessing whether the classification was in line with the Company's accounting policy on exceptional items set out on page 37 of the financial statements. We found that the classifications determined by management complied with the Company's definition of exceptional items.</p> <p>We also assessed the appropriateness of this policy and whether separating out the items included within exceptional items enhanced the understanding of the financial statements. Our view was that it did.</p> <p>There were five exceptional items in the year: a net impairment charge against property, a charge in respect of onerous leases, a one-off write-off of non-consumable inventory, a charge for redundancy costs incurred in the period and a tax credit arising from a change in the calculation of deferred tax in relation to rolled-over gains.</p> <p>In relation to the change in policy to write off non consumable inventory of £5.2m we specifically considered whether it would have been more appropriate to restate comparatives as if this policy had been in force previously but agreed with management's view that no previously reported period would be materially impacted by the change and that the inclusion as an exceptional item with suitable description provided the information necessary to understand the amounts involved and the impact on the financial statements.</p> <p>We also debated with management whether the redundancy costs of £0.8m were of a sufficient scale to reflect as exceptional costs. Our view was that this treatment provided more insight into this cost and did not significantly distort the reported results.</p>



*How we tailored the audit scope*

As noted above, other than an immaterial branch in Ireland, J D Wetherspoon's operations are all in the UK through one legal entity. We therefore subjected this entity to a full scope audit.

*Materiality*

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<p><b>Overall materiality</b> £3.89m (2014: £3.95m).</p>
<p><b>How we determined it</b> 5% of profit before tax and before exceptional items (unchanged from 2014).</p>
<p><b>Rationale for benchmark applied</b> Given the company is a profit orientated business, we believe that profit before tax, adjusted for exceptional items, provides us with a consistent year on year basis for determining materiality, by eliminating the non-recurring disproportionate impact of these items.</p>

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £194,000 (2014: £200,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

*Going concern*

Under the Listing Rules we are required to review the directors' statement, set out on page 50, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the company's financial statements using the going concern basis of accounting. The going concern basis presumes that the company has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the company's ability to continue as a going concern.

## Other required reporting

### Consistency of other information

*Companies Act 2006 opinions*

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 60 to 65 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

*ISAs (UK & Ireland) reporting*

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- information in the Annual Report is:
  - materially inconsistent with the information in the audited financial statements; or
  - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
  - otherwise misleading.

We have no exceptions to report arising from this responsibility.

- the statement given by the directors on page 50, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the company's performance, business model and strategy is materially inconsistent with our knowledge of the company acquired in the course of performing our audit.

We have no exceptions to report arising from this responsibility.

- the section of the Annual Report on page 63, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.



### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

## **Directors' remuneration**

### **Directors' remuneration report – Companies Act 2006 opinion**

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

### **Other Companies Act 2006 reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from these responsibilities.

### **Corporate governance statement**

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

## **Responsibilities for the financial statements and the audit**

### **Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

### **What an audit of financial statements involves**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Andrew Latham** (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
10 September 2015

(a) The maintenance and integrity of the J D Wetherspoon plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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

# DIRECTORS, OFFICERS AND ADVISERS

**Tim Martin** Chairman, aged 60

Founded the business in 1979, having previously studied law at Nottingham University and qualified as a barrister. He became chairman in 1983.

**John Hutson** Chief Executive Officer, aged 50

Joined in 1991 and was appointed to the board in 1996. He is a graduate of Exeter University and previously worked with Allied Domecq.

**Ben Whitley** Interim Finance Director, aged 37

Joined in 1999 after graduating from the University of Durham. Appointed as interim finance director in December 2014. Previous roles for Wetherspoon include retail auditor, cash control manager and financial controller. Qualified as a chartered management accountant in 2012.

**Su Cacioppo** Personnel and Legal Director, aged 48

Joined in 1991 and was appointed to the board in 2008. She is a graduate of South Bank University and London Guildhall University and previously worked for Courage Limited and Allied Leisure.

She worked in several operational roles in the Company, before being appointed as personnel director in 1999 and personnel and legal director in 2006.

**Nigel Connor** Company Secretary and Head of Legal, aged 46

Joined the Company in June 2009 as head of licensing and was subsequently appointed head of legal. He previously acted on the Company's behalf for several years while working in private practice for McLellans Solicitors and latterly Jeffrey Green Russell Solicitors, in London. Nigel is a graduate of Newcastle University and qualified as a solicitor in 1997.

**Elizabeth McMeikan** Senior Independent Director, aged 53

Appointed to the board in 2005 and is a member of the audit, remuneration and nomination committees. She is a graduate of Cambridge University. She is a non-executive director of UNITE plc, Flybe plc and chairs the Moat Housing Association. She also sits on the board of two privately owned companies.

Elizabeth previously worked for Tesco plc for 12 years, in a wide variety of commercial and operational roles, both in the UK and overseas.

**Debra van Gene** Non-Executive Director, aged 60

Appointed to the board in 2006 and is the remuneration committee chair and a member of the audit and nomination committees.

Debra is also a Lay Commissioner with the Judicial Appointments Commission. She previously held senior board positions in privately held communications companies, before joining the executive search industry. She was a partner at Heidrick and Struggles Inc and ran her own executive search firm. She is a graduate of Oxford University.

**Sir Richard Beckett** Non-Executive Director, aged 71

Appointed to the board in 2009 and is the nomination committee's chair and a member of the audit and remuneration committees. He was called to the bar in 1965 and took silk in 1987. He was one of the pre-eminent practitioners in regulatory and licensing matters.

**Mark Reckitt** Non-Executive Director, aged 57

Appointed to the board in May 2012 and is the audit committee's chair and a member of the remuneration and nomination committees. He is a non-executive director of Cranswick plc and Mitie Group plc. He was group strategy director at Smiths Group plc from February 2011 to April 2014. Before joining Smiths, he was chief strategy officer at Cadbury plc, during 2004–2010, and held a range of strategy and finance roles at Cadbury since joining in 1989, including UK finance director. Before joining Cadbury, he spent six years in investment banking and retailing, after qualifying as a chartered accountant in 1983.

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**Management board**

The management board comprises John Hutson, Su Cacioppo, Ben Whitley and the following:

**David Capstick** IT and Property Director, aged 54

Joined in 1998 and is a graduate of the University of Surrey. He previously worked for Allied Domecq, as well as working in other areas of the hospitality industry, such as hotels and outside catering companies. He was appointed to the management board in 2003.

**Martin Geoghegan** Operations Director, aged 46

Joined in May 1994, having previously worked for Safeway plc. He worked in several operational roles, before being appointed as operations director in 2004.

**Miles Slade** Deputy Operations Director, aged 34

Joined in December 2000 as a bar associate. He worked in several pub and operational roles, before being appointed as deputy operations director in January 2012.

