J D Wetherspoon plc

Annual Accounts 2011

Company Number: 1709784

INCOME STATEMENT for the 52 weeks ended 24 July 2011
J D Wetherspoon plc, company number 1709784

	Notes	52 weeks ended 24 July 2011 Before exceptional items Total £000	52 weeks ended 24 July 2011 Exceptional items (note 3) Total £000	52 weeks ended 24 July 2011 After exceptional items Total £000	52 weeks ended 25 July 2010 Before exceptional items Total £000	52 weeks ended 25 July 2010 Exceptional items (note 3) Total £000	52 weeks ended 25 July 2010 After exceptional items Total £000
Revenue	1	**1,072,014**	**–**	**1,072,014**	996,327	–	996,327
Operatıng costs		**(969,705)**	**(5,389)**	**(975,094)**	(896,314)	(10,557)	(906,871)
Operating profit	2	**102,309**	**(5,389)**	**96,920**	100,013	(10,557)	89,456
Fınance ıncome	5	**36**	**–**	**36**	16	–	16
Fınance costs	5	**(35,564)**	**–**	**(35,564)**	(29,014)	–	(29,014)
Profit before taxatıon		**66,781**	**(5,389)**	**61,392**	71,015	(10,557)	60,458
Income tax expense	6	**(14,600)**	**–**	**(14,600)**	(19,680)	–	(19,680)
Profit for the year		**52,181**	**(5,389)**	**46,792**	51,335	(10,557)	40,778
Earnıngs per ordınary share	7	**35.3**		**35.4**	36 0		30 2

STATEMENT OF COMPREHENSIVE INCOME for the 52 weeks ended 24 July 2011

	Notes	**52 weeks ended 24 July 2011 £000**	52 weeks ended 25 July 2010 £000
Interest-rate swaps ıncome (loss) taken to equıty	20	**3,511**	(25,393)
Tax on ıtems taken dırectly to equıty	6	**(2,466)**	6,856
Net gaın/(loss) recognısed directly ın equıty		**1,045**	(18,537)
Profit for the year		**46,792**	40,778
Total comprehensıve income for the year		**47,837**	22,241

CASH FLOW STATEMENT for the 52 weeks ended 24 July 2011
J D Wetherspoon plc, company number 1709784

	Notes	52 weeks ended 24 July 2011 £000	52 weeks ended 24 July 2011 £000	52 weeks ended 25 July 2010 £000	52 weeks ended 25 July 2010 £000
Cash flows from operating activities					
Cash generated from operations	8	178,197	178,197	153,405	153,405
Interest received		39	39	9	9
Interest paid		(34,020)	(34,020)	(30,252)	(30,252)
Corporation tax paid		(21,215)	(21,215)	(21,617)	(21,617)
Gaming machine VAT receipt		–		14,941	
Purchase of own shares for share-based payments		(5,783)	(5,783)	(6,129)	(6,129)
Net cash inflow from operating activities		117,218	117,218	110,357	95,416
Cash flows from investing activities					
Purchase of property, plant and equipment		(31,787)	(31,787)	(21,778)	(21,778)
Purchase of intangible assets		(6,613)	(6,613)	(2,294)	(2,294)
Proceeds on sale of property, plant and equipment		1,100		170	
Investment in new pubs and pub extensions		(86,793)		(53,804)	
Purchase of lease premiums		(825)		(3,935)	
Net cash outflow from investing activities		(124,918)	(38,400)	(81,641)	(24,072)
Cash flows from financing activities					
Equity dividends paid	10	(5,211)		(26,174)	
Proceeds from issue of ordinary shares		225		523	
Purchase of own shares	24	(32,759)		–	
Advances/(repayments) under bank loans	9	49,962		87,586	
Repayment of US private placement		–		(86,742)	
Advances under finance leases		–		9,092	
Finance costs on new loan	9	–		(7,626)	
Finance lease principal payments	9	(2,908)		(2,898)	
Net cash inflow/(outflow) from financing activities		9,309		(26,239)	
Net increase in cash and cash equivalents	9	1,609		2,477	
Opening cash and cash equivalents	17	26,081		23,604	
Closing cash and cash equivalents	17	27,690		26,081	
Free cash flow	7		78,818		71,344
Free cash flow per ordinary share	7		59.7		52 9

BALANCE SHEET as at 24 July 2011
J D Wetherspoon plc, company number 1709784

	Notes	24 July 2011 £000	25 July 2010 £000
Assets			
Non-current assets			
Property, plant and equipment	11	881,271	810,714
Intangible assets	12	11,525	6,700
Deferred tax assets	6	15,569	17,597
Other non-current assets	13	10,520	10,001
Total non-current assets		918,885	845,012
Current assets			
Inventories	14	21,488	19,911
Other receivables	15	21,623	19,727
Assets held for sale	16	70	–
Cash and cash equivalents	17	27,690	26,081
Total current assets		70,871	65,719
Total assets		989,756	910,731
Liabilities			
Current liabilities			
Trade and other payables	18	(189,777)	(162,553)
Financial liabilities	19	(3,129)	(2,829)
Current income tax liabilities		(9,457)	(11,501)
Total current liabilities		(202,363)	(176,883)
Non-current liabilities			
Financial liabilities	19	(462,254)	(411,643)
Derivative financial instruments	20	(57,880)	(61,391)
Deferred tax liabilities	6	(71,448)	(75,579)
Other liabilities	21	(24,766)	(23,094)
Total non-current liabilities		(616,348)	(571,707)
Net assets		171,045	162,141
Shareholders' equity			
Ordinary shares	24	2,632	2,783
Share premium account		143,199	142,975
Capital redemption reserve		1,798	1,646
Hedging reserve		(43,410)	(44,821)
Retained earnings		66,826	59,558
Total shareholders' equity		171,045	162,141

The notes on pages 14 to 29 form an integral part of these financial statements

The financial statements, on pages 10 to 38, approved by the board of directors and authorised for issue on 9 September 2011, are signed on its behalf by

John Hutson
Director

Kirk Davis
Director

Notes to the financial statements

1 Revenue

Revenue disclosed in the income statement is analysed as follows

	52 weeks ended 24 July 2011 £000	52 weeks ended 25 July 2010 £000
Sales of food, beverages, hotel rooms and machine income	**1,072,014**	996,327

2 Operating profit before exceptional items – analysis of costs by nature

This is stated after charging/(crediting)

	52 weeks ended 24 July 2011 £000	52 weeks ended 25 July 2010 £000
Operating lease payments	**64,463**	62,341
Repairs and maintenance	**36,241**	34,233
Rent receivable	**(565)**	(392)
Depreciation of property, plant and equipment (note 11)	**42,866**	42,620
Amortisation of intangible assets (note 12)	**1,223**	811
Amortisation of non-current assets (note 13)	**306**	268
Share-based charges (note 4)	**4,595**	3,987
Auditors' remuneration		
Audit services		
– audit fees	**150**	152
– other services supplied pursuant to relevant legislation	**28**	26
– other services	**105**	10
Total auditors' fees	**283**	188

