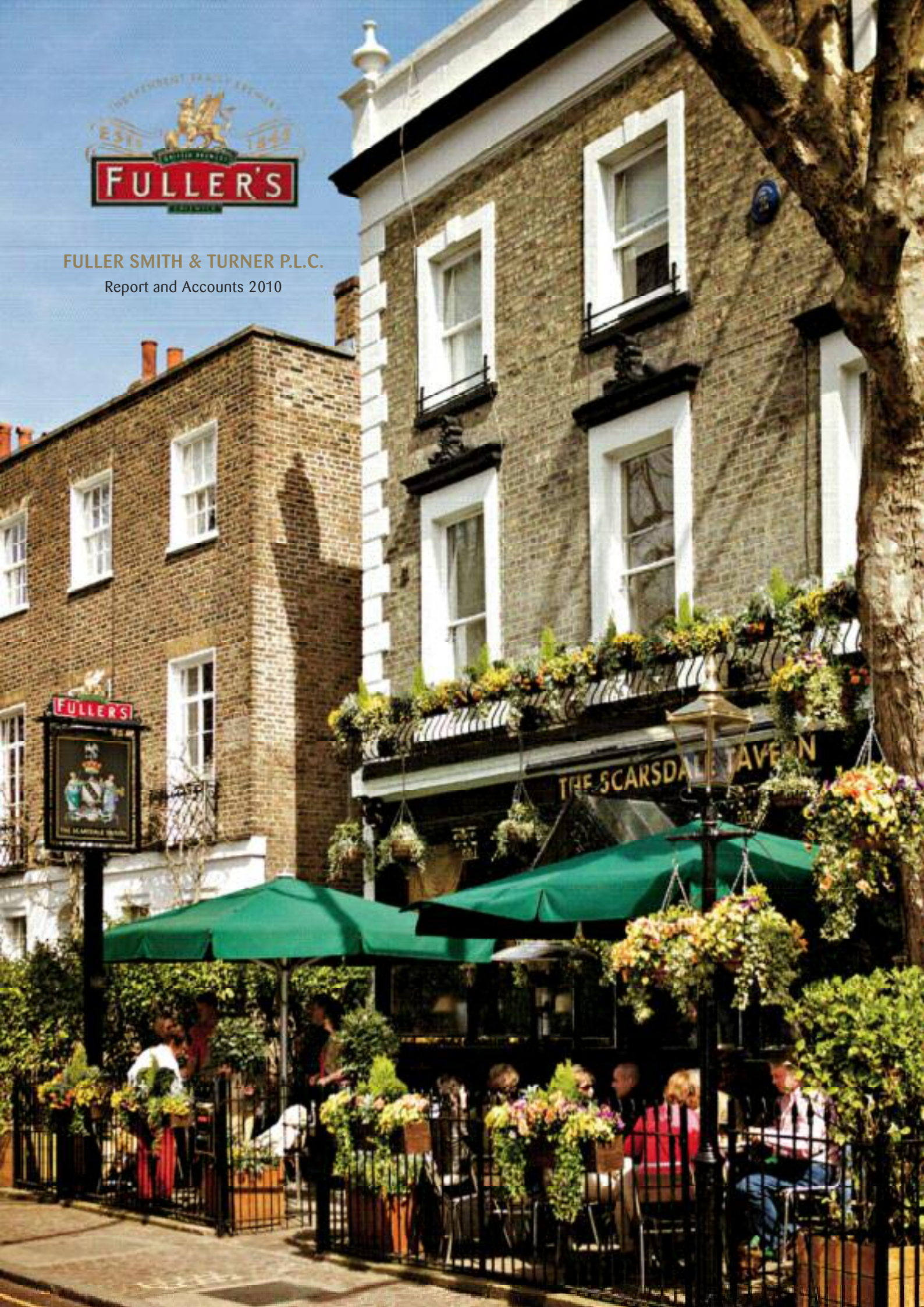




**FULLER SMITH & TURNER P.L.C.**  
Report and Accounts 2010







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WHATEVER YOU DO,  
TAKE PRIDE.





## Corporate Progress

- Outstanding performance with adjusted profit before tax<sup>1</sup> up 17%
- Managed Pubs and Hotels like for like sales up 2.7%
- Acquisition of eight Managed Pubs and one Tenanted Inn in London for a total cash consideration of £30.2 million
- Own Beer volumes up 2%
- New £100.0 million five year bank facility

### ADJUSTED PROFIT<sup>1</sup> £ million

2010	26.6
2009	22.8
2008	23.0
2007	22.1
2006	17.9

### ADJUSTED EARNINGS PER SHARE<sup>3</sup> Pence

2010	34.19
2009	29.12
2008	29.15
2007	27.58
2006	21.87

### TOTAL DIVIDEND PER SHARE<sup>4</sup> Pence

2010	11.00
2009	9.85
2008	9.70
2007	9.09
2006	7.90

• Adjusted Profits up 17%

• Adjusted EPS up 17%

• Total Dividend per Share up 12%

## Financial Highlights

	52 weeks ended 27 March 2010 £m	52 weeks ended 28 March 2009 £m	Change 2010/2009
Revenue	227.7	210.0	8%
Adjusted profit <sup>1</sup>	26.6	22.8	17%
Profit before tax	26.8	14.4	86%
EBITDA <sup>2</sup>	43.6	40.2	8%
Adjusted earnings per share <sup>3</sup>	34.19p	29.12p	17%
Basic earnings per share <sup>4</sup>	34.37p	16.00p	115%
Total annual dividend per share <sup>4</sup>	11.00p	9.85p	12%
Net debt <sup>5</sup>	107.7	94.2	
Pro forma net debt / EBITDA <sup>6</sup>	2.5 times	2.3 times	

<sup>1</sup> Adjusted profit is the profit before tax excluding exceptional items. The Directors believe that this measure provides useful information for shareholders as to the internal measures of the performance of the Group.

<sup>2</sup> Pre-exceptional earnings before interest, tax, depreciation, loss on disposal of plant and equipment and amortisation.

<sup>3</sup> Calculated using adjusted profits after tax and the same weighted average number of shares as for the basic earnings per share and using a 40p ordinary share.

<sup>4</sup> Calculated on a 40p ordinary share.

<sup>5</sup> Net debt comprises cash and short term deposits, bank overdraft, bank loans, loan notes, debenture stock and preference shares.

<sup>6</sup> Pro forma net debt/EBITDA is adjusted as appropriate for the pubs acquired in the period.



## Chairman's Statement



*Michael Turner*

I am delighted to report another record set of results for our business in what has been a challenging period for the economy and our industry. Our revenues have grown by 8% to £227.7 million (2009: £210.0 million) and our adjusted profit before tax (excluding exceptional items) has increased by 17% to £26.6 million (2009: £22.8 million). Our adjusted earnings per share increased by 17% to 34.19p (2009: 29.12p).

We are pleased to report strong results for our Managed Pubs and Hotels, with like for like sales increased by 2.7%, which combined with the first time contribution from acquired pubs, led to a 25% increase in operating profits before exceptional items in the largest part of our business. Our Tenanted Inns like for like profits declined by 1%, with operating profit before exceptional items down 3%.

### MANAGED PUBS AND HOTELS LIKE FOR LIKE SALES GROWTH %

2010	2.7%
2009	3.0%
2008	3.6%
2007	8.2%
2006	3.7%

The Fuller's Beer Company has also performed well, with operating profits before exceptional items up by 7% to £8.9 million (2009: £8.3 million). Our Own Beer sales were particularly pleasing, with volumes up 2%, increased market share in the UK, and our export business continuing to grow strongly. London Pride remains the leading brand in the premium ale market and is the cask ale of choice in the On Trade.

In these turbulent times, we continued to execute the strategy that has served us well in recent years. We have concentrated on broadening our range of beers by creating exciting new brands whilst maintaining the investment and the levels of innovation in our pubs and adding new properties to the estate.

Our total capital expenditure for the year amounted to £44.1 million, which, excluding 2005 when we purchased George Gale & Co., is the most we have ever invested during a year. £30.2 million of this was spent on nine iconic London freehold pubs, the like of which rarely become available. In addition to these purchases, we have continued to identify and exploit development opportunities within the existing business and we have spent record amounts in extending, repairing and maintaining the fabric of our estate. We have increased our brand marketing activity, benefitting from media price deflation, with record levels of spend translating to even greater exposure. Elsewhere we have sought to control cost which has also been a key contributor to our strong profit growth.

Since the year end, we have announced the arrangement of a new five year £100.0 million unsecured revolving credit facility on competitive and flexible terms, reflecting the strong credit profile of a business backed by freehold property. This funding will enable us to finance further acquisitions, invest across our business and repay our existing bank borrowings which are due to be repaid in November 2010 and which stood at £80.2 million at the year

# The fu

WWW.FULLERS.CO.UK  
WWW.DRINKAWARE.CO.UK





# Fuller flavour.



WHATEVER YOU DO, TAKE PRIDE.



#### QUALITY, SERVICE AND PRIDE

Fuller's has been established for more than 165 years and now operates London's only traditional brewery.

From this site in Chiswick we brew more than 220,000 barrels of award winning ales annually, including the iconic London Pride.

We supply our own estate of 163 Managed Pubs and Hotels and 203 Tenanted Inns in the South of England, as well as free trade pubs, clubs and supermarkets in both the UK and overseas.



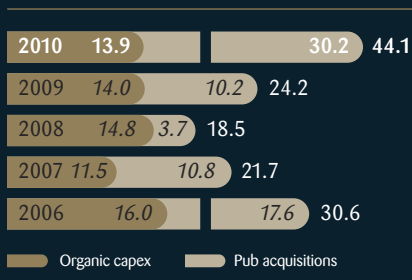
## Chairman's Statement continued

end. We have excellent cash flows, a large fixed asset base of freehold properties, and an exceptionally strong balance sheet with scope for further expansion finance should the opportunity arise.

Despite representations from both our industry and our customers, the former Chancellor continued his inflation busting beer duty increases. In March 2008, the then Chancellor announced a policy to increase duty at a rate of 2% higher than inflation. In the 27 months since this announcement beer duty has increased by more than 26%, whilst retail price inflation over the corresponding period has been only 6%. The duty effect on a pint of beer in our pubs is now over 50p. When other taxes are included the Government now takes 30% of the price of a pint in the pub, and on occasions over 100% of the price in the supermarket. The real place where this increase has been felt is in the smaller community pub and the independent off licence shop as the large supermarkets have absorbed the increases across their businesses. It is little wonder that pubs are closing and that beer volumes are under pressure nationally as a result.

We welcome the new Government's policy to address the irresponsible use of alcohol as a traffic builder in supermarkets but urge them to look at the minimum price at which alcohol should be available. Anything else is unlikely to make a significant difference to the harm done by irresponsibly priced alcohol. We look forward to the enactment of meaningful legislation and to a duty regime that is fair and fit for purpose.