**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 6ZY

**Independent auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory  
Auditors  
1 Embankment Place  
London  
WC2N 6RH

**Solicitors**

Macfarlanes LLP  
20 Cursitor Street  
London  
EC4A 1LT

**Bankers**

Abbey National Treasury Services plc  
Allied Irish Banks  
Bank of Tokyo-Mitsubishi UFJ  
Barclays Bank plc  
BNP Paribas  
Crédit Industriel et Commercial  
HSBC Bank plc  
Lloyds Bank plc  
Mediobanca International (Luxembourg) SA  
Svenska Handelsbanken AB  
The Royal Bank of Scotland plc

**Financial advisers**

Investec Bank plc

**Stockbrokers**

Investec Bank plc

## Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements are listed on page 48.

## Dividends

The board proposes, subject to shareholders' consent, to pay a final dividend of 8.0p (2014: 8.0p) per share, on 26 November 2015, to those shareholders on the register on 23 October 2015, giving a total dividend for the year of 12.0p per share.

## Return of capital

At the annual general meeting of the Company, held on 13 November 2014, the Company was given authority to make market purchases of up to 18,432,934 of its own shares. During the year to 26 July 2015, 3,618,827 shares were purchased, with a nominal value of £72,377 for a total consideration of £26.9m, including stamp duty. This represented 2.9% of the called-up share capital.

## Directors' interest in contracts

No director has any material interest in any contractual agreement, other than an employment contract, subsisting during or at the end of the year, which is or may be significant to the Company.

## Takeover directive disclosures

The Company has an authorised share capital comprising 500 million ordinary shares of 2p each. As at 26 July 2015, the total issued share capital comprised 122,269,948 fully paid-up shares of 2p each. The rights to these shares are set out in the Company's articles of association. There are no restrictions on the transfer of these shares or their attached voting rights.

Details of significant shareholdings at year end and as at 12 August 2015 are given on page 66.

No person holds shares with specific rights regarding control of the Company.

The Company operates an employee share incentive plan. However, no specific rights with respect to the control of the Company are attached to these shares. In addition, the Company operates a deferred bonus scheme, whereby, should a takeover occur, all shares held in trust would be transferred to the employee immediately.

The Company is not aware of any agreements among holders of securities known to the Company which may result in restrictions on the transfer of securities or voting rights.

The Company has the power to issue and buy back shares as a result of resolutions passed at the annual general

meeting in 2014. It is the Company's intention to renew these powers; the resolutions approving them are found in the notice of the annual general meeting for 2015.

In the event of a change of control, the Company is obliged to notify its main bank lenders. The lenders shall not be obliged to fund any new borrowing requests; facilities will lapse 10 days after the change of control, if the terms on which they can continue have not been agreed on. Any borrowings, including accrued interest, will become immediately repayable on such lapse.

There are no other significant agreements to which the Company is party which may be subject to change-of-control provisions.

There are no agreements with the Company's directors or employees which provide for compensation for loss of office or employment which occurs because of a takeover bid.

## Statement of directors' responsibilities

The directors are responsible for preparing the annual report, the directors' remuneration report and the financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law, the directors must not approve the financial statements, unless they are satisfied that they give a true, fair and balanced view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently.
- make judgements and accounting estimates which are reasonable and prudent.
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements.
- prepare the financial statements on the going-concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records, sufficient to show and explain the Company's transactions and which disclose, with reasonable accuracy, the financial position of the Company, at any time. The accounting records enable the

directors to ensure that the financial statements and the directors' remuneration report comply with the Companies Act 2006 and that the Company's financial statements comply with article 4 of the IAS regulation. The directors are also responsible for safeguarding the assets of the Company and 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 website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide that information necessary for shareholders to assess the Company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in the section headed 'directors, officers and advisers', confirms, to the best of his or her knowledge, that:

- the Company's financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company.
- the strategic report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties which it faces.
- so far as he or she is aware, there is no relevant audit information of which the Company's auditors are unaware.
- he or she has taken all steps which he or she ought to have taken as a director, in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### Directors' indemnities

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third-party indemnity provision, as defined by section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained, throughout the financial year, directors' and officers' liability insurance, in respect of itself and its directors.

#### 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 and cash flow forecasts; they 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.

#### Greenhouse gas (GHG) emissions

The table below shows the Company's annual CO<sub>2</sub> emissions

GHG Emissions	Unit	Quantity	
		2015	2014
Scope 1	Tonnes CO <sub>2</sub> e	52,510	49,251
Scope 2	Tonnes CO <sub>2</sub> e	170,048	163,930
Intensity	Tonnes CO <sub>2</sub> e / £m revenue	147.0	151.3

- Conversion factors for electricity and gas are those published by the Department for Environment, Food and Rural Affairs.
- Reported data is in respect of the year ended 31 March 2015, to align with the period under which carbon emissions are reported.
- Scope 1 emissions result from the combustion of gas; scope 2 emissions result from the purchase of electricity.
- Refrigerant emissions from our pubs are not reported, as they are immaterial.

#### Overseas branches

The Company has an overseas branch in the Republic of Ireland.

#### Events after the reporting period

The details of events after the reporting period can be found in note 29 on page 35.

By order of the board

#### Nigel Connor

Company Secretary  
10 September 2015

## Annual statement

Dear shareholder

This report complies with the changes to the Companies Act which came into force on 1 October 2013.

The remuneration committee does not propose any changes to the remuneration policy this year.

Early in this financial year, the finance director, Kirk Davis, left the Company. Ben Whitley assumed his responsibilities for financial matters for the remainder of the financial year.

The committee decided to increase the salaries of the CEO and the personnel and legal director by 10%, in recognition of their continued high performance and commitment to the Company.

The annual cash bonus scheme will pay out 5% of basic salary this year.

Directors will receive an amount equivalent to 25% of their salary in shares under the SIP scheme, which is a share incentive scheme open to all Company employees after an 18-month qualifying period.

Directors will also receive 100% of their basic salary in shares under the deferred bonus scheme.

Looking forward, the committee proposes a 10-year renewal of the current deferred bonus scheme which expires at the AGM on 12 November 2015. Approval for this proposal will be sought from shareholders at the 2015 AGM.

No further changes to the remuneration policy are intended in the coming year.

We believe that our remuneration policy continues to be fair and reasonable and aligns both the short and long-term interests of directors with those of the company and its shareholders.

Further details are set out below, with shareholders invited to approve this report and proposals at the AGM on 12 November 2015.

By order of the board

### **Debra van Gene**

Chair of the Remuneration Committee

10 September 2015

### Remuneration policy

The committee reviews the executive directors' remuneration packages at least annually. The aim of the remuneration policy is to:

- provide attractive and fair remuneration for directors.
- align directors' long-term interests with those of shareholders, employees and the wider community.
- incentivise directors to perform to a high level.

In agreeing on remuneration, account is taken of the pay levels at Wetherspoon, as well as those in the leisure industry in general, along with other comparisons and reports. The committee aims to take a fair and commonsense approach.