Analysis of continuing operations

	52 weeks ended 24 July 2011 £000	52 weeks ended 25 July 2010 £000
Revenue	1,072,014	996,327
Cost of sales	(927,045)	(856,908)
Gross profit	**144,969**	139,419
Administration costs		
– head-office costs	**(42,660)**	(39,406)
Operating profit before exceptional items	102,309	100,013
Exceptional items (note 3)	**(5,389)**	(10,557)
Operating profit after exceptional items	**96,920**	89,456

3 Exceptional items

	52 weeks ended 24 July 2011 £000	52 weeks ended 25 July 200 £000
Operating items		
Property impairment	**4,410**	10,557
Insurance excess	**250**	–
Loss on disposal of property, plant and equipment	**729**	–
Operating exceptional items	**5,389**	10,557

During the year under review, an exceptional charge of £4,410,000 (2010 £10,557,000) relates to the impairment of property and fixed assets, following a review of the company's assets, as required under IAS 36

Under the impairment review, each cash-generating unit (CGU) is reviewed for its recoverable amount, determined as being the higher of its fair value less costs to sell and its value in use

Property-related disposals and write-offs are in respect of the loss on disposal of two sites, together with an insurance excess paid in respect of one site damaged by fire

4 Employee benefits expense

	52 weeks ended 24 July 2011 £000	52 weeks ended 25 July 2010 £000
Wages and salaries	**273,685**	250,261
Social Security costs	**18,609**	16,649
Pension costs	**1,668**	1,598
Share-based charges (note 25)	**4,595**	3,987
	298,557	272,495

Included in the table above is compensation paid to directors for loss of office of £367,000

The average number of people directly employed in the business, including directors, was as follows

	2011 Number	2010 Number
Full-time equivalents		
Managerial/administration	**3,454**	3,342
Hourly paid staff	**9,557**	8,617
	13,011	11,959

	2011 Number	2010 Number
Total employees		
Managerial/administration	**3,828**	3,709
Hourly paid staff	**20,239**	17,468
	24,067	21,177

Directors' emoluments

	2011 £000	2010 £000
Aggregate emoluments (excluding share-based payments)	**1,478**	1,918
Contributions to a defined contribution scheme	**95**	126
	1,573	2,044

Retirement benefits are accruing to 3 (2010 4) directors under a defined contribution scheme

Details of directors' emoluments are disclosed in the remuneration report on pages 53 to 59, these form part of these financial statements

5 Finance income and costs

	52 weeks ended 24 July 2011 £000	52 weeks ended 25 July 2010 £000
Finance costs		
Interest payable on bank loans and overdrafts	**33,143**	26,789
Interest payable on US senior loan notes	**–**	437
Amortisation of bank loan issue costs	**1,948**	1,227
Interest payable on obligations under finance leases	**473**	561
Total finance costs	**35,564**	29,014
Bank interest receivable	**(36)**	(16)
Total finance income	**(36)**	(16)
Total net finance costs	**35,528**	28,998

Further details are provided in account note 20

	52 weeks ended 24 July 2011 £000	52 weeks ended 25 July 2010 £000
Analysis of finance income and costs in categories in accordance with IAS 39		
Loans and receivables	**(36)**	(16)
Financial liabilities carried at amortised cost	**16,136**	9,327
Financial derivatives	**18,751**	18,983
Other financial expenses	**677**	704
Total net finance cost	**35,528**	28,998

6 Income tax expense

(a) Tax on profit on ordinary activities

Tax charged in the income statement

	52 weeks ended 24 July 2011 £000	52 weeks ended 25 July 2010 £000
Current income tax		
Current income tax charge	**19,169**	21,709
Total current income tax	**19,169**	21,709
Deferred tax		
Origination and reversal of temporary differences	**980**	746
Impact of change in UK tax rate	**(5,549)**	(2,775)
Total deferred tax	**(4,569)**	(2,029)
Tax charge in the income statement	**14,600**	19,680
Tax relating to items charged or credited to equity		
Deferred tax		
Tax charge (credit) on Interest-rate swaps	**2,100**	(6,856)
Tax charge (credit) in the statement of comprehensive income	**2,100**	(6,856)

Exceptional items had no effect on the tax charge in the income statement for the current or previous financial year

(b) Reconciliation of the total tax charge

The tax expense after exceptional items in the income statement for the year is lower (2010 higher) than the standard rate of corporation tax in the UK of 27 3% (2010 28%) The differences are reconciled below

	52 weeks ended 24 July 2011 Before exceptional items £000	52 weeks ended 24 July 2011 After exceptional items £000	52 weeks ended 25 July 2010 Before exceptional items £000	52 weeks ended 25July 2010 After exceptional items £000
Profit before income tax	**66,781**	**61,392**	71,015	60,458
Profit multiplied by the UK standard rate of corporation tax of 27 3% (2010 28%)	**18,253**	**16,780**	19,884	16,928
Abortive acquisition costs and disposals	**309**	**309**	156	156
Other disallowables	**95**	**95**	120	120
Other allowable deductions	**(92)**	**(92)**	(57)	(57)
Non-qualifying depreciation	**2,849**	**4,322**	3,459	6,415
Deduction for share options and SIPs	**(338)**	**(338)**	(1,139)	(1,139)
Deferred tax on balance-sheet-only items	**(927)**	**(927)**	32	32
Adjustment in respect of change in tax rate	**(5,549)**	**(5,549)**	(2,775)	(2,775)
Total tax expense reported in the income statement	**14,600**	**14,600**	19,680	19,680

The main factor which causes the company's tax rate to be higher than the UK standard rate of corporation tax is non-qualifying depreciation

On 1 April 2012, the UK standard rate of corporation tax is set to fall to 25%

(c) Deferred tax

The deferred tax in the balance sheet is as follows

Deferred tax liabilities	**Accelerated tax depreciation £000**	**Revaluation of land and buildings £000**	**Other timing differences £000**	**Total £000**
At 26 July 2009	66,827	3,298	7,508	77,633
Credited to the income statement	(744)	(314)	(996)	(2,054)
At 25 July 2010	66,083	2,984	6,512	75,579
Credited to the income statement	(3,253)	(355)	(523)	(4,131)
At 24 July 2011	**62,830**	**2,629**	**5,989**	**71,448**

Deferred tax assets	**Capital losses carried forward £000**	**Basic SWAP £000**	**Total £000**
At 26 July 2009	685	10,080	10,765
Credited to the income statement	(24)	–	(24)
Charged to other comprehensive income	–	6,856	6,856
At 25 July 2010	661	16,936	17,597
Credited to the income statement	438	–	438
Debited to other comprehensive income	–	(2,466)	(2,466)
At 24 July 2011	**1,099**	**14,470**	**15,569**