### CAPITAL EXPENDITURE £ million



### FINANCIAL PERFORMANCE

Operating profits before exceptional items grew by 10% to £32.0 million (2009: £29.0 million) with the largest contribution to growth coming from acquired pubs. Despite these purchases being funded by bank borrowings, net finance costs reduced to £5.4 million from £6.2 million as average interest rates fell. This contributed to adjusted profits before tax growing by some 17%. EBITDA increased by 8% to £43.6 million (2009: £40.2 million) and, as a consequence of capital investment, the Group's net debt increased to £107.7 million (2009: £94.2 million). Net debt to EBITDA increased slightly to 2.5 times (2009: 2.3 times). Due to the reduced net finance costs, our interest cover improved to 5.9 times (2009: 4.7 times). Our blended cost of borrowings fell from 5.9% to 4.4%. Next year with new interest rate swaps and caps in place along with the new facilities we estimate that our borrowing costs will be around 4.7%.

Net exceptional profits before tax were £0.2 million, and comprised a profit on the disposal of properties of £1.1 million, a VAT rebate of £0.3 million, offset by net property impairments of £1.0 million and a goodwill impairment charge of £0.2 million. After exceptional items, our profit before tax was therefore £26.8 million (2009: £14.4 million) and our basic earnings per share were 34.37p (2009: 16.00p). Last year, exceptional costs of £8.4 million comprised asset impairment charges of £6.9 million, goodwill impairment of £0.4 million, onerous lease provisions of £0.8 million, and £0.3 million in relation to reorganisation costs.

Tax has been provided for at an effective rate of 28.2% (2009: 28.9%) on adjusted profits.

Although cash contributions to the defined benefit pension scheme totalled £2.1 million, the accounting deficit for defined benefit pensions increased by some £4.3 million to £12.7 million (2009: £8.4 million). The deficit increased despite

the recovery in asset prices as AA corporate bond yields decreased and long term inflation expectations increased substantially.

During the period we did not buy back any shares for treasury (2009: 447,000 'A' ordinary 40p shares repurchased for £1.8 million). 169,000 'A' ordinary 40p shares were purchased for £0.8 million by the Trustees of the Share Incentive Plan and the LTIP Trustees to cover future issuance (2009: 97,000 for £0.4 million).

### DIVIDEND

We continue to deliver excellent returns for our shareholders and including the proposed final dividend will increase the annual dividend payable by 12%.

During the year, we chose to rebalance the proportion of the interim and final dividends by paying an increased interim dividend of 4.50p (2009: 2.85p) per 40p 'A' and 'C' ordinary share and 0.45p (2009: 0.285p) per 4p 'B' ordinary share. Unusually, we also paid a second interim dividend in March 2010. This second interim dividend amounted to 5.35p per 40p 'A' and 'C' ordinary share and 0.535p per 4p 'B' ordinary share. We do not intend to pay a second interim dividend in the current financial year.

Having taken into account the level of interim dividends already paid during the year, the Board recommends a final dividend of 1.15p per 40p 'A' and 'C' ordinary share and 0.115p per 4p 'B' ordinary share be paid on 28 July 2010 to shareholders on the share register as at 2 July 2010. The total dividend for the year of 11.00p (2009: 9.85p) per 40p 'A' and 'C' ordinary share and 1.10p (2009: 0.985p) per 4p 'B' ordinary share will be more than three times covered by adjusted earnings per share.









## Chairman's Statement continued

### FULLER'S INNS

For the first time this year we are disclosing the results of our Managed Pubs and Hotels and our Tenanted Inns separately. Managed pubs are those which Fuller's operate entirely ourselves – we directly employ all staff – whilst in our Tenanted business, our Tenants run the pubs as entrepreneurs but with our signage and support. Under the terms of our normal lease, or rental agreements, the Tenants are obliged to purchase drinks from Fuller's. Cask ales are very important to our pubs' businesses and we are pleased to report that Cask ale volumes have grown in our own pubs (even before the additional volumes coming from acquisitions).

We acquired eight new Managed Pubs and one Tenanted Inn during the year, and sold one property from each of these divisions which no longer met our criteria. The estate stood at 366 properties on 27 March 2010, seven higher than at the start of the year. Of this number, 203 were tenanted or leased pubs and 163 were managed pubs or hotels.

### Managed Pubs and Hotels

Revenues across our Managed Pubs and Hotels business increased by 11%. Like for like sales also rose by 2.7%, the difference being represented by the first time contributions from the eleven acquisitions made since February 2009. Operating profits before exceptional items grew by 25% to £15.8 million (2009: £12.6 million) with the first time contribution of the new pubs augmented by lower utility costs.

#### MANAGED PUBS AND HOTELS

We focus on high quality pubs which serve outstanding cask ale, fine wines, and delicious food with exemplary service.

The eight freehold houses purchased for the managed estate during the financial year were:

- The Scarsdale Tavern, Kensington
- The Swan, Bayswater
- The Red Lion, Westminster
- The Queen's Head, Brook Green
- Ye Olde Mitre, Hatton Garden
- The Hereford Arms, Gloucester Road
- The Round House, Covent Garden
- The Holly Bush, Hampstead

Most of these pubs are in areas where we have previously been under represented. Initially we focussed on understanding how these pubs traded whilst we made improvements behind the scenes to staff training, cellars, kitchens and beer dispense which all needed immediate investment. Subsequent to these actions, all of these properties, (with the current exception of the latest purchase, The Holly Bush), have now been sensitively signed as Fuller's houses. We believe that both phases of investment have improved trade and are very pleased with the acquisitions and the progress that we have made with them.

Our Managed Pubs and Hotels benefit from a consistent strategy focused on quality, and we have continued to invest in our pubs and our people to deliver a premium leisure experience. Our trading performance continues to be built on our four pillars of outstanding cask conditioned ales, delicious food, great wines and exemplary service. Quality is the vital ingredient in everything that we do and weakness in the UK economy has not changed our approach.

Management turnover in our business has never been lower than it has been in the last year. A stable management team has been a vital ingredient in our ability to integrate our recent acquisitions with no detriment to the ongoing business. It also enables us to invest capital with confidence that we will achieve our targeted returns. When we make significant investments, we follow three principles, the most important

of which is that we must have the right management team in situ. Secondly, we must have a clear understanding of the local market and the specific opportunity that we are targeting, so that finally, we devise a design scheme that helps us attract our new target customer.

We have completed several major refurbishment and expansion projects during the year. These include the development of the Hampshire Hog, Clanfield, where we built 20 bedrooms, and transformational projects at The King's Head Wickham and at the Fox and Pelican, Grayshott, two prominent pubs in their areas which had not been invested in for some years. We have also invested substantially at The Anglers, Teddington, which we acquired in February 2009. This involved improvements to the internal customer facing areas and the function room, as well as improved kitchen facilities and upgrading the garden in order to be able to serve fresh food during the busy summer trade that this pub attracts. With each of these investments, we believe that we have substantially improved the offer for our customers.

Food and accommodation remain important growth drivers for our business. Food sales rose by 17% and represented 28% of revenue (2009: 27%), excluding the 12 pubs where food is provided by Thai franchisees. We believe that our focus on locally sourced ingredients, used to create freshly cooked meals, has been a key factor in increasing food sales across the estate. Our customers welcome this commitment to quality.

Despite the weak economy, accommodation revenue declined by only 1% representing 6% of total revenue in the year (2009: 7%). Accommodation remains a major focus with all new and refurbished rooms fitted out to our exacting boutique standards. The quality of finish in these rooms is very high, which enables us to support a premium price. We now have 487 bedrooms across all the properties in the Managed estate.

During the year we sold the Brambletye Hotel, Forest Row, as it no longer matched our criteria.







## TENANTED INNS

Our Tenanted Inns business has again outperformed the market. Own beer sales increased during the year and our Licensees continue to be recognised by the Company, and by others, for their success in operating fine pubs.



### Tenanted Inns

The Griffin,  
Brentford:  
Griffin Trophy  
Town Pub  
of the Year.

### Tenanted Inns

The Royal Oak,  
Paley Street:  
a Michelin Star,  
the first in  
Fuller's history.

### Tenanted Inns

The Red Lion,  
Ealing:  
CAMRA Pub of the  
Year for West  
Middlesex Region.

### Tenanted Inns

42 tenants have  
attained Master  
Cellarman status  
this year, taking  
the total to 79.







## Chairman's Statement continued

### Tenanted Inns

We believe our Tenanted Inns business performed exceptionally well in what has clearly been a difficult environment for the industry and our tenants. Revenues were marginally higher at £26.1 million (2009: £26.0 million) reflecting beer sales in growth but rental income in decline as we reduced rents in line with inflation. Operating profits before exceptional items of £9.9 million (2009: £10.2 million) were 3% lower with rent and increased depreciation charges key factors. Like for like profits, (excluding acquisitions, disposals and closures), were 1% lower.

A successful Tenanted business is a partnership between the property owner and the Tenant. There needs to be a fair split of risk and reward between both parties. The majority of our Tenanted properties carry Fuller's signage that is identical to those in the Managed estate. To our customers there is no difference and they expect a quality experience in any Fuller's establishment. It is fundamental that our Tenants share our corporate values of Quality Service and Pride and we work closely with our Tenants to promote these values. In the last three years, we have filled 53 permanent vacancies in our Tenanted business. Of these appointments 46 remain in place today. We are succeeding in finding the right partners with whom we are able to build a successful relationship.

The Fuller's cartouche above the door helps our Tenant's business and therefore helps us maintain our performance. Beer and wine sales volumes are crucial and we work hard with Tenants to help them serve beer in the best condition possible and recognise this via our Master Cellarman programme which promotes exceptionally well kept cask ale. More tenants than ever now hold Master Cellarman status.

Where rents are index linked and the index has fallen during the year we have passed on rent reductions. This has caused our rental income to fall but the impact on profits has been mitigated by increased Own Beer volumes and less bad debts.

We understand that on occasion rents need to be reviewed. We are aware of this because we ourselves are obligated under a small number of leases where, as Tenants, we are obliged to pay rents which are not sustainable. These are property issues though, not issues confined to the pubs sector and the Beer Tie. We seek to ensure that each pub has the right level of rent and we will adjust the rent when we believe it does not. Where a business is failing, we believe that the underlying problems need to be addressed. Key issues such as beer duty and supermarket pricing are outside of our control and affect the whole industry. These issues cannot be resolved by rent concessions.

Since the year end we are pleased to report that the BII have given accreditation to our Tenanted Code of Practice. We are one of the first businesses to gain this approval which recognises the transparency and openness of our Tied agreements.