This policy came into force on the date of the AGM – 13 November 2014. The elements of the remuneration package of each executive director are as follows:

Component	Reason	Operation, maximum achievable and performance criteria
Base salary	Provide attractive and fair remuneration for directors.	Salaries are reviewed at least annually, with any changes normally taking effect from 1 October each year.  Salary increases are awarded at the discretion of the remuneration committee.  When considering salary levels and whether an increase should be offered, the committee takes account of a variety of factors, including Company performance, individual performance, experience and responsibilities, market information and the level of increase being offered to other employees.
Benefits	Provide attractive and fair remuneration for directors.	A range of taxable benefits is available to executive directors. These benefits comprise principally the provision of a car allowance, life assurance, private medical insurance and fuel expenses.  The cost of benefits provided changes in accordance with market conditions. The committee monitors the overall cost of the package periodically.
Pension	Provide attractive and fair remuneration for directors.	The Company does not operate any defined benefit pension schemes. Contributions of 12% of executive directors' base salary are made by the Company to the Company stakeholder pension scheme.  If directors expect to reach their lifetime allowance under HMRC rules, they are able to opt out of the stakeholder pension scheme and receive an equivalent salary supplement instead. In addition, any contributions above the annual HMRC-approved threshold are paid as a salary supplement. This is reviewed annually by the remuneration committee.
Annual bonus plan	Incentivise directors to perform to a high level.	Annual bonus payments are paid in cash, at the discretion of the remuneration committee. The maximum bonus potential is 50% of salary.  The major part of the bonus is based on profit growth, multiplied by a factor of 1.5 and paid to a maximum of 45% of salary. Profit growth is calculated on profit before tax and exceptional items.  In addition, a further 5% is awarded for carrying out a set number of calls on our pubs per month, in order to monitor service and other standards.

Component	Reason	Operation, maximum achievable and performance criteria										
Share Incentive Plan (SIP)	Align directors' long-term interests with those of shareholders, employees and the wider community.	<p>The SIP (an HMRC-approved scheme) allocates shares equivalent to 5% of salary to all Company employees after an 18-month qualifying period. Shares do not vest for at least three years under this plan – and tax-free returns are possible, if the shares are held for five years or more.</p> <p>The Company offers extra SIPs under this scheme to some employees: pub managers receive an extra 5% annual award; head-office staff 10–15%; senior managers and directors, including executive board directors, 20%.</p> <p>In addition, an executive director may purchase partnership shares up to the government cap, at present £1,800 per annum.</p> <p>Awards under this scheme are not based on financial or other targets. The Company believes that excessive use of financial targets can lead to distortions in companies' behaviour and that it is important for there to be some share awards which can be accumulated gradually, the value of which depends on the overall success of the Company.</p> <p>Directors must be in office when the shares vest.</p>										
2005 Deferred Bonus Scheme	Align directors' long-term interests with those of shareholders, employees and the wider community.	<p>Bonus awards are made under the scheme, annually, at the discretion of the remuneration committee.</p> <p>Bonus awards are satisfied in shares. One-third of a participant's shares will vest to the participant on calculation of the amount of the award, one-third will vest after one year and the remaining third will vest to the participant after two years (in each case subject to the participant being employed at the release date).</p> <p>The shares required under the scheme are purchased in the market by an employee benefit trust, funded by the Company.</p> <p>Bonus is awarded at a rate of 2.5% of salary for each 1% increase in owners' earnings per share and 2.5% of salary for each 1% increase in diluted adjusted earnings per share, based on the weighted average number of shares in issue during the period.</p> <p>An element of adjusted earnings per share growth (including shares held in trust) is included in this scheme, to reduce the potential volatility which may be inherent in relying purely on the owners' earnings calculation, which is heavily influenced by maintenance capital expenditure.</p> <p>Owners' earnings are calculated as follows:</p> <table data-bbox="644 1682 1257 1832"> <tr> <td colspan="2">Profit before tax: (excluding unrealised exceptional items)</td> </tr> <tr> <td>Add:</td> <td>Depreciation and amortisation</td> </tr> <tr> <td>Less:</td> <td>Cash reinvestment in current properties</td> </tr> <tr> <td>Less:</td> <td>Cash tax</td> </tr> <tr> <td>Equals:</td> <td>Owners' earnings</td> </tr> </table> <p>The maximum bonus to be earned under the scheme is 100% of annual salary.</p> <p>Provisions are in place which permit the Company to reclaim awards under this scheme in exceptional circumstances of misstatement or misconduct.</p>	Profit before tax: (excluding unrealised exceptional items)		Add:	Depreciation and amortisation	Less:	Cash reinvestment in current properties	Less:	Cash tax	Equals:	Owners' earnings
Profit before tax: (excluding unrealised exceptional items)												
Add:	Depreciation and amortisation											
Less:	Cash reinvestment in current properties											
Less:	Cash tax											
Equals:	Owners' earnings											



Component	Reason	Operation, maximum achievable and performance criteria
Non-executive directors' fees	Provide attractive and fair remuneration for directors.	The fees paid to non-executive directors are determined by the executive board, taking into account the level of fees for similar positions in the market and the time commitment which each non-executive director makes.  The non-executive directors receive no other remuneration or benefits from the Company.

**Difference between the policy for directors and employees**

Members of the wider management team may receive each of the components of remuneration awarded to the executive directors, although the amounts due for each component may vary, depending on their level of seniority.

Non-executive directors are not entitled to any component other than fees.

The wider employee population of the Company will receive remuneration which is considered to be appropriate to their level of responsibility and performance.

**Approach to recruitment remuneration**

The aim, when agreeing on components of a remuneration package, including any variable pay for incoming directors, would be in accordance with the table above.

Account is taken of the individual's experience, the nature of the role being offered and his or her existing remuneration package. Relocation expenses or allowances may be paid, as appropriate.

The committee may, at its discretion, offer cash or share-based elements, as necessary, to secure an appointment, although it does not normally do so. Shareholders will be informed of any such payments at the time of appointment.

Our main principle is that payments made to prospective directors as compensation for loss of benefits at a previous company are inherently unfair, since it would be extremely rare for anyone below board level to receive this sort of compensation.

**Chairman and directors' service contracts**

The executive directors are employed on rolling contracts, requiring the Company to give up to 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 policies on the duration of directors' 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:

Tim Martin	–	20 October 1992
John Hutson	–	2 February 1998
Su Cacioppo	–	10 March 2008

All directors will be standing for re-election at the AGM. Their current service contracts do not have an explicit expiry date.

*Non-executive directors*

The non-executive directors hold their positions, pursuant to letters of appointment dated 1 November 2014, with a term of 12 months.

If their appointment is terminated early, the non-executive directors are entitled to the fees to which they would have been entitled up to the end of their term. They 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.