The Finance (No 3) Bill 2010-11 received royal assent before the balance sheet date of 24 July 2011 It included legislation to reduce the main rate of corporation tax to 25%, with effect from 1 April 2012 The lower rate of 25% has been used to determine the overall net deferred tax liability, as the temporary differences are expected to reverse at the lower rate

The March 2011 budget announced a further 1% reduction in the main rate of corporate tax A lower rate of 26% from 1 April 2011 was enacted in July 2011, with the intention remaining for the rate to reduce further, by 1% per annum, to 23% by 1 April 2014 These further proposed rate reductions to 24% and 23% had not been substantively enacted at the balance sheet date and are, therefore, not included in the financial statements The proposed reductions in the rate are expected to be enacted separately each year The impact of the further changes in rate, from 25% to 23%, would be a £4 4m increase in profits for the year The overall effect of the changes applied to the deferred tax balances at 24 July 2011 would be to increase profits for the year by £5 6m (being £2 8m in July 2012 and £2 8m in July 2013) and increase other comprehensive losses by £1 2m (being £0 6m in July 2012 and £0 6m in July 2013)

7 Earnings and cash flow per share

Basic earnings per share has been calculated by dividing the profit attributable to equity holders of £46,792,000 (2010 £40,778,000) by the weighted average number of shares in issue during the year of 132,019,936 (2010 134,902,108)

The weighted average number of shares has been adjusted to exclude treasury shares held in respect of the employee Share Incentive Plan and the 2005 Deferred Bonus Scheme

Earnings before exceptional items per share has been calculated before exceptional items detailed in note 3 and takes account of 23,250 (2010 59,032) potential dilutive shares under option, giving a weighted average number of ordinary shares adjusted for the effect of dilution of 132,043,186 (2010 134,902,108)

Adjusted earnings excludes an adjustment in respect of the corporation tax-rate change of £5,549,000 (2010 £2,775,000) and exceptional items

Earnings per share	**Earnings 52 weeks ended 24 July 2011 £000**	Earnings 52 weeks ended 25 July 2010 £000	**Earnings per share 52 weeks ended 24 July 2011 pence**	Earnings per share 52 weeks ended 25 July 2010 pence
Basic earnings/Diluted earnings	**46,792**	40,778	**35 4**	30 2
Adjusted earnings before exceptional items	**46,632**	48,560	**35.3**	36 0
Adjusted earnings after exceptional items	**41,243**	38,003	**31.2**	28 2

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, corporate 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 same number of shares in issue as that for the calculation of basic earnings per share

Free cash flow per share	**52 weeks ended 24 July 2011**	52 weeks ended 25 July 2010
Free cash flow (£000)	**78,818**	71,344
Free cash flow per share (p)	**59.7**	52 9

8 Cash generated from operations

	52 weeks ended 24 July 2011 £000	52 weeks ended 25 July 2010 £000
Profit attributable to shareholders	**46,792**	40,778
Adjusted for		
Tax	**14,600**	19,680
Impairment charge	**4,410**	10,557
Loss on disposal of property, plant and equipment	**979**	–
Amortisation of intangible assets	**1,223**	811
Depreciation of property, plant and equipment	**42,866**	42,620
Lease premium amortisation	**306**	268
Share-based charges	**4,595**	3,987
Interest receivable	**(36)**	(16)
Amortisation of bank loan issue costs	**1,948**	1,227
Interest payable	**33,616**	27,787
	151,299	147,699
Change in inventories	**(1,577)**	(1,957)
Change in receivables	**(1,896)**	(3,401)
Change in payables	**30,371**	11,064
Net cash inflow from operating activities	**178,197**	153,405

9 Analysis of changes in net debt

	At 25 July 2010 £000	Cash flows £000	Non-cash movement £000	At 24 July 2011 £000
Cash on hand	26,081	1,609	–	**27,690**
Debt due after one year (note 20)	(405,612)	(49,962)	(1,948)	**(457,522)**
Bank borrowing	(379,531)	(48,353)	(1,948)	**(429,832)**
Finance lease creditor – due less than one year	(2,829)	2,908	(3,208)	**(3,129)**
Finance lease creditor – due after one year	(6,031)	–	1,299	**(4,732)**
Net borrowings	(388,391)	(45,445)	(3,857)	**(437,693)**
Derivative – interest rate swaps (note 20)	(61,391)	–	3,511	**(57,880)**
Net debt	(449,782)	(45,445)	(346)	**(495,573)**

10 Dividends paid and proposed

	52 weeks ended 24 July 2011 £000	52 weeks ended 25 July 2010 £000
Declared and paid during the year		
Dividends on ordinary shares		
– interim for 2010/11 4p (2009/10 19p)	**5,211**	26,174
Dividends paid	**5,211**	26,174
Proposed for approval by shareholders at the AGM		
– final dividend for 2010/11 8p (2009/10 0p)	**10,402**	–

As detailed in the interim accounts, the board declared and paid an interim dividend of 4 0p for the financial year ending 24 July 2011

11 Property, plant and equipment

	Freehold and long leasehold property £000	Short leasehold property £000	Equipment, fixtures and fittings £000	Expenditure on unopened properties £000	Total £000
Cost					
At 26 July 2009	526,390	362,313	288,502	18,100	1,195,305
Additions	6,566	2,633	16,576	62,174	87,949
Transfers	20,839	20,169	13,348	(54,356)	–
Transfer to/from assets held for sale	–	–	–	3,038	3,038
Disposals	(96)	(2,469)	(2,364)	(279)	(5,208)
At 25 July 2010	553,699	382,646	316,062	28,677	1,281,084
Additions	15,167	3,401	28,655	75,485	122,708
Transfers	58,728	6,791	13,431	(78,950)	–
Transfer to/from assets held for sale				(611)	(611)
Disposals	(2,848)	(1,387)	(2,185)	(1,496)	(7,916)
At 24 July 2011	**624,746**	**391,451**	**355,963**	**23,105**	**1,395,265**
Depreciation and impairment					
At 26 July 2009	75,978	130,024	215,400	–	421,402
Provided during the period	10,204	12,375	20,041	–	42,620
Impairment loss and depreciation adjustment	1,674	6,775	992	–	9,441
Disposals	(7)	(2,294)	(2,012)	–	(4,313)
Transfer from assets held for sale	–	–	–	1,220	1,220
At 25 July 2010	87,849	146,880	234,421	1,220	470,370
Provided during the period	12,118	9,906	20,842	–	42,866
Impairment loss	2,231	2,031	148	–	4,410
Disposals	(395)	(798)	(1,639)	(820)	(3,652)
Reclassification	1,503	(1,503)	–	–	–
At 24 July 2011	**103,306**	**156,516**	**253,772**	**400**	**513,994**
Net book amount at 24 July 2011	**521,440**	**234,935**	**102,191**	**22,705**	**881,271**
Net book amount at 25 July 2010	465,850	235,766	81,641	27,457	810,714
Net book amount at 26 July 2009	450,412	232,289	73,102	18,100	773,903