We acquired the freehold of The Railway, Kew in November 2009 where Orchid Group is our free of tie Tenant. We disposed of The Surveyor, West Moseley, and are in the process of marketing eleven further pubs for disposal, of which terms have already been agreed on two since the year end. These properties no longer match our criteria.

### TENANTED INNS PROFITS £ million

2010	9.9
2009	10.2
2008	10.2
2007	9.8





Chairman's Statement continued

**THE FULLER'S BEER COMPANY**

Significant developments in the Beer Company year include the launch of Seafarers Ale as a permanent fixture in the range to great success and the completion of our purpose-built distribution depot near the site of the former Gales Brewery in Horndean, Hampshire.

**THE FULLER'S BEER COMPANY**

The Fuller's Beer Company has had a very good year with a 7% increase in operating profit before exceptional items to £8.9 million (2009: £8.3 million) and revenue growth of 7% to £97.9 million (2009: £91.8 million). This was despite the increases in duty referred to earlier and a £0.6 million increase in raw material costs.

Our total Own Beer volumes grew by 2%. We gained share in the UK ale market where our volumes grew by 1% in a market that shrank 5%. In the Off Trade, our volumes grew by 4% in a market that grew by 1%. Our export business, where we continue to make excellent progress developing markets, grew by 13%. This is our fastest growing sector and has benefited from the recent weakness of sterling whilst not being harmed by the aggressive increases in UK beer duty. As both a leading cask ale brewer and pub operator, it is pleasing to report that cask ale, which is only available in the On Trade, continues to grow its share of the draught beer market.

Our business is based on a platform of exceptional beer brands of which London Pride is the largest and most significant to us. We brew more than 20 other beers in Chiswick each year, eleven of which are brewed all year round. Our portfolio, including our seasonal beers such as Red Fox, Festival Mild, and Summer Ale, allows us to offer the breadth of choice now seen in larger specialist ale houses, yet all under either the Fuller's or Gales umbrella, brewed to the same exacting standards of quality, consistency and flavour. In addition to these, we brew fine ales such as 1845, Vintage Ale, and our limited edition Brewers Reserve.

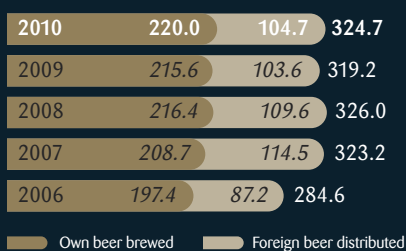
London Pride still leads the premium ale market and has yet again grown its market share. Our sponsorships of the English Golf Union and the London Marathon continue to provide excellent platforms for growing sales and raising brand awareness. The recession has seen media prices fall and we

were able to secure high profile media space at competitive prices. We stepped up our marketing activities during the year to benefit from the lower media prices and invested more than we did last year, running television, cinema and poster advertising campaigns.

It has been another good year for our other brands too. Organic Honey Dew continued to show excellent growth, cementing its place as the UK's best selling organic ale. Following great popularity as a seasonal ale in the previous two years we launched Seafarers Ale as a permanent fixture in our range in April 2009. This Gales brew has proved extremely popular and volumes have far exceeded our expectations. The George Gale & Co. brand complements the Fuller's brands on the bar and publicans and customers alike are keen to see them side by side. For every pint of Seafarers sold we make a donation to Seafarers UK, the leading maritime charity. In February 2010 we launched Bengal Lancer India Pale Ale as an exclusive seasonal beer to our Managed and Tenanted Pubs. It was very popular with customers and this exciting new brand has already gained listings in supermarkets in its bottle conditioned version.

During the year, the major capital investment in the Beer Company was the building and opening of our new purpose built warehouse. The Hampshire Distribution Centre is less than one mile from the old Gales Brewery in Horndean and we are pleased to maintain our presence in this area. The Telesales operation for the entire business is now based at the Hampshire Distribution Centre and we have increased the number of people that we employ there. The site has excellent transport links and has already started to give us both logistical benefits and efficiency savings. Planning applications for the redevelopment of the old Brewery have been submitted and we hope that these will be approved and that the disposal of this site will then proceed.

**FULLER'S BEER BARRELS '000s**



**TOTAL BEER BARRELS**



**FREE ON TRADE SECTOR BARRELS**







NINE GREAT BEERS, ONE VITAL INGREDIENT.

FULLER'S  
LONDON'S FINEST ALES.











## PEOPLE

At the AGM in July, Anthony Fuller will retire as a Non-Executive Director after 47 years service to the Company including 25 years as Chairman from 1982 until 2007. Anthony will remain President of the Company. Tim Turner retired as a Director of the Company on 31 March 2010. Tim joined Fuller's in 1977 and had been on the Board since 1985. Both Anthony and Tim have seen Fuller's through substantial periods of growth and development and have contributed vastly to the success of the business. I thank them on behalf of my colleagues and shareholders for their immense contribution.

On 8 December 2009 Richard Fuller joined the Board as a Director. Richard has been with the Company since 1984 and was appointed Sales Director of the Fuller's Beer Company in 1992. On 1 June 2010 Sir James Fuller Bt joined the Board as a Non-Executive Director. I am delighted to welcome them both to the Board.

A year ago, we acknowledged that the UK economy was in crisis and that in this environment we would not be able to justify a basic pay increase in the Company outside of the minimum wage increase. Despite this news, our employees at all levels have remained totally committed to the business over the year. It is their contributions which add together to produce such outstanding results and to continue to set the bar even higher for future years. I thank them all for their hard work.

The quality of the team and their outperformance of the market is the key factor that has helped us to win the J.P. Morgan, Institute of Family Business Honours Award. The criteria for the Award cover business success, governance and social responsibility. The judges said:

*"Fuller's business model has demonstrated outstanding strength throughout the recession, staying true to their core values and premium branding."*

*"The interaction with employees and longstanding relationships with suppliers exhibit an unrivalled level of trust amongst all those involved in the business, resulting in a true family business ambience."*

The judges were looking for a contribution from everybody, and they found it everywhere they looked, and in everyone they met. I am truly proud to lead such a team.

## CURRENT TRADING AND PROSPECTS

We have made a solid start to the new financial year with like for like sales in our Managed Pubs and Hotels growing by 3.5% for the ten weeks to 5 June 2010. For the same period Own Beer volumes are level with last year, with weakness in the UK On Trade market offset by continued growth elsewhere, particularly exports.

We have a strong balance sheet and highly cash generative assets and plan to invest a further £12 million of capital expenditure within our existing business during the forthcoming year.

With the UK national debt so large and measures to tackle this through tax rises and public spending cuts now being implemented by the new Government we continue to be very cautious about the outlook for the UK economy. We may technically have emerged from recession and the economy may no longer be contracting, however, with the prospect of personal taxation in our target market rising further and disposable incomes reducing there may be less leisure spend available in real terms. Despite these challenges we consider that we continue to be well placed with a strong balance sheet, excellent brands, and well invested pubs that serve outstanding cask ale and delicious food.

Michael Turner  
Chairman

11 June 2010

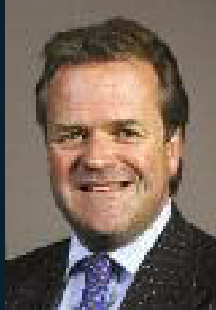




## The Board of Directors as at 11 June 2010



Michael Turner<sup>†</sup>



John Roberts



Simon Emeny



James Douglas



Richard Fuller



Marie Gracie



Anthony Fuller



Nick MacAndrew<sup>\*†</sup>



John Dunsmore<sup>\*††</sup>



Nigel Atkinson<sup>\*†</sup>



Sir James Fuller

\* Member of the Remuneration Committee.  
 \* Member of the Audit Committee.  
 † Member of the Nominations Committee.

### Executive Directors

#### Michael Turner<sup>†</sup>

##### Chairman

Aged 58. Joined in 1978. A Chartered Accountant with international experience. He initially ran the Wine Division as Wine Director. Became Marketing Director in 1988, Managing Director in 1992, Chief Executive in 2002 and Chairman in 2007. Chairman of the British Beer and Pub Association 2008-2010. Chairman of the Nominations Committee.

#### John Roberts

##### Managing Director, the Fuller's Beer Company

Aged 52. Appointed in 1996 having previously held a number of strategic marketing and sales positions with Britvic, United Biscuits, Courage and Scottish & Newcastle. A graduate in Business Studies and Marketing.

#### Simon Emeny

##### Managing Director, Fuller's Inns

Aged 44. Joined in 1996 from Bass plc where he held a variety of senior operational and strategic planning roles. Appointed a Director in May 1998. Non Executive Director of Dunelm Group plc. An Economics graduate.

#### James Douglas

##### Finance Director

Aged 44. Appointed in 2007 from LSE-listed telecoms operator Fibernet Group plc, where he was Finance Director. Spent eight years with Deutsche Bank as an investment banker. Qualified as a prize-winning Chartered Accountant with PricewaterhouseCoopers. Holds a first degree in Physics and a Masters degree in Economics.

#### Richard Fuller

##### Sales and Personnel Director

Aged 50. Joined the Company in 1984. Appointed a Divisional Director with responsibility for Sales in 1992, and additionally for Personnel in 2005. Appointed to the Board in December 2009. Also responsible for PR. A GMP Graduate of Harvard Business School.

### Company Secretary

#### Marie Gracie

Aged 44. Appointed in 1998 after an offshore appointment. Formerly Company Secretary of Argos PLC. A Chartered Secretary and Arts graduate. Secretary of The Chiswick House and Gardens Trust.





## Financial Statements

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### President and Non Executive Director

#### Anthony Fuller

Aged 70. Joined in 1963. Chairman 1982-2007. Became Non Executive in 2002. Chairman of the Brewers' Society 1986-1989. Master of the Worshipful Company of Brewers 1986-1987. Awarded a CBE in 1990. Vice Chairman of the Brewers of Europe 2005-2007. Formerly Chairman of the Independent Family Brewers of Britain.

### Independent Non Executive Directors

#### Nick MacAndrew\*##†

Aged 63. Appointed in September 2001. Senior Non Executive Director and Chairman of the Audit Committee. Director of Wates Group Limited and Jardine Lloyd Thompson Group plc, and Chairman of F & C Asset Management plc. Formerly Chief Financial Officer of Schroders plc and Chairman of Save the Children. A Chartered Accountant.

#### John Dunsmore\*##†

Aged 51. Appointed in January 2009. Chairman of the Remuneration Committee. Chief Executive of C&C Group plc and former Chief Executive of Scottish & Newcastle plc prior to its takeover by Heineken and Carlsberg in 2008.