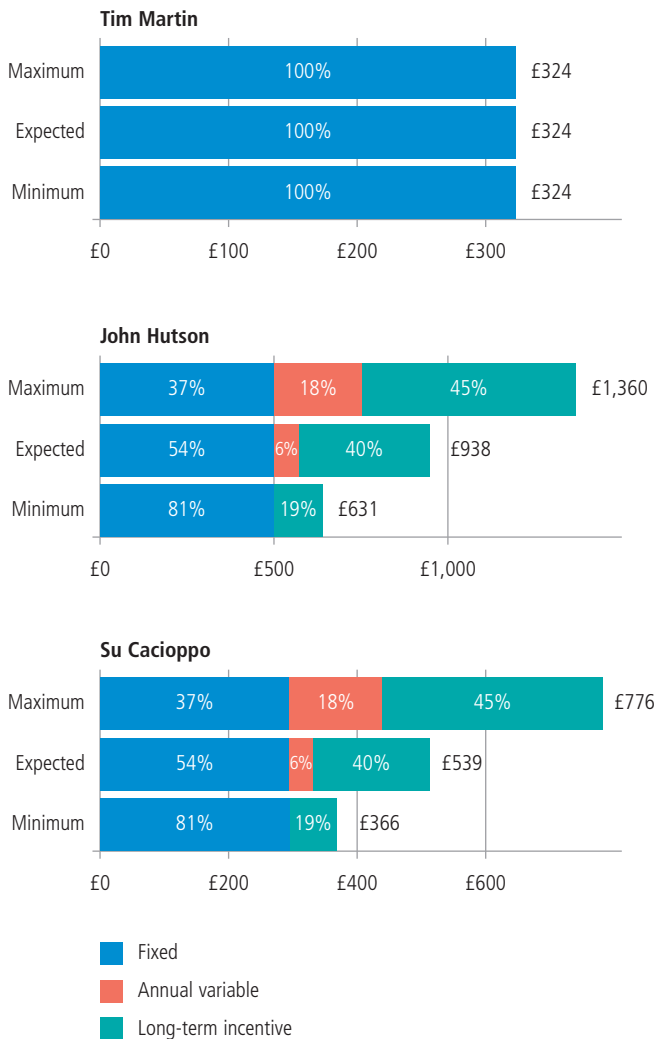
*External appointments*

Executive directors are not allowed to take external appointments without the prior consent of the Company. The Company has not released any executive directors to serve as a non-executive director elsewhere.



**Illustration of the application of the remuneration policy**

The charts below set out the composition of the executive directors' remuneration packages in £000, at a minimum, a reasonable expectation target and as a possible maximum:



The fixed annual values include:

- Fixed annual salary, benefits and allowances, in line with those outlined in the policy section, and based on the payments made in the year ending 26 July 2015.

The annual variable values include the cash bonus which may be achievable. In the case of the 'expected', an average percentage achieved over the last five years has been used as a basis.

The long-term incentive plan values include:

- the fixed 25% awarded under the Company's Share Incentive Plan.
- an average achieved in respect of the deferred bonus scheme over the last five years.

**Payments for loss of office**

The Company's policy is that the period of notice for executive directors will not exceed 12 months; accordingly, the employment contracts of the executive directors are terminable on 12 months' notice by the Company or six months' notice by a director. The Company may terminate a director's employment without notice or compensation, in the event of gross misconduct.

In the event of a director's departure, the Company's policy on termination payments is as follows:

- The Company will seek to ensure that no more is paid than is warranted in each individual case.
- Salary payments will be limited to notice periods.
- There is no entitlement to bonus paid (or associated deferred shares or SIPs) following notice of termination. The committee's normal policy is that, where the individual is considered a 'good leaver', a pro-rated bonus may be paid.
- The Company may enable the provision of outplacement services to a departing director.

**Consideration of employment conditions elsewhere in the Company**

The committee receives information on salary increases, bonus payments and other benefits available at Wetherspoon. These are taken into consideration when conducting the review of executive remuneration, although no formal consultation with employees is undertaken in this regard.

**Consideration of shareholders' views**

Any views in respect of directors' remuneration expressed to the Company by shareholders have been, and will be, taken into account in the formulation of the directors' remuneration policy.

Details of votes cast for and against the resolution to approve last year's remuneration report and any matters discussed with shareholders during the year are provided in the annual report on remuneration.

### Annual report on remuneration

The table below sets out in a single figure the total amount of remuneration, including each element, received by each director for the year ended 26 July 2015.

#### Single-figure table – audited

	Salary/fees		Taxable benefits <sup>1</sup>		Performance bonus <sup>2</sup>		Long-term incentives		Pension contributions <sup>3</sup>		Total	
	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000
<b>Executive directors</b>												
J Hutson	486	453	24	22	24	44	602	168	58	54	1,194	741
K Davis	48	241	3	15	2	23	31	87	6	29	90	395
S Cacioppo	273	252	25	20	14	24	338	91	33	30	683	417
	807	946	52	57	40	91	971	346	97	113	1,967	1,553
<b>Non-executive directors and chairman</b>												
T R Martin	324	324	31	29	–	–	–	–	–	–	355	353
E McMeikan	46	44	–	–	–	–	–	–	–	–	46	44
D van Gene	46	44	–	–	–	–	–	–	–	–	46	44
R Beckett	46	44	–	–	–	–	–	–	–	–	46	44
M Reckitt	46	44	–	–	–	–	–	–	–	–	46	44
	508	500	31	29	–	–	–	–	–	–	539	529
<b>Total</b>	<b>1,315</b>	<b>1,446</b>	<b>83</b>	<b>86</b>	<b>40</b>	<b>91</b>	<b>971</b>	<b>346</b>	<b>97</b>	<b>113</b>	<b>2,506</b>	<b>2,082</b>

1) Taxable benefits include car allowances and the provision of rail travel for Tim Martin, as well as private health and fuel expenses for executive directors.

2) No bonus was awarded under the profit growth element of the bonus scheme, in line with policy. A 5% of base salary was awarded in respect of the element for pub calls made to monitor standards, in line with the policy.

3) Executive directors receive either pension contributions equivalent to 12% of salary to the stakeholder pension plan or salary in lieu of pension contributions.

4) There have been no payments to past directors and no payments for loss of office.

Details of targets applicable during the year are disclosed in the directors' remuneration policy statement.

The resultant percentages against each of the bonus measures achieved are shown below, the percentage awards for each director are the same:

	Maximum	Awarded	J Hutson £000	K Davis £000	S Cacioppo £000
Pub calls	5.0%	5.0%	24	2	14
Profit growth	45.0%	0.0%	–	–	–
Total performance bonus	50.0%	5.0%	24	2	14
Employee share scheme	25.0%	25.0%	116	31	65
Deferred bonus scheme	100.0%	100.0%	486	–	273
Total long-term incentives	125.0%	125.0%	602	31	338
Total	175.0%	130.0%	626	33	352

**Long-term incentive awards – audited**

	Number of shares			Face value in £		
	Share Incentive Plan	Deferred Bonus Scheme	Total	Share Incentive Plan	Deferred Bonus Scheme	Total
J Hutson	14,881	7,005	21,886	115,983	55,501	171,484
K Davis	3,836	3,732	7,568	30,669	29,568	60,237
S Cacioppo	8,367	3,894	12,261	65,214	30,841	96,055
	27,084	14,631	41,715	211,866	115,910	327,776

During the year under review, 27,084 shares were issued to the executive directors under the Share Incentive Plan. This represents 25% of the applicable salary, in line with the policy applicable in respect of this share scheme, at an average share price of £7.82. These shares vest after a three-year period from their award and have no further performance conditions attached to them, other than for the shareholders to be employed by the Company at the vesting date.