Impairment of property, plant and equipment

The company considers each trading outlet to be a separate cash-generating unit (CGU), with each CGU reviewed annually for indicators of impairment

In assessing whether an asset has been impaired, the carrying amount of the CGU is compared with its recoverable amount The recoverable amount is the higher of its fair value less costs to sell and its value in use In the absence of any information about the fair value of a CGU, the recoverable amount is deemed to be its value in use

The company estimates value in use using a discounted cash flow model, based on the expected future trading performance anticipated by management There is a significant number of interconnected assumptions which underpins the value-in-use calculations However, the underlying basis for the impairment model involves each CGU's projected cash flow for the 52 weeks ending 22 July 2012, extrapolated to incorporate individual assumptions, in respect of sales growth, gross margin and cost-savings for that specific CGU
The pre-tax discount rate employed by the company this year was 10% (2010 10 0%)

The board approved the discount rate, considering it to be prudent, yet reflective of the current economic climate

As a result of this exercise, an impairment loss of £4,410,000 (2010 £10,557,000) was charged to operating costs in the income statement

Of the previous year's charge, £9,441,000 is reflected in the table above, while £1,117,000 relates to other non-current assets, as described in note 13

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

Finance leases

The carrying value of fixed assets held under finance leases at 24 July 2011, included within equipment, fixtures and fittings, was as follows

	2011	2010
	£000	£000
Cost	**13,399**	13,915
Accumulated depreciation	**(7,862)**	(5,456)
Net book amount	**5,537**	8,459

12 Intangible assets

	IT software costs £000
Cost	
At 26 July 2009	14,334
Additions	2,653
At 25 July 2010	16,987
Additions	6,049
Disposals	(49)
At 24 July 2011	**22,987**
Amortisation	
At 26 July 2009	9,476
Amortisation during the period	811
At 25 July 2010	10,287
Amortisation during the period	1,223
Disposals	(48)
At 24 July 2011	**11,462**
Net book amount at 24 July 2011	**11,525**
Net book amount at 25 July 2010	6,700
Net book amount at 26 July 2009	4,858

Amortisation of £1,223,000 (2010 £811,000) is included in the cost of sales in the income statement

Included within the intangible assets is £5,819,000 of assets in the course of development (2010 £903,000)

Finance lease

The carrying value of fixed assets held under finance leases at 24 July 2011, included within intangible assets, was as follows

	2011	2010
	£000	£000
Cost	**1,909**	–
Accumulated depreciation	–	–
Net book amount	**1,909**	–

The company has entered into a contract for the design and implementation of an ERP system Commitments in terms of this agreement total £2 3m

13 Other non-current assets

	Lease premiums £000
Cost	
At 26 July 2009	9,746
Additions	3,636
Disposals	(219)
At 25 July 2010	13,163
Additions	825
At 24 July 2011	**13,988**
Amortisation	
At 26 July 2009	1,777
Amortisation during the period	268
Impairment charge (note 11)	1,117
At 25 July 2010	3,162
Amortisation during the period	306
At 24 July 2011	**3,468**
Net book amount at 24 July 2011	**10,520**
Net book amount at 25 July 2010	10,001
Net book amount at 26 July 2009	7,969

14 Inventories

	2011 £000	2010 £000
Goods for resale at cost	**21,488**	19,911

15 Other receivables

	2011 £000	2010 £000
Other receivables	**4,429**	5,936
Prepayments and accrued income	**17,194**	13,791
	21,623	19,727

At the balance sheet date, the Company was exposed to a maximum credit risk of £4 4 million, of which £198,000 was overdue The Company holds no collateral for these receivables, and no impairment to receivables was deemed necessary at the balance sheet date

16 Assets held for resale

As at 24 July 2011, one unit was classified as held for sale (2010 0 units)

The major classes of assets held, comprising the unit classified as held for sale, were as follows

	2011 £000	2010 £000
Property, plant and equipment	**70**	–

A total loss of £541,000, in writing this asset down to fair value less costs to sell, has been included within exceptional items (note 3)

It is expected that this site will be disposed of by public auction early in the new financial year

17 Cash and cash equivalents

	2011 £000	2010 £000
Cash at bank and in hand	**27,690**	26,081

Cash at bank earns interest at floating rates, based on daily bank deposit rates
There is no difference between the fair value and book value of cash and cash equivalents

18 Trade and other payables

	2011 £000	2010 £000
Trade payables	**94,713**	87,757
Other payables	**5,878**	5,737
Other tax and Social Security	**30,099**	21,999
Accruals and deferred income	**59,087**	47,060
	189,777	162,553

19 Financial liabilities

	2011 £000	2010 £000
Current		
Finance lease obligations	**3,129**	2,829
Non-current		
Bank loans		
Variable rate facility	**457,522**	405,612
Other		
Finance lease obligations	**4,732**	6,031
Total non-current financial liabilities	**462,254**	411,643

20 Financial instruments

For a discussion on capital risk management, please refer to section 2 on page 39 Also discussed in section 2 on page 40 are the financial risks associated with financial instruments, including credit risk and liquidity risk

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	1–2 years	2–3 years	3–4 years	4–5 years	More than 5 years	Total
	£000	£000	£000	£000	£000	£000	£000
As at 24 July 2011							
Bank loans	15,397	15,397	489,703	–	–	–	520,497
Other long-term payables	729	698	698	698	698	5,215	8,736
Finance lease obligations	3,480	2,856	2,171	–	–	–	8,507
Trade and other payables	159,678	–	–	–	–	–	159,678
Derivatives	18,553	18,553	18,553	10,248	6,986	115	73,008

	Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	More than 5 years	Total
	£000	£000	£000	£000	£000	£000	£000
At 25 July 2010							
Bank loans	12,969	12,969	12,969	423,208	–	–	462,115
Other long-term payables	641	642	642	642	642	4,741	7,950
Finance lease obligations	3,281	2,817	2,193	1,678	–	–	9,969
Trade and other payables	140,554	–	–	–	–	–	140,554
Derivatives	18,884	18,884	18,884	18,884	10,246	7,247	93,029

At the balance sheet date, the Company had total UK committed loan facilities of £550m (2010 £550m) which comprised a £530-million unsecured-term revolving-loan facility and an overdraft facility of £20 million, maturing in March 2014 All UK-committed loan facilities are at floating rates, based on LIBOR The Company has entered into swap agreements which fix £400 million The effective weighted average of all of the swap agreements entered into is 5 47% (2010 5 47%), fixed for a weighted average period of 3 9 years (2010 4 9 years)

At the balance sheet date, £480 million (2010 £415 million) was drawn down under the £530-million unsecured-term revolving-loan facility, with interest rates set for periods of between one and six months, at which point monies are repaid and, if appropriate, redrawn