### Non Executive Director

#### Nigel Atkinson\*##

Aged 56. Appointed in April 2006. Formerly Managing Director of George Gale & Co. Ltd. Non Executive Chairman of Centurion Safety Products Limited, Non Executive Chairman of Premier Pubs Estates Ltd. and Non Executive Director of Global Charities Ltd. Vice Lord-Lieutenant of Hampshire since 2007. Master of the Worshipful Company of Brewers 2010-2011.

#### Sir James Fuller Bt.

Aged 39. Appointed on 1 June 2010. Served in The Life Guards 1991-1998. Employed by the Company from 1998-2003, working in the tied and managed house estate and has since been running his own business.





## Financial Review

### Financial Performance

The Chairman's statement on pages 2 to 13 covers a comprehensive review of the headline financial results for the year just ended.

### Business Review

The key issues facing the Group are covered in the Chairman's statement. The key performance indicators (KPIs) which the Group uses to monitor its overall financial position can be summarised as follows:

	2010	2009
EBITDA	<b>£43.6 million</b>	£40.2 million
Net debt/EBITDA	<b>2.5 times</b>	2.3 times
Adjusted profits	<b>£26.6 million</b>	£22.8 million
Adjusted earnings per share increase	<b>17%</b>	level
<b>Managed Pubs and Hotels</b>		
Invested Managed Pubs and Hotels like for like sales growth	<b>+2.7%</b>	+3.0%
Food sales as a % of Managed Pubs and Hotels revenue	<b>28%</b>	27%
Accommodation sales as a % of Managed Pubs and Hotels revenue	<b>6%</b>	7%
<b>Tenanted Inns</b>		
Tenanted Inns like for like profits	<b>-1%</b>	-2%
Like for like barrels sold	<b>-2%</b>	-7%
<b>Fuller's Beer Company</b>		
Own Beer barrels sold	<b>+2%</b>	level
Foreign Beer barrels sold	<b>+1%</b>	-5%

Full definitions of these financial KPIs can be found in the Glossary, and a commentary on them can be found in the Chairman's Statement.

The non-financial metrics monitored by senior management are in line with previous years and are:

### Fuller's Inns

Mystery shopper programme; "traffic light" rating of pub stock and business audits; cellar inspections; level of customer complaints; number of tenancies at will; and number of tenants on cash with order.

### Fuller's Beer Company

Production indices; utility indices; beer losses in production; packaging line efficiency; warehousing and logistics volumes; health and safety incidents; and beer quality.

### The Impact of the Recession

Our outstanding performance during the recession has been boosted by a number of factors which are one off or may not repeat. With a strong balance sheet and available bank facilities we have been able to purchase iconic London pubs at very attractive prices. Our new pub acquisitions were quickly integrated and have traded very well and they have been a key driver of growth. We were able to fund our new pub purchases using variable rate borrowings at record low interest rates, and despite increased borrowings we were able to reduce our borrowing costs. From these all time lows, interest rates can only get higher and it will cost us more to fund this level of borrowings in the future.

UK consumer spending in the leisure sector has held up better than we had expected during the recession. The summer weather in the south of England was the best that it has been in the past two years and in addition to this we believe that we further benefitted from the strength of the euro as more tourists were attracted to the UK and domestic holidaymakers decided to stay at home. However, we fear that increased interest rates and the anticipated taxation rises necessary to reduce the national debt will have a negative impact on the level of consumer spending going forward. Energy costs have eased substantially compared to the spikes experienced in the previous year and these costs appear to have now stabilised.





## Financial Review

continued

### Our Operating Results

Operating profits before exceptional items grew by 10% to £32.0 million (2009: £29.0 million), with the largest contribution to growth coming from acquired pubs. Despite these purchases being funded by bank borrowings, net finance costs reduced to £5.4 million from £6.2 million as average interest rates fell. This contributed to adjusted profits before tax growing by some 17%. EBITDA increased by 8% to £43.6 million (2009: £40.2 million) and as a consequence of capital investment, the Group's net debt increased to £107.7 million (2009: £94.2 million). Net debt to EBITDA increased slightly to 2.5 times (2009: 2.3 times).

### Exceptional Profits

Net exceptional profits before tax were £0.2 million and comprised a profit on the disposal of properties of £1.1 million, a VAT rebate of £0.3 million, offset by net property impairments of £1.0 million, and a goodwill impairment charge of £0.2 million. After exceptional items, our profit before tax was therefore £26.8 million (2009: £14.4 million) and our basic earnings per share were 34.37p (2009: 16.00p). Last year, exceptional costs of £8.4 million comprised asset impairment charges of £6.9 million, goodwill impairment of £0.4 million, onerous lease provisions of £0.8 million and £0.3 million in relation to reorganisation costs.

### Finance Costs

Net finance costs during the year decreased from £6.2 million to £5.4 million. This improvement is largely driven by the lower interest rates maintained during the year which have coincided with the planned reduction in fixed rate hedges that occurred during the period. This is partly offset by the net interest cost of our pension liabilities which was £0.9 million compared to £0.3 million last year. Our absolute levels of debt have on average been higher with more than half of the year's capital expenditure arising in the first few weeks of the financial year. Due to the reduced net finance costs, our interest cover improved to 5.9 times (2009: 4.7 times). Our blended cost of borrowings fell from 5.9% to 4.4%. Next year with new interest rate swaps and caps in place along with the new facilities we estimate that our borrowing costs will be around 4.7%.

### Tax

A full analysis of the tax charge for the year is set out in note 8 to the accounts. Tax has been provided for at an effective rate of 28.2% (2009: 28.9%) on adjusted profits. The overall tax expense for the prior year was increased by £1.2 million as a result of the phased withdrawal of Industrial Buildings Allowances.

### Capital Spending, Disposals and Asset Impairment

Our capital spending of £30.2 million on nine new pubs again exceeded our disposal proceeds which were £2.4 million. Our total capital spend was £44.1 million. Excluding pub purchases the largest investment was the building of the new Hampshire Distribution Centre. At the year end a comprehensive impairment review was completed and we have recorded a net impairment charge of £1.0 million in respect of our property assets and a £0.2 million goodwill impairment charge. £0.7 million of the property impairment relates to a small number of Tenanted Inns that we intend to sell as we no longer believe that they meet our operating model.

### Shareholders' Return

Adjusted earnings per share were 17% up at 34.19p. The proposed final dividend of 1.15p per share, together with the two interim dividends of 4.50p and 5.35p per share already paid, compares with 9.85p in the previous year. The total dividend per share has grown by 12% and will be covered 3.1 times by adjusted earnings per share, compared with 3.0 times in the previous year. Shareholders' equity at the year end was £207.2 million. Company employee share ownership trusts spent £0.8 million on the repurchase of own shares during the year at an average price per ordinary 40p 'A' share of 483p. The middle-market quotation of the Company's ordinary shares at the end of the financial year was 544p. The highest price during the year was 570p, while the lowest was 405p. The Company's market capitalisation at 27 March 2010 was £316.5 million.

During the period we did not buy back any shares for treasury (2009: 447,000 'A' ordinary 40p shares repurchased for £1.8 million). 169,000 'A' ordinary 40p shares were purchased for £0.8 million by the Trustees of the Share Incentive Plan and the LTIP Trustees to cover future issuance (2009: 97,000 for £0.4 million).

### Cash Flow

Cash generated from operating activities was £42.1 million (2009: £38.0 million), the £4.1 million increase driven to a large extent by the additional contribution from the pub acquisitions made during the year and at the end of last year. There was a net cash outflow from investing activities of £41.7 million (2009: outflow of £23.5 million) as a result of the purchase of nine pubs during the year. There was



## Financial Review

continued

a net cash outflow of £0.2 million in respect of financing activities, being the repayment of £8.8 million of bank loans and loan notes, equity dividends paid of £9.4 million, interest and preference dividend payments of £4.5 million, the repurchase of £0.8 million of own shares, all offset by the receipt of £0.8 million on the release of own shares to share option schemes and the draw down of £22.5 million of new bank loans. Cash balances remained almost flat at £1.1 million compared to £0.9 million while, despite spending £30.2 million on pub acquisitions in the year, net debt only increased by £13.5 million from £94.2 million to £107.7 million.

### Financial Position – Sources of Funding

The refinancing of the Group's banks loans has been a significant focus of attention during the year. In November 2005 we had entered into a £130.0 million unsecured five year amortising loan facility in order to finance the acquisition of George Gale and Co. After amortisation this facility had reduced to £85.2 million by the year end of which £80.2 million was drawn. The facilities are due for repayment in November 2010.

We were delighted to announce on 11 May 2010, that the Group entered into a new five year unsecured £100.0 million revolving credit facility agreement on equal terms with Barclays, Co-operative Bank and Mediobanca. The primary purpose of these new facilities is to repay the existing borrowings under the bank facilities maturing in November 2010. The new facilities, whilst highly competitively priced in the current environment, remain undrawn as the existing facilities which they will eventually replace benefit from a lower margin. The terms of the new agreement allow the Group to borrow under the existing facilities until maturity, require no amortisation of the borrowings, and will allow the Group to raise additional funds in the future to acquire new pubs without these new facilities needing to be either waived or amended.

Additionally to bank loans the Group is financed by a mix of debentures, non-cumulative preference shares, overdrafts, cash and short-term deposits as disclosed in notes 19, 22, 24 and 26. Other financial assets and liabilities such as trade receivables and payables arise through the Group's operating activities. Derivative instruments as detailed below are used to manage interest rate and foreign exchange risk. The Group does not trade in financial instruments.

The Group's overall borrowing facilities of £123.8 million at the Balance Sheet date were as follows:

- Amortising unsecured banking facility £85.2 million, maturing November 2010, three participating lenders. £5.0 million was undrawn at the Balance Sheet date.
- Debentures £27.0 million, of which £1.2 million matures in October 2010, the remainder maturing 2023-2028.
- Non-cumulative preference shares £1.6 million, no set maturity date.
- Uncommitted overdraft facility of £10.0 million. This was undrawn at the Balance Sheet date.

On a pro forma basis, allowing for the repayment of the £80.2 million bank facilities and the £1.2 million debentures but including the new £100.0 million loan facilities, the Group had in excess of £18.0 million of unused committed loan facilities at the year end with no repayment obligations for more than five years.

The Group is able to operate with negative working capital – trade and other payables were £16.5 million greater than the aggregate of inventories and trade and other receivables at the year end (2009: £11.5 million greater).

The ratio of net debt to EBITDA is at a level which allows the Group significant strategic and operational flexibility. The year end ratio was 2.5 times compared to 2.3 times a year ago.