In addition, executive directors were entitled to an award of 14,631 shares, in respect of the 2014 deferred bonus scheme. The share price on grant date was £7.92. All directors received cash in respect of the first tranche which was due on 27 September 2014, except for John Hutson who received shares. The remaining 7,266 shares (9,754 shares less 2,488 shares forfeited by K Davis on his resignation as a director) vest in equal amounts on 27 September 2015 and 27 September 2016. These shares have no further performance conditions, other than for the shareholders to be employed by the Company until the vesting period ends.

**Directors and connected persons' interests in shares: audited**

The interests of the directors in the shares of the Company, as at 26 July 2015, were as follows:

Ordinary shares of 2p each, held beneficially	2015	2014
T R Martin	<b>33,466,934</b>	33,466,934
J Hutson	<b>72,548</b>	55,915
J Hutson – Share Incentive Plan	<b>50,677</b>	61,295
J Hutson – 2005 Deferred Bonus Scheme	<b>20,837</b>	44,249
J Hutson total	<b>144,062</b>	161,459
K Davis	–	2,568
K Davis – Share Incentive Plan	–	28,780
K Davis – 2005 Deferred Bonus Scheme	–	21,459
K Davis total	–	52,807
S Cacioppo	<b>52,778</b>	51,082
S Cacioppo – Share Incentive Plan	<b>27,378</b>	31,532
S Cacioppo – 2005 Deferred Bonus Scheme	<b>10,996</b>	22,991
S Cacioppo total	<b>91,152</b>	105,605
E McMeikan	<b>1,000</b>	1,000
D van Gene	<b>1,000</b>	1,000
R Beckett	<b>2,000</b>	2,000
M Reckitt	<b>2,000</b>	2,000

There have been no changes to these interests since 26 July 2015.

The Company does not enforce any specific requirements as to directors' shareholdings.

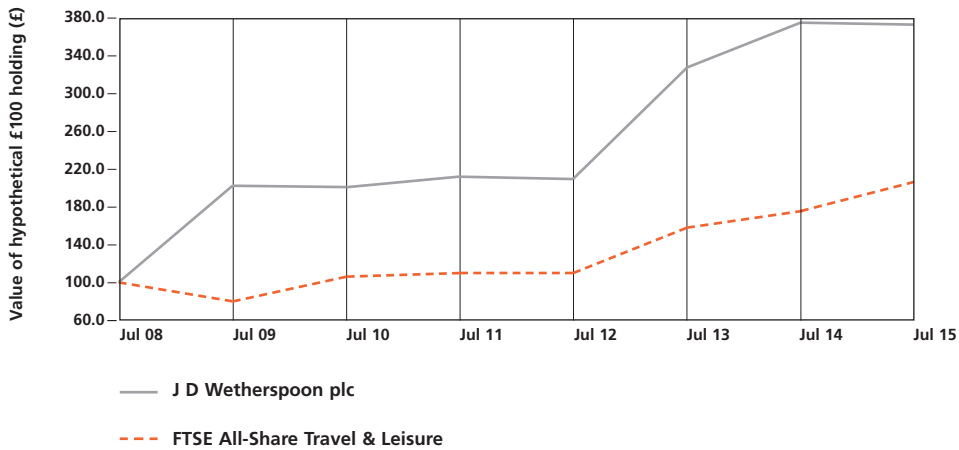
**Partnership shares**

John Hutson is a participant in the partnership share scheme and acquired 230 shares between August 2014 and July 2015. Su Cacioppo is a participant in the partnership share scheme and acquired 192 shares between August 2014 and July 2015. The market price of the shares purchased ranged from 698.0p to 819.8p.

**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 All-Share Travel & Leisure sector index for each of the last seven 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 July 2008, based on 30-trading-day average values**



**Chief executive officer's remuneration**

	Single figure of total remuneration	Performance bonus payment achieved against maximum possible	Long-term incentives scheme shares vesting against maximum possible*
John Hutson	£000	%	%
2015	1,194	10	100
2014	741	19	100
2013	1,079	43	100
2012	847	34	100
2011	628	24	100
2010	656	44	100

\*As long-term incentive scheme shares issued have no further performance criteria attached, all shares previously awarded vest in full when the vesting date is reached.

The following table compares the change in remuneration of the chief executive with that of all employees.

	2015	2014	Change	Total employees
John Hutson	£000	£000	%	%
Salary/fees	486	453	7.3	4.9
Taxable benefits	24	22	9.1	1.1
Performance bonus	24	44	(45.5)	(4.3)
	534	519	2.9	4.2

**Comparison of increases in remuneration, dividends and share buy-backs**

	2015	2014	Change
	£000	£000	%
Dividends	14,591	14,949	-2.4
Share buy-backs	26,900	24,550	9.6
Total employee remuneration	444,519	403,077	10.3

**Implementation of remuneration policy 2015/2016**

The committee proposes a 10-year renewal of the current deferred bonus scheme which expires at the AGM on 12 November 2015. Approval for this proposal will be sought from shareholders at the 2015 AGM.

The committee does not intend to make any changes to the remuneration policy in the coming year.

**Remuneration committee**

The remuneration committee comprises the following independent directors: Debra van Gene (chair), Elizabeth McMeikan, Sir Richard Beckett and Mark Reckitt.

The committee meets regularly and considers executive directors' remuneration annually. It approves all contractual and compensation arrangements for the executive directors, including performance-related payments.

The committee did not receive external advice or services which materially affected its considerations.

**Shareholders' vote on 2014 directors' remuneration report**

The table below shows the voting outcomes at the 13 November 2014 AGM for the directors' remuneration report.

	Number of votes	% of votes
For	96,284,438	99.69
Against	271,568	0.28
Abstentions	32,661	0.03
Total cast	96,588,667	100.00

## Statement of compliance

The Company is committed to high standards of corporate governance. The board believes that the Company has been compliant with the Code throughout the 52 weeks ended 26 July 2015, except as described below.

### B.1.1 – Non-executive director independence

Elizabeth McMeikan has served more than 10 years on the board and so may not be considered independent under the Code. The board considers that her performance as a non-executive director continues to be effective. She contributes significantly as a director through her individual skills, considerable knowledge and experience of the Company. She also continues to demonstrate strong independence in the manner in which she discharges her responsibilities as a director. Consequently, the board has concluded that, despite her length of tenure, there is no association with management which could compromise her independence.

### B.4.2 – Development

The chairman does not formally sit down with individual directors and identify specific training and development needs for them. The chairman and executive directors hold a series of weekly meetings, with head-office and pub managers, to try to identify areas of improvement for the business. Minutes are taken of these meetings and action points identified for a range of participants. In the opinion of the board, this process is effective in identifying problems and solutions and assists in training and developing directors on an informal, yet effective, basis.

### B.6.2 – External board evaluation

A recent requirement of corporate governance is a recommendation for a third party to evaluate the functioning of the board. Delegation of a key task of the chairman and of the directors of the board itself to a third party, often with little or no connection with the Company's business and with a very limited knowledge of the directors, may be a dangerous step for a board to take. It is the function of the board itself to evaluate its own performance – and the performance is most evident from the results of the underlying business. For this reason, it is believed to be best for the Company to continue with its current system of 'self-evaluation'.