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

	2011 £000	2010 £000
Analysis of interest-rate profile of the financial liabilities		
Floating-rate borrowings	**57,522**	5,612
Fixed-rate borrowings		
– bank loans	**400,000**	400,000
– finance lease obligations	**7,861**	8,860
	465,383	414,472

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

Obligations under finance leases

The minimum lease payments under finance leases fall due as follows

	2011 £000	2010 £000
Within one year	**3,481**	3,281
In the second to fifth year, inclusive	**5,026**	6,688
	8,507	9,969
Less future finance charges	**(646)**	(1,109)
Present value of lease obligations	**7,861**	8,860
Less amount due for settlement within one year	**(3,480)**	(2,829)
Amount due for settlement during the second to fifth year, inclusive	**4,381**	6,031

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

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the financial instruments carried in the financial statements

	2011 Book value £000	2011 Fair value £000	2010 Book value £000	2010 Fair value £000
Financial assets				
Loans and receivables				
Cash and cash equivalents	**27,690**	**27,690**	26,081	26,081
Other receivables	**4,429**	**4,429**	5,936	5,936
Financial liabilities				
Other financial liabilities				
Trade and other payables	**(159,678)**	**(159,678)**	(140,554)	(140,554)
Finance lease obligations	**(7,861)**	**(8,328)**	(8,860)	(9,334)
Long-term borrowings	**(457,522)**	**(495,060)**	(405,612)	(416,969)
Derivatives				
Interest-rate, currency and basis swaps	**(57,880)**	**(57,880)**	(61,391)	(61,391)

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 24 July 2011, 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 was assessed to be effective, a cumulative loss of £57,880,000 (2010 a loss of £61,391,000), with a deferred tax credit of £14,470,000 (2010 a credit of £16,570,000), relating to the hedging instrument, is included in equity A gain of £3,511,000 for the year (2010 loss £25,395,000) is reflected in equity

Fair value of financial assets and liabilities

Effective from 27 July 2009, the Company adopted the amendment to IFRS 7 for financial instruments which are measured in the balance sheet at fair value This 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 cash flow hedge of £57 9m is considered to be level 2 All other financial assets and liabilities are measured in the balance sheet at amortised cost

21 Other liabilities

	2011 £000	2010 £000
Operating lease incentives and provisions	**9,819**	8,153
Amount held in respect of gaming machine settlement under appeal by HMRC	**14,947**	14,941
Other liabilities	**24,766**	23,094

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 paid over the lease term, resulting in deferred income recognised on the balance sheet

The weighted average period to maturity of operating lease incentives is 16 1 years (2010 16 3 years)

Also included is an amount held in respect of the Company's gaming machine VAT claim A decision was released during the previous financial year in respect of Rank plc's gaming claim, and this latest ruling fell in the taxpayer's favour As a result, the Company was able to further pursue its own gaming claim which was submitted in January 2006 HMRC made a repayment of the existing claim, subject to the Company providing a guarantee to HMRC that, in the event that the existing decision is overturned in a higher court, the amount will be repayable in full HMRC lodged an appeal with the European Court of Justice in respect of Rank plc's decision and this was heard on 30 June 2011, a decision is expected by the end of the calendar year The Company is holding the repayment amount of £14,947,000 as a liability, until the Rank plc case has reached its final conclusion

22 Financial commitments

The Company has entered into commercial leases on certain properties The terms of the leases vary, however, on inception, a property lease will be for a period of up to 30 years Most property leases have upwards-only rent reviews, based on open-market rent at the time of the review

The minimum contractual operating lease commitments fall due as follows

Land and building	2011 £000	2010 £000
Within one year	**60,736**	59,030
Between one and five years	**228,286**	224,132
After five years	**916,432**	952,502
	1,205,454	1,235,664

The Company has operating lease commitments, with rentals determined in relation to sales An estimate of the future minimum rental payments under such leases of £58 million (2010 £52 million) is included above

23 Related-party disclosures

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

As required by IAS24, the following information is disclosed about key management compensation

Key management compensation:

	2011 £000	2010 £000
Salaries and short-term employee benefits	**2,578**	3,357
Post-employment pension benefits	**154**	199
Termination benefits	**366**	–
Share-based charges	**350**	420
	3,448	3,976

For additional information about directors' emoluments, please refer to the directors' remuneration report

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 53 to 59 which forms part of these financial statements

24 Share capital

	Number of shares 000s	Share capital £000
At 26 July 2009	138,974	2,779
Allotments	151	4
At 25 July 2010	139,125	2,783
Allotments	68	1
Repurchase of shares	(7,585)	(152)
At 24 July 2011	**131,608**	**2,632**

The total authorised number of 2p ordinary shares is 500 million (2010 500 million) All issued shares are fully paid Proceeds from the issuance of shares amounted to £225,000 (2010 £523,000)

During the year, 7,585,000 shares (representing approximately 5% of the issued share capital) were repurchased by the Company for cancellation, at a cost of £32 6m, excluding stamp duty, representing an average cost per share of 428p

The effect of the buyback programme is to enhance the earnings per share in the current and future years

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

25 Share-based payments

Movements in the year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, each category of share options during the year The significance of options granted before 7 November 2002 is that they have been excluded from the IFRS 2 share-based payment charge, on the basis of their date of grant No options were granted after 7 November 2002

(a) New Discretionary Share Option Scheme (NDSO)

	2011 Number	**2011 WAEP**	2010 Number	2010 WAEP
Outstanding at the beginning of the year	**67,296**	**339.0**	203,805	350 1
Lapsed in the year	**(5,568)**	**339.0**	(4,617)	352 9
Exercised in the year	**(48,238)**	**339.0**	(131,892)	353 3
Outstanding at the end of the year	**13,490**	**339.0**	67,296	343 7
Weighted average contractual life remaining for share options outstanding at the year end	**0.1 year**		0 8 years	
Exercise price for options outstanding at the year end	**339.0p**		339 0p	

(b) 2001 Executive Scheme (2001 scheme)

	2011 Number	**2011 WAEP**	2010 Number	2010 WAEP
Outstanding at the beginning of the year	**60,110**	**301.5**	82,405	301 5
Lapsed in the year	**(2,960)**	**301 5**	(2,991)	301 5
Exercised in the year	**(19,695)**	**301.5**	(19,304)	301 5
Outstanding at the end of the year	**37,455**	**301 5**	60,110	301 5
Weighted average contractual life remaining for share options outstanding at the year end	**1.1 years**		2 1 years	
Exercise price for options outstanding at the year end	**301.5p**		301 5p	

At 24 July 2011, there were 26 members of the NDSO scheme, with average shareholdings of 519, there were 176 members of the 2001 scheme, with average option-holdings of 213

The exercise of an option under the NDSO and 2001 scheme will, in accordance with institutional shareholder guidelines, be conditional on the achievement of performance conditions In respect of the NDSO and 2001 scheme, options are exercisable three years after they have been granted and only if the Company's normalised earnings per share (excluding exceptional items), over any three-year period, have exceeded the growth in the RPI by an average of at least 3% per annum