### Pensions

Although cash contributions to the defined benefit pension scheme totalled £2.1 million, the accounting deficit for defined benefit pensions increased by some £4.3 million to £12.7 million (2009: £8.4 million). The deficit increased despite the recovery in asset prices as AA corporate bond yields decreased and long term inflation expectations increased substantially. The value of the fund's assets increased substantially, by 36% from £52.1 million to £71.1 million. However, as long term inflation projections have increased from 2.7% to 3.5%, together with the substantial drop in AA corporate bond yields from 6.7% to 5.6%, the calculated present value of the pension obligations has increased from £60.5 million to £83.8 million. Mortality assumptions remain unchanged with retiring male pensioners expected to live to an average age of 86 years.





## Financial Review

continued

### Financial Risks and Treasury Policies

The Group Treasury Team consists of the Finance Director and the Group Financial Controller. The objectives of the Treasury Team are to manage the Group's financial risk; to secure cost effective funding for the Group's operations and to minimise the adverse effects of fluctuations in the financial markets on the value of the Group's financial assets and liabilities, on reported profitability and on the cash flows of the Group.

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

### Interest Rate Risk

The Group periodically enters into interest rate swaps and caps in order to hedge the borrowing rate risks of its unsecured banking facilities. Including debentures and preference shares at fixed rates, at the Balance Sheet date 54% of the Group's borrowings were at fixed rates ranging between 4.85% (excluding bank margin) and 11.5%.

The interest rate swaps and caps in place at the Balance Sheet date all mature within the next financial year. We have continued to hedge against the risk of interest rate rises by entering into new interest rate swaps and caps for the next five years covering £40 million of our bank borrowings, consistent with our policy to hedge at least 50% of our gross borrowings.

In addition to its main banking facilities the Group is financed by a total of £28.6 million of long term fixed rate debentures and preference shares. Of these £27.4 million of these borrowings are not repayable for at least 10 years.

Surplus cash balances are pooled into an interest bearing account or placed on short-term deposit for periods of between one night and three months.

### Foreign Exchange Risk

The Group has some foreign currency risk as it both imports wines denominated in Euro, US dollars and Australian dollars and exports beer in US dollars. There is some natural hedge of US dollars and the net currency risks may be covered by entering into forward foreign exchange contracts.

### Risks and Uncertainties Facing the Group

We report in detail the risks and uncertainties facing the Group on pages 22 and 23. In summary we identify three different generic types of risk and uncertainty. Regulatory risks encompass the risks to our business of increased regulation of the sale of alcohol, health and safety in the workplace and pensions. Economic and market conditions include the risk to the business due to the strength or otherwise of the economy, cost pressures including the increase in the minimum wage, the risk of assigned leases reverting to the Group and changes in consumer trends. Operational risk includes damage to our property, brands or reputation and our reliance on information systems to operate efficiently on a daily basis.

### Going Concern Statement

The Group's business activities, together with the factors likely to affect its future development, performance and position have been set out in the Chairman's Statement on pages 2 to 13 and in this Financial Review. The financial position of the Group including the various sources of finance available and its cash flows have been described herein. In addition, note 26 of the financial statements includes detailed disclosure on the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit and liquidity risk.

The Group is vertically integrated, is diversified across a wide range of sales channels and is strongly cash generative. We have performed well during the economic downturn. Our financial position is strong as we borrowed prudently and paid down debt prior to the recession. We continue to be well placed going forward and following the year end agreed a new five year bank facility that lasts until May 2015.

On the basis of current financial projections and having considered the facilities available the Directors are confident that the Group and Company have adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider that it is appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements.

### James Douglas

Finance Director

11 June 2010



## Corporate Social Responsibility

27 March 2010

### Community

As a Company with a history stretching back hundreds of years, Fuller's is an integral part of the communities in which it operates. Brewing has taken place on the Brewery site in Chiswick, West London, since at least the 17<sup>th</sup> century and some of our pubs have been in the Company's ownership for over 150 years. Our distribution centre in Horndean, Hampshire, is a stone's throw from the site of the old Gales Brewery, retaining strong links with the area, including retaining valuable local employment.

We understand that while we are a business, it is important that we maintain a connection and dialogue with the people we share our space with and on whom our activities have an impact. We encourage our pubs to become the centre of their communities and the Brewery supports their work in sponsoring local events with donations and advice including marketing and promotions. Our free trade teams spread this support outside our tied estate by sponsoring many of the sporting clubs and local interest clubs in their geographical areas, which extend beyond our traditional boundaries.

Locally to our Brewery, we support organisations such as Chiswick House and Gardens, the Chiswick Pier Trust and St Mary's Convent & Nursing Home. We also sponsor the Christmas Lights on Chiswick High Road, the annual open-air opera at Chiswick House and a 10-mile running race along the river, the Thames Towpath Ten. We provide direct financial contributions to numerous charities including Help for Heroes and The Poppy Appeal amongst others and we have helped raise over £1m for Cancer Research UK through our support for the London Pride Walk and Fun Run, which has been running annually since 1996. In addition to the many good causes our pubs support through raffles, auctions and other fundraising activities, Fuller's directly provides around £100,000 worth of products for use as prizes at numerous charity events. These raise funds for a variety of causes from local schools to major national charities.

### Responsible Retailing

Alcohol misuse and the attendant issues of underage drinking, poor health and other social problems are matters of legitimate concern in the UK today. The Company takes these issues seriously and commits to playing a leading role in responsible retailing to reduce their impact. We believe that a well-managed pub, at the centre of its community, offering a relaxed and warm social safe environment catering for all ages is the best possible place to enjoy responsibly alcoholic drinks and food.

Fuller's Beer Company prides itself on the quality of beers that it brews, as numerous awards over many years testify. The brands are positioned at the top of the market and a premium price is charged, all the way through the supply chain to the end consumer.

This premium positioning is supported by appropriate advertising and promotional activity, typified by the long running "Whatever you do, take pride" campaign for London Pride, where the emphasis is on moderate consumption and taking your time in appreciation of a great beer that's worth savouring, as part of a life well lived.

Our strategy therefore remains one of quality rather than quantity.

We have a retail culture of tailoring our pubs' offer to the needs of the communities they serve. This may involve local sourcing of food, encouraging families with well-behaved children to visit us or encouraging our managers to contribute to local Pubwatch schemes. Our pub managers and staff operate the Challenge 21 proof of age scheme. Our training team delivers an annual refresher of this scheme and also provides training on conflict management so that staff are prepared to handle any difficult situations with professionalism and diligence.

We are an active member of the BBPA ("British Beer and Pub Association") and played an active role in the creation of the 2007 Social Responsibility Standards document. We are again proud to support the BII ("British Institute of Innkeeping") Schools Project through our involvement with twenty schools in the Surrey and Hampshire areas.

More recently, through Michael Turner's leadership and public profile, we have sought to reinforce our belief that the pub is central to a community's social cohesion and plays a vital role in Britain's social life. There are now sadly fewer places where people can come together and socialise but the British pub is still one of them.

### People

As a family company, Fuller's prides itself on the long service of many of its employees and the involvement of many generations of Chiswick families. We firmly believe that our core values are integral to the way we conduct our business and manage our teams. These core values are integrity, heritage, teamwork and a "can do" attitude. They inform our decisions and the way that we work together.

We seek to inspire, develop and support our people to be the best that they can be. We are committed to developing them through encouragement, training and promotion, enabling them to develop at their own pace in a way that channels their strengths into a satisfying and rewarding career with us.





## Corporate Social Responsibility

continued

We have a dedicated training department, which helps our employees with mentoring and ongoing individual training needs and our Personnel team ensures that all members of staff have access to development opportunities.

We recognise and reward excellence throughout the business, whether it be through promotion or a number of internal awards. We also value loyalty very highly and offer a range of benefits to encourage employees to take a stake in the Company's long-term success.

Our internal "Pride & Passion" initiative aims to provide regular communication of our vision and core values, as well as new developments and ideas, and encourages all employees to share and apply them in their work and give feedback. We also organise an annual open day at the Brewery which requires the continued support of our employees, in their own time, to run the various activities we offer. We are never short of volunteers for any such events and take pride in the fact that our employees are proud to work for Fuller's.

### Suppliers

We seek and often have long term relationships with our suppliers. In this way, our suppliers get to understand our requirements and deliver us a better product and service. The trust built up allows us to resolve any issues more smoothly and the stability allows both parties to plan for the future with more certainty. We do nevertheless regularly tender contracts to ensure the terms and price are competitive, but we do so in a fair and transparent way and do what we say we will do.

We encourage our suppliers to empathise with and adopt similar values to us. We hope to do this by communicating with them regularly and operating a purchasing department resourced by procurement professionals who work to a purchasing code of ethics based on that adopted by the Chartered Institute of Purchasing and Supply.

In addition, over the last three years, we have developed strong partnerships with local food suppliers in the South of England through our support of umbrella organisations such as Hampshire Fare and the New Forest Marque. Our Local Sourcing Policy gives our suppliers security of trade and payment terms, whilst detailing our criteria for quality and provenance. In the last year, we purchased over £200,000 of produce through the local supply chain, and look forward to growing our partnerships further. We are aware that, compared to many of the local and regional suppliers we deal with, we are a large business. However, we are committed to managing our relationships with small local producers in the same way as our larger national suppliers.

### Environment

Our aim is to ensure that we provide our customers with fantastic pubs and hotels in which to enjoy our outstanding cask conditioned ale, delicious fresh food, great wine and exemplary customer service. We aim to make sure you never visit a Fuller's pub which is too cold, too hot or too dimly lit to be able to see your way around. However, we will also do everything we can to make sure we do what we do without wasting any of the earth's scarce natural resources and to do it in the most environmentally sensitive way we can.

We are committed to a programme of continuous environmental improvement and to matching or exceeding the UK Government's carbon reduction targets. We do this in a number of ways:

**Measurement:** Over 90% of our properties now have meters for both electricity and gas which monitor usage patterns. Through our suppliers, we also measure water consumption and the waste we produce.

**Management:** The information collected from our meters and suppliers is examined centrally to determine where and how we can make improvements. This data will be communicated more widely this year to drive even greater improvement by our managers and staff.

We have undertaken a range of energy saving measures across our managed pubs and hotels. We've insulated every loft, installed low energy lighting and converted to low energy hand dryers in over 70% of the estate. Sensors are also being introduced to control lighting in our public lavatories. We have introduced a new car policy which caps emissions and actively encourages employees to select the greenest vehicles.

We have implemented a number of schemes designed to reduce consumption in our managed pubs and hotels and switched to mains fed water coolers wherever possible, saving on vehicle deliveries and plastic containers.

57% of all waste generated in our managed estate is recycled – this includes all of our waste cooking oil, as well as glass and cardboard. At the Brewery we recycle glass, packaging waste, yeast, grain and waste paper. We dispose of all electrical equipment according to the WEEE regulations. We are also running a pilot project to determine how we can separate food products from our general waste and further reduce the amount of waste we send to landfill.