### E.1.1 – Dialogue with shareholders

The Code indicates that the chairman should discuss governance and strategy with major shareholders. The

chairman has had many discussions with shareholders since the company's flotation in 1992, although corporate governance has rarely been raised. The majority of discussions with major shareholders now takes place among the CEO, finance director and shareholders. The chairman is available for discussion with major shareholders, when requested.

A full version of the Code is available on the official website of the Financial Reporting Council: [www.frc.org.uk](http://www.frc.org.uk)

## Directors' conflicts of interest

The board expects the directors to declare any conflicts of interest and does not believe that any material conflicts of interest exist.

## The board of directors

The board comprises the following members:

- Tim Martin, chairman
- John Hutson, chief executive officer
- Ben Whitley, interim finance director
- Su Cacioppo, personnel and legal director
- Elizabeth McMeikan, non-executive director
- Debra van Gene, non-executive director
- Sir Richard Beckett, non-executive director
- Mark Reckitt, non-executive director

Ben Whitley has fulfilled the role of interim finance director further to the departure of Kirk Davis, and approval for his appointment to the board as finance director will be sought at the Company's AGM.

Nigel Connor was appointed company secretary on 18 December 2014.

The board considers each of Elizabeth McMeikan, Debra van Gene, Sir Richard Beckett and Mark Reckitt to be independent.

Biographies of all non-executive and executive directors are provided on page 48 and can be viewed on the Company's website: [www.jdwetherspoon.co.uk](http://www.jdwetherspoon.co.uk)

The chairman regularly meets the non-executive directors and evaluates the performance of the board, its committees and its individual directors.

It is not advantageous, in a company like Wetherspoon, for there to be high barriers or exaggerated distinctions between the role of chairman and that of chief executive officer. However, some general distinctions are outlined overleaf.

**Chairman's responsibility**

The chairman is responsible for the smooth running of the board and ensuring that all directors are fully informed of matters relevant to their roles

Delegated responsibility of authority from the Company to exchange contracts for new pubs and to sign all contracts with suppliers

Providing support, advice and feedback to the chief executive officer

Supporting the Company's strategy and encouraging the chief executive officer with development of that strategy

Chairing general meetings, board meetings, operational meetings and agreeing on board agendas and ensuring that adequate time is available for discussion of agenda items

Management of the chief executive officer's contract, appraisal and remuneration, by way of making recommendations to the remuneration committee

Providing support to executive directors and senior managers of the Company

Helping to provide the 'ethos' and 'vision' of the Company, after discussions and debates with employees of all levels, customers, shareholders and including organisations such as CAMRA

Helping to provide information on customers and employees' views by calling on pubs

Helping to make directors aware of shareholders' concerns

Helping to ensure that a culture of openness and debate exists in the Company

Ensuring compliance with the London Stock Exchange and legal and regulatory requirements, in consultation with the board and the Company's external advisers

**Chief executive officer's responsibility**

The chief executive officer is responsible for the smooth daily running of the business

Developing and maintaining effective management controls, planning and performance measurements

Maintaining and developing an effective organisational structure

External and internal communications, in conjunction with the chairman, on any issues facing the Company

Implementing and monitoring compliance with board policies

Timely and accurate reporting of the above to the board

Recruiting and managing senior managers in the business

Developing and maintaining effective risk-management and regulatory controls

Maintaining primary relationships with shareholders and investors

Chairing the management board responsible for implementing the Company's strategy

The board has several established committees as set out below. The board met eight times during the year ending 26 July 2015; attendance of the directors and non-executives, where appropriate, is shown below.

<b>Number of meetings held in the year</b>	<b>Board 8</b>	<b>Audit 4</b>	<b>Remuneration 5</b>	<b>Nomination 1</b>
Tim Martin	8	N/A	3	N/A
John Hutson	8	N/A	N/A	N/A
Su Cacioppo	8	3	N/A	N/A
Elizabeth McMeikan	8	4	5	1
Debra van Gene	8	4	5	1
Sir Richard Beckett	8	4	5	1
Mark Reckitt	8	4	5	1
Nigel Connor	6	3	N/A	N/A
Ben Whitley	5	3	N/A	N/A
Kirk Davis	1	1	N/A	N/A

## Matters reserved for the board

The following matters are reserved for the board:

- **Board and management**
  - Structure and senior management responsibilities
  - Nomination of directors
  - Appointment and removal of chairman and company secretary
- **Strategic matters**
  - Strategic, financing or adoption of new business plans, in respect of any material aspect of the Company
- **Business control**
  - Agreement of code of ethics and business practice
  - Internal audit
  - Authority limits for heads of department
- **Operating budgets**
  - Approval of a budget for investments and capital projects
  - Changes in major supply contracts
- **Finance**
  - Raising new capital and confirmation of major facilities
  - The entry into finance leases
  - Specific risk-management policies, including insurance, hedging and borrowing limits
  - Final approval of annual and interim accounts and accounting policies
  - Appointment of external auditors
- **Legal matters**
  - Consideration of regular reports on material issues relating to any litigation affecting the Company
  - Institution of legal proceedings, where costs exceed certain values
- **Secretarial**
  - Call of all shareholders' meetings
  - Delegation of board powers
  - Disclosure of directors' interests
- **General**
  - Board framework of executive remuneration and costs
  - Any other matters not within the terms of reference of any committee of the board
  - Any other matter as determined from time to time by the board

## Board committees

### Audit committee

The committee is chaired by Mark Reckitt and comprises Elizabeth McMeikan, Debra van Gene and Sir Richard Beckett.

Representatives of the Company's external auditors, PricewaterhouseCoopers LLP, and the Company's internal audit manager, finance director and personnel and legal director are invited to attend each audit committee meeting.

The committee's primary role is to assist the board in the provision of effective governance over the Company's financial reporting, risk management and internal control and, in particular, it performs the following activities:

- Assumes direct responsibility for the appointment, compensation, resignation and dismissal of the external auditors, including review of the external audit, its cost and effectiveness
- Reviews the independence of the external auditors, including consideration of the level of non-audit work carried out by them
- Reviews the scope and nature of the work to be performed by the external auditors, before audit commences
- Reviews the half-year and annual financial statements
- Ensures compliance with accounting standards and monitors the integrity of the financial statements and formal announcements relating to the financial performance of the Company and supports the board in its responsibility to ensure that the annual financial statements are fair, balanced and understandable
- Reviews the internal audit plan, which is updated to reflect the changing needs of the business and the concerns of management and the audit committee
- Reviews and raises questions on all internal audit reports and requests management to adjust the prioritisation of mitigating actions, as needed. Areas reviewed this year included processes supporting the operation of the distribution centres, management of cash flow, supplier discounts, point-of-sale materials, communication to pub management, payroll and expense processes, property acquisition and related cost control, accounts payable, inventory and fraud-prevention systems
- Reviews, with the support of specialists as required, controls over access to the IT systems used around the business and agrees with management on the timing of any mitigating actions to be carried out
- Reviews and monitors procedures in relation to the Company's whistle-blowing policy
- Reviews and questions the effectiveness of all risk-management and internal control systems
- Reviews the Company's statement on internal control systems, before endorsement by the board
- Considers the overall impact on the business of the various matters arisen from the various reviews described above and any other matters which the auditors, internal or external, may bring to the attention of the committee
- Ensures that all matters, where appropriate, are raised and brought to the attention of the board



### Significant financial reporting items

The accounting policies of the Company and the estimates and judgements made by management are assessed by the committee for their suitability. The following areas are those considered to be the most significant by the committee:

- The provision for the impairment of fixed assets and the onerous leases – several judgements are used in making this calculation, primarily on expected future sales and profits. The committee received reports and questioned management on the calculations made and the assumptions used
- Significant one-off items of expense or income are reported as exceptional on the face of the income statement. All exceptional items are reviewed by the committee
- The committee reviewed and raised questions on the calculations made by the Company in relation to the effectiveness and hedge accounting for interest-rate swaps
- During the year, the committee also discussed the level and complexity of supplier income arrangements and satisfied itself that they were not complex and no significant judgements existed related to income recognition

The committee is satisfied that the judgements made by management are reasonable and that appropriate disclosures have been included in the accounts.