Fair value of share-based payments is determined with reference to market prices

26 Events after the balance sheet date

Following the year end, the company concluded an amendment and restatement of its existing banking facility The new non-amortising £555-million four-year-and-eight-month facility, expiring in March 2016, was put in place, with a syndicate of nine existing lenders Total facilities now available, including an overdraft, are £575 0 million

Financial record
for the five years ended 24 July 2011

	2007 £000	2008 £000	2009 £000	2010 £000	2011 £000
Sales and results					
Revenue from continuing operations	888,473	907,500	955,119	996,327	1,072,014
Operating profit before exceptional items	91,113	90,457	97,001	100,013	102,309
Exceptional items	–	(3,275)	(21,920)	(10,557)	(5,389)
Finance income	206	337	336	16	36
Finance costs	(29,295)	(32,566)	(31,182)	(29,014)	(35,564)
Fair value loss on financial derivatives	–	(794)	794	–	–
Profit on ordinary activities before taxation	62,024	54,159	45,029	60,458	61,392
Taxation	(15,190)	(18,624)	(19,730)	(19,680)	(14,600)
Profit for the year	46,834	35,535	25,299	40,778	46,792
Net assets employed					
Non-current assets	793,495	805,017	797,496	845,012	918,885
Net current liabilities	(78,731)	(80,806)	(199,468)	(111,164)	(131,492)
Non-current liabilities	(456,567)	(458,732)	(346,259)	(473,034)	(520,134)
Deferred tax and other liabilities	(85,590)	(84,932)	(84,076)	(98,673)	(96,214)
Shareholders' funds	172,607	180,547	167,693	162,141	171,045
Ratios					
Operating margin (excluding exceptional items)	10 3%	10 0%	10 2%	10 0%	9 5%
Basic earnings per share (excluding exceptional items)	28 1p	27 6p	32 6p	36 0p*	35 3p*
Free cash flow per share	35 6p	50 6p	71 7p	52 9p	59 7p
Dividends per share (interim and final)	12 0p	12 0p	0p	19 0p	12 0p

Notes to the financial record

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

* The weighted average number of shares has been adjusted to exclude treasury shares held in respect of the employee Share Incentive Plan and the 2005 Deferred Bonus Scheme

Authorisation of financial statements and statement of compliance with IFRSs

The financial statements of J D Wetherspoon plc (the 'Company') for the year ended 24 July 2011 were authorised for issue by the board of directors on 9 September 2011, and the balance sheet was signed on the board's behalf by J Hutson and K Davis 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 IFRIC interpretations as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006 The principal accounting policies adopted by the Company are set out on pages 33 to 37

Accounting policies

Basis of preparation

The financial statements of the Company have been prepared in accordance with IFRSs as adopted by the EU, IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS The financial statements have been prepared under the historical cost convention, except for the revaluation of financial instruments and share based payments

The Company's financial statements are presented in sterling, with all values rounded to the nearest thousand pounds (£000), except where otherwise indicated The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 24 July 2011, they have been consistently applied

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates It also requires management to exercise its judgement in the process of applying the Company's accounting policies The 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 In the future, actual experience could differ from those estimates The areas involving a higher degree of judgement or complexity or where assumptions and estimates are significant to the financial statements are disclosed below

Insurance provision

A provision for public liability insurance is made for the estimated exposure of the Company to claims This has been based on experience of historical claims

Impairment of property, plant and equipment

The Company determines whether property, plant and equipment is impaired by estimating a unit's value in use and fair value less costs to sell, to determine the recoverable amounts of cash-generating units (CGUs)

Fair value less costs to sell is determined using external and internal estimates of the value of the Company's CGUs 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

Any changes in the level of forecast earnings or cash flows, the discount rate applied or the estimate in fair value less costs to sell could give rise to an additional impairment provision

Hedging

The Company applies assumptions on future transactions which could have an impact on those future borrowings which are critical in the effectiveness calculations of its Interest-rate swaps If these transactions were not to occur, it may result in all or part of the cumulative gain or loss which was originally reported in equity being transferred to the income statement

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

Deferred tax

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised In particular, significant judgement is used when assessing the extent to which deferred tax assets and liabilities should be recognised, with consideration given to the timing and level of future taxable income and any future tax planning strategies

Segmental reporting

The Company reports in one business segment (that of public houses) and one geographical segment (being the United Kingdom) Given the immaterial size of the Company's hotel business, this has 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 expected infrequency of the event giving rise to them, merit separate presentation to allow shareholders to better understand the elements of financial performance in the year, so as to facilitate comparison with previous periods and to better assess trends in financial performance

Property, plant and equipment

Property, plant and equipment are 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 a working condition

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

Freehold land is not depreciated

Freehold buildings are depreciated to their estimated residual values over periods of 50 years

Short-leasehold buildings are depreciated over the lease period

Equipment, fixtures and fittings are depreciated over three to 10 years

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

As required by IAS 16, property, plant and equipment's expected useful life and residual values are reviewed annually

The carrying values of property, plant and equipment are reviewed for impairment, if events or changes in circumstances indicate that their carrying values may not be recoverable Any impairment in the value of property, plant and equipment is charged to the income statement

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
At each reporting date, the Company assesses whether there is an indication that an asset may be impaired If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount An asset's recoverable amount is the higher of an asset or CGU's fair value less costs to sell and its value in use, this is determined for an individual asset, unless the asset does not generate cash inflows which are largely independent of those from other assets or groups of assets Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time value of money and the risks specific to the asset Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset

An assessment is made at each reporting date about whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased If such indication exists, the recoverable amount is estimated A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised If that is the case, 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 Such reversal is recognised in the income statement After such a reversal, the depreciation charge is adjusted in future periods, to allocate the asset's revised carrying amount, less any residual value, on a systematic basis, over its remaining useful life

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 – 3 to 10 years

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable

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 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 The cost of finished goods includes appropriate overheads Cost is calculated on the basis of 'first in, first out', with net realisable value being the estimated selling price, less any costs of disposal

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 is the value of goods and services sold to third parties as part of the Company's trading activities, after deducting discounts and sales-based taxes

Revenue is recognised when the significant risks and rewards of ownership are transferred Revenue represents amounts derived principally from the sale of goods (drink and food sales recognised at the point at which the goods are provided) and the rendering of services Machine revenue is recognised after deducting sales-based taxes All costs in relation to machine sales are included in cost of sales

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 Lease payments are apportioned between finance charges and reduction of the lease payable, so as to obtain a constant rate of interest on the remaining balance of the liability Finance charges are charged as an expense to the income statement and the asset depreciation is charged in line with the accounting policy for property, plant and equipment

Leases where the lessor retains substantially all of the risks and benefits of ownership of the asset are classified as operating leases Rental payments in respect of operating leases are charged against operating profit, on a straight-line basis, over the period of the lease

The company also has contingent 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