## Risks and Uncertainties

In the course of its normal business, the Group continually assesses and takes action to mitigate the various risks encountered that could impact the achievement of its objectives. As detailed in the Corporate Governance Report, there are various systems and processes in place to enable the Board to monitor and control the Group's management of risk. The Audit Committee regularly reviews the effectiveness of this process and seeks to ensure that management's response is adapted appropriately to the changing environment.

The following sets out what the Board considers to be the principal risks which affect the Group at present, although it is not intended to be a comprehensive analysis of all the risks that the business may face. In addition, the key financial risks to the Group are detailed in note 26c to the financial statements.

### Regulatory Risks

**Regulation of the Sale of Alcohol:** We operate within a heavily regulated industry and there is always the risk that the Government may change regulations in a manner that may adversely affect us. Notably, in the past 27 months UK alcohol excise duties have been increased by more than 26% and the duty escalator introduced by the previous Government, unless abandoned, will further raise alcohol duties annually at a rate of 2% above the rate of inflation. There is a risk that continued inflation busting duty increases may depress sales or reduce margins in our industry. The new Coalition Government has announced a new bill which will introduce legislation to tackle below cost selling in the Off Trade.

**Beer Tie:** The Beer Tie continues to be the subject of much debate and scrutiny despite the fact that there have now been no less than 19 formal inquiries into the Tie since 1966. All of these reviews have concluded that the Tie is fit for purpose. We strongly believe that the vertically integrated model of the Regional Brewers, of which Fuller's is one, is in the best interests of the licensees, consumers and the Group. As part of the BBPA we have worked with the British Institute of Innkeeping ("BII") to help develop the Pub Industry Framework Code of Practice which we believe will improve the transparency and openness of Tied agreements. Since the year end we have gained BII accreditation for our Tenanted Code of Practice. However, there remains a risk that other authorities will interfere with this process and that the Beer Tie may be abolished. We believe that under the current model rent for a tied tenant is lower than a free of tie tenant and that any change to legislation would result in higher rental income than is currently achieved.

**Health and Safety:** The health and safety of the Group's employees and customers is a key concern to us. We report and investigate accidents and we monitor near misses. In order to reduce the risk of kitchen fires in our Managed Pubs and Hotels we have installed automatic fire suppression systems in each kitchen during the last year. A Health and Safety Committee is in place in order to oversee the operation of the Group's numerous health and safety policies and procedures, and to regularly update its training programme to ensure that all risks are identified and properly assessed and that relevant regulation is adhered to.

**Pensions:** The Group operates several pension schemes including a defined benefit pension scheme and management continue to closely monitor developments in relation to pension scheme funding. Although the defined benefit scheme is now closed to new entrants, there remains a significant pension liability on the Balance Sheet. There is therefore a risk to the Group that a change in legislation could impact cash flow by setting a minimum funding level that is above the Group's current contributions or by requiring higher contributions by a change to the basis of calculating the scheme deficit. The Group has a programme in place to reduce the deficit and made an additional contribution of £0.5 million in the 52 weeks ended 27 March 2010 and have agreed with the trustees to make further annual additional contributions of £0.5 million in order to reduce the deficit further. A formal triennial valuation of the defined benefit scheme is to be carried out in the next 12 months and the Group and the trustees will review contribution rates in the light of this.

### Economic and Market Conditions

**Strength of the Economy:** As part of the leisure industry, we remain exposed to the overall strength of the UK economy and its influence on consumer spending. The Group constantly invests in its key brands and ensures it takes advantage of the opportunities presented to encourage customers into its pubs. However, continued inflation, allied to rises in unemployment, real terms pay reductions, and increases to interest rates or taxes are likely to reduce consumer spending in the future. Whilst the economy itself has been in recession during the past financial year, we have performed well. A number of factors have contributed to this; unemployment increases have been less than expected; despite low inflation there have been no pay freezes yet in the public sector; and the economy has benefited from record low interest rates and a fiscal stimulus programme.





## Risks and Uncertainties

continued

The Group maintains a high quality of operation and product in order to maintain its competitive position. However, the Group's pubs compete for consumers with a wide variety of other branded and non-branded pubs and restaurants as well as off-licences, supermarkets and other leisure outlets. We constantly review the position of our pubs in the market and consider that our differentiators and brands put the Group in the best possible position for the current marketplace.

**Assigned Leases:** The Group has in the past assigned a number of property leases to third parties. The Group no longer operates these properties and does not account for the rents due under the leases. There is a risk that, in the event of default on the rental payments by an assignee, the landlord would seek to recover the unpaid rents from the Group. The Group monitors the credit worthiness of the assignees, but ultimately the risk we face is a result of the third parties' performance, itself largely influenced by the economy.

**Supply Chain Failure:** Whilst we brew our own beer in Chiswick, our production process and our pubs rely on a number of third parties to provide continuity of supply. The quality and availability of these supplies are integral to our ability to operate. Suppliers are carefully selected and we maintain close relationships with them. However, the weak economic climate increases the risk of a supplier failure, therefore we continually review contingency plans in the event of a failure in supply. Brewing is an energy intensive process and we rely upon continuity of supply to Chiswick.

**Cost Increases:** Utilities and agricultural produce such as hops, malt and barley, as well as food produce are significant inputs for the Group and have been subject to considerable price increases in recent years. Further input cost increases could impact the Group's profitability. Management has in place arrangements with some of its key suppliers to secure supply and prices for the medium term (thereby also enabling the business to plan effectively), but such measures can do no more than delay cost increases should they be sustained.

**Consumer Trends:** In the UK, consumption of alcoholic beverages continues to be the subject of considerable social and political attention. Increasing public concern over alcohol related social problems, including underage drinking and health consequences associated with the misuse of alcohol, has contributed to declining sales of beer in the UK. The Group takes these issues seriously and continues to support the industry's campaigns on these issues and to market its products as premium beverages to be drunk in moderation in a social environment. More generally, management frequently carries out research amongst its customer groups to ensure it reacts to changing consumer preferences.

### Operational Risks

**Griffin Brewery Site:** The Group's head quarters and sole brewing facility are based at the Griffin Brewery site in Chiswick. A disaster at this site would seriously disrupt operations. We take various measures to mitigate the impact of such an event. For example we store recipes and yeast off-site and have a variety of formal and informal arrangements in place to use alternative facilities, but such measures cannot fully replicate the Chiswick operations.

**Brands and Reputation:** Fuller's has a range of strong brands and has established an excellent reputation in the market. There is therefore an ever present risk to the business from incidents which could materially damage the reputation of one or more of these brands or from a failure to sustain their appeal to customers. It is impossible to plan for every eventuality, however the Group's risk register is regularly updated and there is a robust system of internal controls, as detailed in the Corporate Governance report. In particular, the Group's beer could become contaminated at source or outlet, which could damage the reputation of the brand and deter customers. The Group reduces this risk to an acceptable level by ensuring that the business is operated to the highest standards with significant investment in security, quality control and cleansing, together with insurance coverage for product contamination. In addition, the Group runs an active and continuous training programme covering all aspects of the pub operations and provides its pubs with on-site technical support.

**Information Technology:** The Group is increasingly reliant on its information systems to operate on a daily basis and trading would be affected by any significant or prolonged failure of these systems. To minimise this risk the IT function has a range of policies in place to ensure that in the event of an issue normal trading would be restored quickly, incorporating a formal Disaster Recovery Plan, a system of back-ups and external support for hardware and software.



## Directors' Report

The Directors present their Annual Report together with the audited financial statements for the 52 weeks ended 27 March 2010.

### A) BUSINESS ACTIVITIES AND DEVELOPMENT

The Chairman's Statement on pages 2 to 13 and the Financial Review on pages 16 to 19 include information about the Group's principal activities, the business and financial performance during the year and indications of likely future developments.

#### Dividends

The Company paid an interim dividend of 4.5 pence on the 40p 'A' and 'C' ordinary shares and 0.45 pence on the 4p 'B' ordinary shares on 4 January 2010 and a second interim dividend of 5.35 pence on the 40p 'A' and 'C' ordinary shares and 0.535 pence on the 4p 'B' ordinary shares on 5 March 2010. The Directors now recommend a final dividend of 1.15 pence on the 40p 'A' and 'C' ordinary shares and 0.12 pence on the 4p 'B' ordinary shares. This makes a total of 11.00 pence on the 40p 'A' and 'C' ordinary shares and 1.10 pence on the 4p 'B' ordinary shares for the year.

The total proposed final dividend on ordinary shares will be £647,000 which together with the 2010 interim dividends paid of £5,520,000 and the £120,000 of cumulative preference dividends paid will make total dividends of £6,287,000.

#### Market Value of Land and Buildings

On 27 March 1999 the freehold properties, with the exception of unlicensed premises and the Brewery buildings, were partially revalued on an open market "for existing use" basis, based on a one fifth representative sample, by a firm of professional valuers. From 1999 onwards, assets have been retained at the values at 27 March 1999, and have not been revalued further.

Since 1999 the Directors have had a series of informal and sample valuations and are confident that the market value of the Group's estate is significantly higher than that recorded as book value.

### B) DIRECTORS

A list of current serving Directors and their biographies is given on pages 14 and 15. Tim Turner retired from the Board on 31 March 2010. Richard Fuller was appointed to the Board on 8 December 2009 and Sir James Fuller was appointed to the Board on 1 June 2010 and they both offer themselves for election. John Roberts and Nick MacAndrew retire by rotation at the Annual General Meeting and offer themselves for re-election. John Roberts and Richard Fuller have rolling service contracts of 12 months duration. Sir James Fuller and Nick MacAndrew do not have service contracts but have been invited to stay on the Board until May 2013 and July 2011 respectively.

#### Directors' Interests

Details of Directors' interests in the share capital of the Company, their share options and allocations under the Long Term Incentive Plan ("LTIP") up to 27 May 2010 are given in the Directors' Remuneration Report.

#### Related Party Transactions

Details of related party transactions involving Directors are given in note 32 to the financial statements.

#### Indemnity Provisions

The Company's Articles of Association provide the Directors with indemnities in relation to their duties as Directors, including qualifying third party indemnity provisions (within the meaning of the Companies Acts). All of the Executive Directors' contracts contain a clause which states: "the Executive shall be indemnified out of the assets of the Company against any liability incurred by him as a Director or other officer of the Company in defending any proceedings (whether civil or criminal) in which judgement is given in his favour or in which he is acquitted or in connection with any application under the Companies Acts in which relief from liability is granted to him by the court from liability for negligence, default, breach of duty or breach of trust he may be guilty of in relation to the affairs of the Company."

The Company purchases insurance cover for Trustees of the Company's defined benefit pension scheme. James Douglas is a Trustee of the scheme.





## Directors' Report

continued

### C) CORPORATE RESPONSIBILITY

The Group's activities during the year in the areas of: Community; Responsible Retailing; People; Suppliers; and the Environment are discussed in detail in the separate Corporate Social Responsibility Statement on pages 20 to 21.