### Non-audit services

During the year, the Company made limited use of specialist teams from PricewaterhouseCoopers LLP, relating to accounting and tax services. The fees paid to PricewaterhouseCoopers LLP for non-audit services were £13,000 (2014: £Nil). The use of PricewaterhouseCoopers LLP for non-audit work is monitored regularly, to achieve the necessary independence and objectivity of the auditors. In addition, the chair of the audit committee is consulted before awarding to the external auditors any non-audit services in excess of £20,000. Where the auditors provide non-audit services, their objectivity and independence are safeguarded by the use of different teams. See note 2 on page 13 for a breakdown of auditors' remuneration for audit and non-audit services.

### External auditors

The audit committee is responsible for making recommendations to appoint, reappoint or remove external auditors. Following a review by the audit committee, the board agreed, in September 2015, to recommend to shareholders, at the annual general meeting, the reappointment of the external auditors for a period of one year.

### Audit-tendering and rotation

The audit committee keeps under review the requirements on audit-tendering and rotation from the EU and the Competition and Markets Authority and will implement them when they become applicable. The EU requirements are still subject to an ongoing UK implementation process, but would require the Company to change its audit firm for the year ending 31 July 2021 at the latest.

PricewaterhouseCoopers LLP has been the auditor of J D Wetherspoon plc since 1984 – and no audit-tendering process has been carried out subsequently. In line with the Ethical Standards for auditors, the audit partner has been rotated every five years, with Andrew Latham completing his second year as audit partner this year end. The audit committee currently expects to put the audit out to tender in time for the audit of the year ending 31 July 2019, in line with the end of the current audit partner rotation cycle, believing that this represents an appropriate balance between operational efficiency and best practice.

The committee also continues to consider annually the need to go to tender for audit quality or independence reasons. Subject to the outcome of this process for 2015, it is currently expected that PricewaterhouseCoopers LLP will remain in office and that a resolution to appoint them for the 2016 audit will be proposed at the AGM.

### Effectiveness of external auditors

The audit committee assesses the ongoing effectiveness of the external auditors and audit process, on the basis of meetings and internal reviews with finance and other senior executives.

In reviewing the independence of the external auditors, the audit committee considers several factors. These include the standing, experience and tenure of the external auditors, the nature and level of services provided and confirmation from the external auditors that they have complied with relevant UK independence standards.

The terms of reference of the audit committee are available on the Company's website.

### Remuneration committee

The committee is chaired by Debra van Gene and comprises Elizabeth McMeikan, Sir Richard Beckett and Mark Reckitt. The directors' report on remuneration is set out on pages 51 to 59.

The terms of reference of the remuneration committee are available on the Company's website.

### Nomination committee

The committee is chaired by Sir Richard Beckett and comprises Elizabeth McMeikan, Debra van Gene and Mark Reckitt. The committee meets at least annually and considers, among other matters, board appointments and the re-election of directors. No director is involved in any decision about his or her own reappointment. In carrying out these activities, the non-executive directors follow the guidelines of the Institute of Chartered Secretaries and Administrators (ICSA) and comply with the Code.

The terms of reference of the nomination committee are available on the Company's website.

### Employment policies

Staff are encouraged to make a commitment to the Company's success and to progress to more senior roles as they develop.

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 and conditions of employment and personnel and management practices which ensure that no individual receives less favourable treatment on the grounds of his or her race, religion or belief, nationality, ethnic origin, age, disability, gender (including gender reassignment), sexual orientation, part-time status 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, the Company's intranet and discussions at staff liaison, at which employees' views are discussed and taken into account.

All pub staff participate in bonus schemes related to sales, profits, stocks and service standards.

### Relations with shareholders

The board takes measures to ensure that all board members are kept aware of both the views of major shareholders and changes in the major shareholdings of the Company. Efforts made to accomplish effective communication include:

- Annual general meeting, considered to be an important forum for shareholders to raise questions with the board

- Regular feedback from the Company's stockbrokers
- Interim, full and ongoing announcements circulated to shareholders
- Any significant changes in shareholder movement being notified to the board by the company secretary, when necessary
- The company secretary maintaining procedures and agreements for all announcements to the Stock Market
- A programme of regular meetings between investors and directors of the Company

### Risk management

The board is responsible for the Company's risk-management process.

The internal audit department, in conjunction with feedback from senior management of the business functions, produces a risk register annually.

The identified risks are assessed, based on the likelihood of a risk occurring and the potential impact to the business, should the risk materialise.

The head of internal audit determines and reviews the risk-assessment process and will communicate the timetable annually.

The risk register is presented to the audit committee and management board annually, with a schedule of audit work agreed on, on a rolling basis. The purpose of this work is to review, on behalf of the Company and the board, those key risks and the systems of control necessary to manage such risks. Where recommendations are made for changes in systems or processes to reduce risk, internal audit will follow up regularly to ensure that the recommendations are implemented.

A summary of the financial risks and treasury policies can be found on page 42, together with other risks and uncertainties.

### Internal control

During the year, the Company provided an internal audit and risk-management function. The attempt to create a system of internal control and risk mitigation is a key part of the Company's operations and culture. The board is responsible for maintaining a sound system of internal control and reviewing its effectiveness. The function can only manage, rather than entirely eliminate, the risk of failure to achieve business objectives. It can provide only reasonable, and not absolute, assurance against material misstatement or loss. Ongoing reviews, assessments and management of significant risks took place throughout the year under review and up to the date of the approval of the annual report and accord with the Turnbull Guidance (Guidance on Internal Control).