Borrowing costs
Borrowing costs are recognised as an expense in the period in which they are incurred, unless the requirements under IAS 23, 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 on an undiscounted basis 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, all other reinvestment in current pubs at the start of the period 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 in the following categories at fair value through profit or loss, and loans and receivables The classification depends on the purpose for which the financial assets were acquired

a) Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are financial assets held for trading A financial asset is classified in this category, if acquired principally for the purpose of selling in the short term

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'fair value gain/loss on financial derivatives' in the period in which they arise

b) 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 are classified as 'other receivables' on the balance sheet

Other receivables
Other receivables are initially recognised 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 with an original maturity of one month or under 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 in the following categories at fair value through profit or loss and other financial liabilities The classification depends on the purpose for which the financial liabilities were acquired

a) Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss are financial liabilities held for trading A financial liability is classified in this category, if acquired principally for the purpose of selling in the short term Financial liabilities with a designated hedge may also be categorised as financial liabilities at fair value through profit or loss They are included in current liabilities, except for maturities greater than 12 months after the balance sheet date

b) Other financial liabilities
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 initially recognised at fair value and subsequently at amortised cost, using the effective-interest method

Bank loans and loan notes
Interest-bearing bank loans and loan notes 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 initially recorded 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 and it meets the Company's risk-management objective strategy for undertaking the hedge and is expected to be highly effective The Company designates certain derivatives as one of the following

Interest-rate swaps
Hedges are classified as Interest-rate swaps where they hedge exposure to cash flow variability which is attributable to either a particular risk associated with a recognised asset or liability or a forecast transaction

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 when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability

If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement If the hedging instrument expires or is sold, terminated or exercised without replacement or roll-over or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are transferred to the income statement or to the initial carrying amount of a non-financial asset or liability as above If the related transaction is not expected to occur, the amount is taken to the income statement

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, except where hedge accounting is applied

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

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 equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award In valuing equity-settled transactions, no account is taken of any vesting conditions, other than market conditions linked to the price of the shares of the Company

No expense is recognised for awards which do not ultimately vest, except for awards where vesting is conditional on a market condition, which are treated as vesting, irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired, being management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments which will ultimately vest or, in the case of an instrument, subject to a market condition, be treated as vesting as described previously The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, with any cost not yet recognised in the income statement for the award being treated as an expense immediately Any compensation paid, up to the fair value of the award at the cancellation or settlement date, is deducted from equity, with any excess over fair value being treated as an expense in the income statement

New standards, amendments and interpretations effective in the current year·

Annual improvements 2009 This is a collection of amendments to 12 standards as part of the IASB programme of annual improvements The standards affected are

- IFRS 2 – 'Share-based payments'
- IFRS 5 – 'Non-current assets held for sale and discontinued operations'
- IFRS 8 – 'Operating segments'
- IAS 1 – 'Presentation of financial statements'
- IAS 7 – 'Statement of cash flows'
- IAS 17 – 'Leases'
- IAS 18 – 'Revenue'
- IAS 36 – 'Impairment of assets'
- IAS 38 – 'Intangible assets'
- IAS 39 – 'Financial instruments Recognition and measurement'
- IFRIC 9 – 'Reassessment of embedded derivatives'
- IFRIC 16 – 'Hedges of a net investment in foreign operation'

The adoption of these amendments had no impact on the Company's results or financial position

Standards, amendments and interpretations effective in the current year, but not relevant to the Company

Amendment to IAS 32 'Financial instruments Presentation on classification or rights issues

Amendments to IFRS 2 'Share-based payments' on group cash-settled transactions

IFRIC 19 'Extinguishing financial liabilities with equity instruments'

Standards and interpretations which are not yet effective and have not been early adopted by the Company

IFRS7 Financial instruments Disclosures on derecognising

Amendment to IAS 12 Income taxes

Amendment to IAS 19 Employee Benefits

IFRS 13 Fair value measurement

IAS 24 (revised) 'Related-party disclosures'

Annual improvements 2010

IFRS 9 'Financial instruments', on 'Classification and measurement'

The impact of the above standards and interpretations are not expected to have a significant impact on the company's results or financial position

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 the potential impacts

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

Regulatory risks

Regulation of the sale of alcohol
As a result of the high level of regulation in the industry in which the Company operates, any changes to regulation may have an impact on the business In particular, owing to the regulatory authority's intention to increase alcohol duties over the foreseeable future, there is a risk that the Company's sales and margins may face increasing pressure These are, however, risks faced by the entire industry in which the Company operates

Health and safety
It is important to provide a safe environment in which the Company's employees work, as well as safe facilities for patrons to enjoy Therefore, the Company has policies to ensure that all reasonable standards of health and safety are met These include a process by which risks are identified in a timely manner and remedied accordingly, including a comprehensive training programme to assist employees in this regard

Economic and market conditions

Economic outlook
Since the Company operates in the retail sector, any continued period of weak economic growth may affect the Company's performance It is for this reason that the Company continually assesses its customer offering, to ensure that it delivers quality products at good value, in a welcoming environment In achieving this, the Company will ensure that it remains competitively placed in the market in which it operates

Property values have been affected by the economic downturn, this, consequently, can have an impact on the value of the Company's assets However, given that the Company has not revalued freehold sites since 1999, we do not believe that there is a material difference between the current market values and the book values held on the balance sheet The Company's primary focus is to trade from its estate successfully and to maximise the profitability of its pubs The continuing weak property market provides the Company with further opportunities to add to its estate portfolio This year, the Company has opened 50 pubs, with a lower development cost per square foot than the Company's historic average

Cost increases

Inflationary pressures on the Company's inputs pose a risk to margins The Company seeks to minimise the potential effects of this risk by continuing to foster mutually beneficial and long-term relationships with its suppliers, while working hard across the business to continue to drive down costs in all areas and achieve productivity gains, so as to minimise the effect of any price increases

Operational risks

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 As such, there is an ever-present focus on improving controls to ensure that the Company operates its business model through focus on delivering consistently high-quality service and products, within a well-maintained environment

Supply chain risks
Food and drink sales account for a significant proportion of sales, therefore, it is fundamental to our operations that we should be able to supply our pubs with the required goods and services to operate As a Company, we work closely with our third-party suppliers, producers and supply-chain partners to ensure that our relationships with them are positive, at all times

Head office and distribution centre
Any disasters at the Company's head office (in Watford) or its distribution centre (in Daventry) could seriously disrupt its day-to-day operations Various measures have been undertaken by the Company, including a comprehensive disaster-recovery plan, seeking to minimise the potential 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

Capital risk management
When managing capital, the Company's objectives are to safeguard its ability to continue as a going concern, in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital

In order to maintain or adjust debt and equity levels (together referred to as capital), the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, adjust the investment in new properties and sell assets to reduce debt