#### Employees

The Directors continue to attach a high priority to maintaining communications with all employees, thus encouraging a common awareness of the financial and economic factors affecting the Group. The communications policy, which is in operation throughout the business, is designed to ensure the successful cascading of information. A structure of Consultation Committees both at Divisional and Corporate level is in place to facilitate a dialogue between the Group and representatives of all employees including union members.

The Group's recruitment policy is designed to ensure that all applications for employment, including those made by persons covered by the provisions of the Disability Discrimination Act, are given full and fair consideration, in light of the applicants' particular aptitudes and abilities. The Group also has an equal opportunity policy which is designed to ensure that all employees are treated equally in terms of training, career development and promotion etc. Where employees develop a disability during their employment by the Group, every effort will be made to continue their employment and arrange for appropriate training, as far as is reasonably practicable. Development and training of our employees at all levels has always been a priority at Fuller's. During the past year we have strengthened our commitment to health and safety issues, both at the Brewery and in Fuller's Inns. An independent audit of health and safety within the businesses has been completed. Work is underway reviewing and updating all processes, documentation and practices. The aim is to ensure all are fit for purpose and underpin our commitment to health and safety within the business.

#### Political and Charitable Donations

Cash contributions made by the Group for charitable purposes amounted to £76,000 (2009: £66,000). These figures exclude goods supplied by the Brewery as gifts to charitable organisations and fund raising undertaken by the Group's staff members, Managed pubs and Tenanted pubs, as described in the Corporate Social Responsibility Statement on page 20. No political donations were made.

#### Supplier Payment Policy

The Group informs and agrees with its suppliers in advance its payment practice. The Group pays UK trade suppliers at the month end following the month of invoice. Overseas suppliers (mostly of wine) are paid between two and three months after the month of invoice, depending on delivery times from the country of origin. The average amount of credit taken from suppliers as at the year end for the Group and Company was 43 days (2009: 40 days).

### D) KEY PERFORMANCE INDICATORS ("KPIs")

Details of the Group's KPIs can be found in the Financial Review on page 16. In addition a definition of the key terms used is included in the Glossary on page 99.

### E) FINANCIAL MANAGEMENT AND TREASURY POLICIES

The Group Treasury and Financial Management policies are discussed in the Financial Review on page 19.

The main risks associated with the Group's financial assets and liabilities are set out in note 26 to the financial statements.

### F) RISKS AND UNCERTAINTIES

Details of the principal risks and uncertainties that the Group is exposed to can be found in the Risks and Uncertainties statement on pages 22 and 23.



## Directors' Report

continued

### G) SHARE INTERESTS

At 27 May 2010 the following disclosable interests of shareholders (other than Directors) had been notified to the Company:

Name	% 'A' ordinary shares of 40p each	Name	% 'B' ordinary shares of 4p each	Name	% 'C' ordinary shares of 40p each
Aberdeen Asset Management PLC and its subsidiaries	8.01	Sir J H F, Messrs A F and E F Fuller	16.26	Sir J H F, Messrs A F and E F Fuller	30.61
Guinness Peat Group plc	5.65	J F Russell-Smith Charitable Trust	7.66	Mr H D Williams	5.97
AEGON Asset Management UK plc and associated entities	4.55	A B Earle Charitable Trust	4.62	Mrs J C Turner	5.07
Legal & General Group Plc and associated entities	3.64	Mrs S B Stuart	4.59	Miss S M Turner	3.33
		Dunarden Limited	3.60		
		Mr R D Inverarity	3.52		
		Mr G F Inverarity	3.48		
		Mr H D Williams	3.22		

### H) SHAREHOLDER MATTERS

#### Annual General Meeting

Details of this year's Annual General Meeting are included in the circular to shareholders dated 11 June 2010, at the back of which is the Notice of Meeting.

#### Purchase of Own Shares

At the Annual General Meeting of the Company held on 21 July 2009, the Company was given authority to purchase up to 4,828,997 'A' ordinary shares. This authority will expire at the Annual General Meeting and shareholders will be asked to give a similar authority to purchase shares up to 15% of the 'A' ordinary capital at that date. The Company's maximum issued ordinary share capital during the year was £22,793,726, which included £13,369,642 40p 'A' ordinary share capital.

During the year the Company did not use its repurchase authority. However taking into account all the buybacks since December 2001, 15.57% of the Company's issued ordinary share capital (26.55% of the Company's issued 'A' ordinary share capital) has now been purchased.

Whilst the Company did not repurchase any shares, the Company employee share ownership trusts purchased a total of 93,000 40p 'A' ordinary shares at a total cost of £460,284 for the SIP and 76,399 40p 'A' ordinary shares at a total cost of £365,799 for the LTIP.

During the year 306,129 shares of the own shares held by the Company as treasury shares were reissued in connection with the Savings Related Share Option Scheme, the Executive Share Option Scheme and the Senior Executive Share Option Scheme, generating net cash proceeds of £828,344. The remaining 704,685 40p 'A' ordinary shares at 27 May 2010 are currently held as treasury shares.

### I) SHARE CAPITAL AND ARTICLES

Information on the Company's capital structure and related restrictions is given in note 26 to the financial statements. Details of significant shareholdings are given in Section G) above.

Computershare Trustees Limited, holds 1.40% of the issued share capital of 40p 'A' ordinary shares on behalf of employees of the Company who are participants in its SIP. In respect of the shares that have been allocated, Computershare Trustees Limited exercises voting rights in relation to those shares, having consulted with the participants about their voting intentions.

Sanne Trust Company Limited holds 0.50% of the issued share capital of 40p 'A' ordinary shares and 0.74% of the issued share capital of 4p 'B' ordinary shares in trust on behalf of participants in the Company's LTIP within the LTIP Trust and exercises voting rights in relation to those shares, having consulted with the participants about their voting intentions.





## Directors' Report

continued

The current Articles of Association state that the Board may appoint Directors and that at the subsequent Annual General Meeting, shareholders may elect any such Director. Alternatively the Company may directly appoint a Director. The Articles also contain the power for the Company to remove any Director by special resolution and appoint someone in his place by ordinary resolution. There are various other circumstances under the Articles which would mean that the office of a Director would be vacated including if he resigns, becomes of unsound mind or bankrupt.

At every Annual General Meeting one-third of the Directors who are subject to retirement by rotation or, if their number is not three or any multiple of three, then the number nearest to but not exceeding one-third shall retire from office but, if there is only one Director who is subject to retirement by rotation, he shall retire. In addition, if any Director has at the start of the Annual General Meeting been in office for more than three years since his last appointment or re-appointment he shall retire at that Annual General Meeting.

Subject to the Company's Memorandum and Articles of Association and UK legislation, the business of the Company is managed by the Board which may exercise all the powers of the Company. The Articles of the Company have a section entitled "Powers and Duties of the Board" which sets out powers such as the rights to establish local boards, to appoint agents, to delegate and to appoint persons with the designation "director" without implying that the person is a Director of the Company. There are further sections of the Articles entitled "Allotment of Shares" setting out the Board's power to issue shares and purchase the Company's own shares, and entitled "Borrowing Powers" setting out the provisions concerning the Company's power to borrow and give security. The Directors have been authorised to allot and issue ordinary shares. These powers are exercised under authority of resolutions of the Company passed at its Annual General Meeting.

The Group has entered into a number of agreements with the major brewers operating in the UK under which it both buys and sells beers and these agreements may be terminated by the other party should the Group undergo a change of control.

In the event of a change of control the Company is obliged to notify its main bank Lenders of such. The Lenders shall not be obliged to fund any new borrowing requests and the facilities will lapse after 30 days from the change of control if terms on which they can continue have not been agreed. All borrowings including accrued interest will become repayable within 10 days of such a lapse.

By Order of the Board

**Marie Gracie, FCS**  
Company Secretary

11 June 2010

Fuller, Smith & Turner P.L.C.  
Griffin Brewery  
Chiswick Lane South  
Chiswick  
London W4 2QB  
Registered number: 241882



## Directors' Statements

### Statement of Directors' Responsibilities in Respect of the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements, in accordance with applicable United Kingdom law and those 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 fairly present the financial position, financial performance and cash flows of the Company and of the Group for the financial year. In preparing the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and Company's financial position and financial performance;
- state that the Group and Company have complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Statement as to Preparation of Financial Statements

The Directors confirm, to the best of their knowledge:

- that these financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company taken as a whole; and
- that the Directors' report includes a fair review of the development and performance of the business and the position of the Group and Company taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors of Fuller, Smith & Turner P.L.C. are listed on page 14.

### Directors' Statement as to Disclosure of Information to Auditors

The Directors who were members of the Board at the time of approving the Directors' Report are listed on page 14. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of this report of which the Company's auditors are unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board

**Michael Turner**  
Chairman

**James Douglas**  
Finance Director

11 June 2010

11 June 2010





## Corporate Governance Report

### A) INTRODUCTION AND COMPLIANCE

The Board of Directors is committed to the highest standards of corporate governance and believes that such standards are critical to overall business integrity and performance. This report explains how the Company applies the principles of the June 2008 Revised Combined Code on Corporate Governance ("the Code"), which is available at [www.frc.org.uk](http://www.frc.org.uk).

The Company has complied with the requirements of section 1 of the Code, as applicable to a smaller quoted company, throughout the financial year with two exceptions. Firstly, as regards the constitution of the Remuneration and Audit Committees, where Nigel Atkinson, who is not an independent Non Executive Director, sits on those Committees. The Board appreciates that, although the majority of the members of these Committees are defined as independent, some shareholders may be concerned that any Committee member is not defined as independent. Having considered this matter carefully, the Board is satisfied that the deliberations of both Committees remain independent. Shareholders should note that Nigel Atkinson, although not defined as being independent under the Code, has never worked for the Company as a full time employee, being the former Managing Director of Gales, which the Company acquired in 2005. He is valued for his independent character and judgement.

Secondly, the position of Executive Chairman of the Company is not in accordance with provision A2.1 of the Code in that the role effectively combines that of chairman and chief executive. However, the Board consulted with shareholders prior to his appointment and had very positive feedback, and remains of the view that having Michael Turner in this role provides leadership and experience and that it is in the best interests of the Company.

The information that is required by DTR 7.2.6, information relating to the share capital of the Company, can be found within the Directors' Report, sections H and I on pages 26 and 27.

### B) THE BOARD

#### The Board's Role

The Board of Directors is collectively responsible to the shareholders for the performance of the Group. Its role includes the establishment, review and monitoring of strategic objectives, approval of major acquisitions, disposals and capital expenditure, ownership of the corporate values, overseeing the Group's systems of internal control, governance and risk management and ensuring that the appropriate resources are in place to deliver these and fulfil the Company's obligations to its stakeholders.