The Company has an internal audit function which is discharged as follows:

- Regular audits of the Company's stock
- Unannounced visits to pub sites
- Monitoring systems which control the Company's cash
- Health & safety visits, ensuring compliance with Company procedures
- Reviewing and assessing the impact of legislative and regulatory change
- Risk-management process, identifying key risks facing the business

The Company has key controls, as follows:

- Authority limits and controls over cash-handling, purchasing commitments and capital expenditure
- A budgeting process, with a detailed 12-month operating plan and a mid-term financial plan, both approved by the board
- Business results reported weekly, with a report compared with budget and the previous year
- Forecasts prepared regularly throughout the year, for review by the board
- Complex treasury instruments are not used. The Company, from time to time, as stated in our report and accounts, enters into swap arrangements which fix interest rates at certain levels for a number of years and enters into supply arrangements with fixed prices for electricity and gas, for example, which run for between one and three years
- An annual review of the amount of external insurance which it obtains, bearing in mind the availability of such cover, its costs and the likelihood of the risks involved
- Regular evaluation of processes and controls, in relation to the Company's financial reporting requirements

The directors confirm that they have reviewed the effectiveness of the system of internal control.

**Nigel Connor**

Company Secretary  
10 September 2015

# INFORMATION FOR SHAREHOLDERS

## Ordinary shareholdings at 26 July 2015

Shares of 2p each	Number of shareholders	% of total shareholders	Number	% of total shares held
Up to 2,500	4,237	89.1	2,048,353	1.7
2,501–10,000	295	6.2	1,370,717	1.2
10,001–250,000	178	3.7	9,693,851	8.1
250,001–500,000	19	0.4	6,807,246	5.7
500,001–1,000,000	9	0.2	6,091,907	5.1
Over 1,000,000	19	0.4	93,337,307	78.2
	<b>4,757</b>	<b>100.0</b>	<b>119,349,381</b>	<b>100.0</b>

Source: Computershare Investor Services plc

## Substantial shareholdings

The Company has been notified of the following substantial holdings in its share capital at 12 August 2015:

	Number of ordinary shares	% of share capital
Tim Martin	33,466,934	28.0
Columbia Threadneedle Investments	14,809,700	12.4
Sanderson Asset Management	12,368,731	10.4
Invesco Perpetual	7,262,281	6.1
Rothschild Wealth Management	6,483,065	5.4
J D Wetherspoon plc Company Share Plan*	4,234,581	3.5
Investec Asset Management	4,007,032	3.4
BlackRock Investment Management	3,058,520	2.6
Norges Bank Investment Management	2,611,990	2.2
Legal & General Investment Management	2,501,920	2.1
Phoenix Asset Management Partners	2,479,443	2.1

Source: Investec Bank plc. This schedule shows the consolidated shareholdings of individuals and companies, whereas the first table shows shareholdings by individual holding.

\*This represents shares which have been purchased by the Company for the benefit of employees under the SIP. Please see page 53.

**Listing Rule 9.8.4 R cross-reference table**

Information required to be disclosed by LR 9.8.4 R (starting on page indicated):

■ Interest capitalised	Not applicable
■ Publication of unaudited financial information	Not applicable
■ Details of long-term incentive schemes	Page 15
■ Waiver of emoluments by a director	Not applicable
■ Waiver of future emoluments by a director	Not applicable
■ Non pre-emptive issues of equity for cash	Not applicable
■ Item (7) in relation to major subsidiary undertakings	Not applicable
■ Parent participation in a placing by a listed subsidiary	Not applicable
■ Contracts of significance	Not applicable
■ Provision of services by a controlling shareholder	Pages 51 to 59
■ Shareholder waivers of dividends	Not applicable
■ Shareholder waivers of future dividends	Not applicable
■ Agreements with controlling shareholders	Pages 51 to 59

**Share prices**

27 July 2014	733.0p
Low	692.0p
High	842.5p
26 July 2015	713.5p

**Shareholders' enquiries**

If you have a query about your shareholding, please contact the Company's registrars directly:

Computershare Investor Services plc: [www.uk.computershare.com/investor](http://www.uk.computershare.com/investor)

0370 707 1091

**Annual report**

Paper copies of this annual report are available from the company secretary, at the registered office.

E-mail: [investorqueries@jdwetherspoon.co.uk](mailto:investorqueries@jdwetherspoon.co.uk)

This annual report is available on the Company's website: [www.jdwetherspoon.co.uk/investors](http://www.jdwetherspoon.co.uk/investors)

# PUBS OPENED DURING THE FINANCIAL YEAR

<b>The Ivy House</b>	Draymans Way	Alton	GU34 1SS
<b>The Velvet Coaster</b>	501–507 Promenade	Blackpool	FY4 1BA
<b>The Bloxwich Showman</b>	156A High Street	Bloxwich	WS3 3JT
<b>The Dairyman</b>	16–18 High Street	Brentwood	CM14 4AB
<b>The White Horse</b>	Wrawby Street	Brigg	DN20 8JR
<b>The John Fairweather</b>	52–58 Main Street	Cambuslang	G72 7EP
<b>The Saxon Crown</b>	100 Elizabeth Street	Corby	NN17 1FN
<b>The Crowborough Cross</b>	Beacon Road	Crowborough	TN6 1AF
<b>The Great Wood</b>	Westend Shopping Park, Blanchardstown	Dublin	
<b>The Forty Foot</b>	The Pavilion Centre, Marine Road	Dún Laoghaire	
<b>The Saltoun Inn</b>	Saltoun Square	Fraserburgh	AB43 9DA
<b>The Lord High Constable of England</b>	Llanthony Road, Gloucester Docks	Gloucester	GL1 2EH
<b>Hedgeford Lodge</b>	Anglesey Street	Hednesford	WS12 1DL
<b>The Angel Vaults Inn</b>	5 Sun Street	Hitchin	SG5 1AE
<b>The Star</b>	105 High Street	Hoddesdon	EN11 8TN
<b>The Chief Justice of the Common Pleas</b>	2 Bank Street	Keswick	CA12 5JY
<b>The Old Unicorn</b>	165 Town Street, Bramley	Leeds	LS13 3NA
<b>The Picture House</b>	117/117a Queen Street	Leeds	LS27 8HE
<b>The North Western</b>	7 Lime Street, Liverpool Station	Liverpool	L1 1RJ
<b>The Sir John Hawkshaw</b>	Cannon Street Station, Cannon Street	London	EC4N 6AP
<b>The Sawyer's Arms</b>	3–4 Commercial Street	Maesteg	CF34 9DF
<b>The Twelve Tellers</b>	14–15 Church Street	Preston	PR1 3BQ
<b>The Steel Foundry</b>	Unit 12 The Oasis, Meadowhall Centre Meadowhall	Sheffield	S9 1EP
<b>The Golden Hope</b>	1 Park Road	Sittingbourne	ME10 1DR
<b>The Pump House</b>	Unit 1, Parkgate Development Stratford Road, Shirley	Solihull	B90 3AQ
<b>The Windmill</b>	After Security, Stansted Airport	Stansted	CM24 1QN
<b>The Old Borough</b>	72 Main Street	Swords	
<b>The Queen's Head Hotel</b>	79–80 West Street	Tavistock	PL19 8AQ
<b>The Jolie Brise</b>	9–15 Station Road	Teignmouth	TQ14 8PE
<b>The Ritz</b>	87–93 High Street	Wallsend	NE28 8JD

**J D Wetherspoon plc**

Wetherspoon House, Central Park  
Reeds Crescent, Watford, WD24 4QL

01923 477777

[www.jdwetherspoon.co.uk](http://www.jdwetherspoon.co.uk)