The Company considers its capital to be its allotted share capital and its reserves (which are disclosed on the statement of changes in shareholders' equity on page 13) and monitors its capital on the basis of free cash flow per share (which is disclosed in the cash flow statement on page 11) In generating free cash flow, the Company uses the cash to provide returns for shareholders by investing in new acquisitions, to buy back shares, to pay dividends or to reduce the Company's debt, while ensuring that the Company has enough funds to meet its working capital requirements and to comply with its banking covenants All covenants were complied with during the year under review

Financial risks
The Company's activities expose it to a variety of financial risks market risk (including foreign exchange risk and interest-rate risk), credit risk and liquidity risk The Company's overall risk-management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the Company's financial performance The Company uses derivative financial instruments to hedge certain risk exposure

a) Market risk

i) Foreign exchange risk
The Company operates only in the UK, so substantially all transactions are denominated in sterling, therefore, the Company does not suffer from significant foreign exchange risk

ii) Interest-rate risk
The Company's policy is to manage its cost of borrowings by using predominantly fixed rates, in order that the Company not be exposed to cash flow interest-rate risks

The Company manages its cash flow interest-rate risk by using floating-to-fixed interest-rate swaps Such interest-rate swaps have the economic effect of converting borrowings from floating rates to fixed rates The Company raises long-term borrowings at floating rates and swaps them into fixed rates which are lower than those available if the Company had borrowed at the fixed rates directly Under the interest-rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts, calculated by reference to the agreed notional amounts

During the year ended 24 July 2011, 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 £490,000 and equity increased by £15,039,000 The movement in equity arises from 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

b) Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposure to receivables, principally on income received from sublets and sundry income The Company does not have significant concentration of credit risk, as significantly the majority of revenue is cash-based

At the balance sheet date, the Company was exposed to a maximum credit risk of £4 4 million, of which £198,000 was overdue The Company holds no collateral for these receivables, and no impairment to receivables was deemed necessary at the balance sheet date

Where there are risks, the Company's policies are aimed at minimising losses Cash deposits with financial institutions and derivative transactions are permitted with investment-grade financial institutions only On income received from sublets, the Company seeks to offer leases to tenants who can demonstrate an appropriate payment history and suitable credit-worthiness Sundry income is predominantly derived from the Company's current suppliers, so, any potential credit risks are mitigated by offsetting against the liability with the supplier

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions Owing to the dynamic nature of the underlying businesses, the Company aims to maintain flexibility in funding by keeping committed credit lines available

Management monitors rolling forecasts on the Company's liquidity reserve, on the basis of expected cash flow, through an assessment of short-, medium- and long-term forecasts In monitoring the cash flow, a key management priority is to ensure that there are enough funds to meet creditors, while monitoring that the Company is within its banking covenants

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF J D WETHERSPOON PLC

We have audited the financial statements of J D Wetherspoon plc for the 52 week period ended 24 July 2011 which comprise the Income Statement, the Cash Flow Statement, the Balance Sheet, the Statement of Changes in Shareholders' Equity and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 49, 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 International Standards on Auditing (UK and 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

Scope of the audit of the financial statements
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 In addition, we read all the financial and non-financial information in the Annual Report and Accounts 2011 to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 24 July 2011 and of its profit and cash flows for the 52 week period then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006
In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006,
- the information given in 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

Matters on which we are required to report by exception
We have nothing to report in respect of the following

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

- 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, or

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit, or
- a corporate governance statement has not been prepared by the company

Under the Listing Rules we are required to review

- the directors' statement, set out on page 50, in relation to going concern,
- the parts of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on directors' remuneration

APaynter

Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
9 September 2011

Corporate Social Responsibility Report

The Company aims to be an important part of the local communities in which it trades, managing its responsibilities from both corporate and social perspectives The Company's corporate social responsibility plan identifies four areas people, responsible retailing, community and charity, and the environment

PEOPLE

The Company aims to be a highly regarded employer, through its investment in training and development, policies on equality, a competitive remuneration package and the encouragement of employees to participate actively in business strategy

The Company created over 2,800 new jobs in 2010/11 and is working with government agencies to offer jobs to the long-term unemployed We placed 121 candidates into permanent employment, helping to save substantial amounts in benefits

In relation to training, the Company held over 1,000 separate training courses in 2010/11, attended by over 11,000 delegates, and promoted over 2,200 staff to shift leader or management positions

In addition, the professional diploma in leisure retail management, run in conjunction with Leeds Metropolitan University, is offered to all pub managers and area managers We believe this diploma to have been the first in-house programme in the licensed trade which allows employees to gain a professional qualification while working The programme was extended to include a 'degree top-up', also in conjunction with the university

The quality and volume of the Company's training courses help to create motivation and to provide employees with the necessary skills to carry out their jobs to a consistently high standard All employees are now able to participate in e-learning, through a dedicated employee web site

The Company has increased the range of nationally recognised qualifications available to employees As well as the apprenticeship programme, employees can also gain access to three new qualifications a level 2 NVQ diploma in beverage services, a level 2 NVQ diploma in kitchen services and a level 2 apprenticeship in customer service, developed specifically for 16- to 17-year-olds

The Company is committed to equal opportunities and the elimination of discrimination, harassment and victimisation of employees Of our workforce, 51% is female and 49% male

The Company has also been recognised as an 'Age Positive' employer, by the Department for Work and Pensions It has also been recognised by the Corporate Research Foundation, in association with The Guardian newspaper, as one of 'Britain's Top Employers', for eight consecutive years, including 2011

The Company regularly benchmarks its remuneration packages In addition to competitive pay rates, the Company has created a bonus scheme for all employees In this connection, the Company awarded bonuses and shares (SIPs) for employees of £22 6m in the year, an increase of 0 5% (2010 £22 5m) Of the payments, 98% were made to employees below board level, with approximately 87% of payments made to employees working in our pubs In addition to this, all employees are able to join the Company health plan, pension plan and also obtain tax-efficient childcare vouchers

RESPONSIBLE RETAILING

Responsible drinks retailing

The Company supports practices which promote sensible drinking and has established a 'code of conduct for responsible retailing', outlining its approach in this area

We also seek to develop partnerships with local authorities and the police All pubs are requested to become a member of the local pubwatch (a scheme to promote a safe and responsible drinking environment) In a number of locations, a Company pub manager chairs the scheme and where there is no pubwatch, we try to work with the local police and council to establish one A Company representative sits on the National Pubwatch committee – and the business financially supports the Drinkaware Trust and the British Institute of Innkeeping

The Company was the inaugural winner of the 'Responsible Drinks Retailing Award', jointly sponsored by the Home Office In 2009, the Company won the award for the second time

We encourage our pubs to enter the 'Best Bar None' schemes (run by local authorities and the police, to encourage good behaviour in town centre), promoting a safe and secure environment

Food information and quality

The Company aims to improve the quality of its food offer continually and to provide customers with the required information about our product range, to allow them to make informed decisions about their food consumption This includes nutritional information for all dishes, via our web site and a printed leaflet, available in pubs