#### How the Board Works

The Board governs through its executive management, and formally via its other clearly mandated committees. Each standing Board Committee has specific written terms of reference which are reviewed by the Main Board annually and there is a formal list of Matters Reserved for the Board (which is also regularly reviewed). This distinguishes between matters reserved for the Main Board and Executive Committee decisions. The terms of reference of the Audit, Remuneration and Nomination Committees are available on the Company's website. All Committee Chairmen report orally on the proceedings of their committees at the next meeting of the Board, and the minutes of the meetings of all Board Committees (with some exceptions on remuneration matters) are provided to Board members. The Chairman ensures that the Executive Directors provide accurate and timely information for Board meetings which is then open to debate and challenge by all. Meetings enjoy open dialogue and constructive challenge on all issues is encouraged. With a good information flow between and prior to Board meetings, decisions are made in a timely manner after appropriate questions are dealt with. The Board has adopted a procedure, in accordance with the Company's Articles, to consider and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company.

#### Board Meetings

The Main Board meets formally at least six times a year with papers circulated a week in advance and the agenda and papers for these meetings are subject to the scrutiny of the Chairman and the Company Secretary. However the Board regularly considers matters on an ad hoc basis between scheduled meetings and the Executive team regularly consult their Non Executive colleagues between meetings. The Executive Committee meets formally at least eleven times a year and also meet informally most weeks. There is thus a regular flow of information at Main Board and Executive Committee level.



## Corporate Governance Report

continued

At Main Board meetings the focus is on strategy, analysis of the market in which the Group operates and a review of performance. Each of the Executive Directors and the Company Secretary update the Board at each meeting on matters for which they are responsible. The Board is responsible for approving the annual budget and the annual and half year results. The Main Board also meets away from the Brewery every year for an in depth review of corporate strategy, and for a detailed update on the economy and the Group's competitors. The Non Executive Directors also meet other members of the management team from time to time to receive presentations on specific topics of interest.

At the Executive Committee level there is focus on the detail of the performance of the Group, and the Finance Director leads a review of the Group's management accounts. Each Executive Director and the Company Secretary update their colleagues on the key issues facing their part of the business and there is a good level of consultation and debate at these meetings on the sometimes complex issues facing the business.

The list of Matters Reserved for the Board sets out which matters need Main Board approval and which decisions can be made at Executive level. Most significant business decisions are made by the Main Board, but matters such as health and safety policy and approving major contracts are taken at Executive level. Members of the management team regularly join these Executive meetings and three times a year all of the divisional directors and financial controllers join together with the Executive Committee to conduct a detailed review of the half year and full year accounts, and the construction of the annual budget, before these are debated at Main Board level.

As well as the dialogue within the Board room, the Non Executive Directors meet privately, under the leadership of the Senior Independent Director, without the Executive Directors present (although sometimes the Chairman is invited to join them), to review issues that have been facing the business between Board meetings, to sustain the dialogue on strategic issues, to discuss Board appointments when appropriate and to support the Chairman in his role. The Non Executive Directors also regularly engage with the business outside of the Board room, for example spending days out in the trade or at the Brewery with Directors and senior managers, and the Executive Directors benefit from feedback from these visits.

### Attendance at Board and Committee Meetings

The table below gives details of attendance at Board and Committee meetings during the year.

Board and Committee Meeting Attendance for 2009/10	Committee Memberships	Main Board Meetings	Executive Board Meetings	Nominations Committee	Audit Committee	Remuneration Committee
<b>Total Number of Formal Meetings</b>		7	11	1	4	4
<b>Executive Directors</b>						
Michael Turner	Nom	6	11	1		
Tim Turner		7	11			
John Roberts		7	11			
Simon Emeny		7	11			
James Douglas		7	11			
Richard Fuller*		2	4			
<b>Non-Executive Directors</b>						
Anthony Fuller		7				
Nick MacAndrew	Aud, Rem, Nom	7		1	4	4
Nigel Atkinson	Aud, Rem	7			4	4
John Dunsmore	Aud, Rem, Nom	6		1	3	4

\*Richard Fuller has attended all of the Main and Executive Board meetings held since his appointment to the Board on 8 December 2009.





## Corporate Governance Report

continued

### Composition and Balance of the Board

The Board is chaired by Michael Turner who is responsible for leading it and ensuring its effectiveness, and for ensuring that communications with shareholders are effective. The Chairman does not have any other significant commitments which constrain his ability to fulfil his role. His responsibilities are set out in a job description which has been approved by the Board. The Chairman was until recently also Chairman of the British Beer and Pub Association, a role which the Board believed enhanced his ability to fulfil his role as Chairman of the Company and kept the Company at the forefront of the complex issues facing the industry. The Chairman is also responsible for the day to day management of the Company, supported by the four other Executive Directors.

A number of Board changes have been announced during the past twelve months, including the appointment of Richard Fuller, the retirement of Tim Turner, the appointment of Sir James Fuller, and the forthcoming retirement of Anthony Fuller.

The Company now benefits from the advice of five Non Executive Directors, (one of whom, Anthony Fuller, also has the honorary role of President). Two of these Non Executive Directors are currently family members (Anthony Fuller and Sir James Fuller), during a hand over period before the President's retirement in July 2010. This representation is very important in a Company with a high proportion of family shareholders. The other three Non Executive Directors, two of whom are deemed independent under the Code, are experienced business leaders and all of the Non Executives bring a wide range of skills and experiences to the Board. The Directors consider that the Board is a well balanced one that has the right number of members for the size of the Group and the Directors agree that no one individual dominates discussions and that matters are debated fully. The Directors' biographies are on page 14. Nick MacAndrew is the Senior Independent Director and an excellent source of knowledge, support and advice to all the other Board members; he is in regular dialogue with all Board members outside of Board meetings. Both of the Independent Non Executive Directors are determined by the Board to be independent in character and judgement and there are no relationships or circumstances which could affect or appear to affect their judgement; both are appointed for specified terms. The details of the Non Executive Directors' respective arrangements are as set out in the Directors' Remuneration Report on pages 35 to 45 and are available for inspection at the Company's registered office.

### Advice for the Board

There is in place a procedure under which Directors can obtain independent professional advice. The Directors also have access to the advice and services of the Company Secretary who is responsible to the Board for ensuring that Board procedures are complied with. The Directors are satisfied that any concerns they raise at Board meetings are recorded in the minutes. The Company maintains appropriate insurance cover in respect of legal action against its Directors and Officers.

### Professional Development

All Directors attend training courses, industry forums, and specialist briefings relevant to their role throughout the year. Occasionally specialists such as the Company's actuary or corporate lawyer join a Board meeting to brief the Board on a particular topic. Both the Main Board and the Executive Committee visit Group pubs and hotels as part of the Board meeting programme. On these and other occasions Board meetings are held in the Group's pubs, with the aim of keeping the Directors familiar with the Group's estate. During the year the Board also visited the Group's old and new distribution depots at Horndean to appreciate how the distribution process had evolved. The Executive team has seen some changes over the last two years and recently held a team building workshop. Executive Directors are permitted to hold one other paid directorship, with the Board's consent, as the Board believes that experience of how other boards work enhances the Directors' contribution to Fuller's.

### Board Evaluation

The Chairman conducts an annual evaluation of the Board, where all Board members are asked to rate the Board's work across a number of different topics, with constructive criticism encouraged. The Chairman consolidates the responses and reports back to the Board, highlighting significant improvements and deteriorations in any particular area by comparing results with previous year's outputs and agreeing actions to tackle any areas requiring improvement. Unattributed comments of significance are shared with all. The Audit and Remuneration Committees conduct similar assessments and their work is also commented upon in the evaluation conducted by the Chairman. The Senior Non Executive Director appraises the Chairman's performance, having first consulted with the other Non Executive Directors and also the Executive Directors. The appraisal of the other Executive Directors and the Company Secretary is conducted by the Chairman. The appraisal of the Non Executive Directors is conducted by the Chairman, following consultation with the Executive team.



## Corporate Governance Report

continued

### Board Re-election

The Articles of Association of the Company ensure that all Directors are subject to election by shareholders at the first Annual General Meeting ("AGM") after their appointment and to re-election at three yearly intervals.

## C) BOARD COMMITTEES

### The Nominations Committee

The Nominations Committee consists of Nick MacAndrew, John Dunsmore, and Michael Turner, who is Chairman. It is responsible for nominating candidates for appointment as Directors, for approval by the Board. The Committee met once during the year to consider the appointment of a new Executive Director. The Committee also met after the year end to consider the appointment of a new Non Executive Director, in light of Anthony Fuller's intention to retire from the Board in July 2010. The first meeting was to confirm and endorse discussions held at Board level over some time and in accordance with the Company's succession plan which had led to the recommendation that Richard Fuller be promoted from the level of divisional director to join the Main Board. In the second case the Committee's task was to identify a new Director who would represent the interest of family shareholders as Anthony Fuller has done. Sir James Fuller, the Company's largest family shareholder, was approached and agreed to join the Board as a Non Executive Director. Sir James is now undergoing a tailored induction programme. In both cases it was not regarded as necessary to use an external search consultancy or to advertise the posts, given the specific nature of the appointments.

### The Remuneration Committee

Information about the Remuneration Committee and remuneration policy is given in the Directors' Remuneration Report.

### The Audit Committee

The Audit Committee of the Board is chaired by Nick MacAndrew, FCA who was formerly chief financial officer of Schroders plc and who also chairs the Audit Committees of Jardine Lloyd Thomson Group plc and Wates Group Limited, so bringing recent and relevant financial experience to the Committee. The other Committee members are Nigel Atkinson and John Dunsmore. The Chairman, the Finance Director and members of his team usually join the meetings as do the external Audit Partner and Audit Manager. The Chairman of the Audit Committee encourages comprehensive debate and close scrutiny of management's and auditors' reports by Committee members. The Chairman of the Audit Committee meets with the manager responsible for internal audits, the external Audit Partner and the Finance Director outside of Audit Committee meetings to give them the opportunity to raise any concerns they may have about their work or their roles and to provide advice and support as required.

The Audit Committee's terms of reference include all those matters required by the Code. The Committee has a meeting planner which sets out the basic items to be covered at its regular meetings. At the June meeting the Committee reviews the preliminary announcement and the report and accounts. In September the key items are a review of all aspects of the performance of the external auditors, including the chance to assess whether they continue to show the required level of independence and agreeing the scope for the next external audit and the audit plan and related fees. A report on internal audit is received, and one on whistle-blowing, and the Committee reviews its own effectiveness. At the November meeting the focus is on reviewing the half year report. At the January meeting the key items are risk management, internal audit and a review of new developments in accounting and auditing. This year the Committee also looked at a number of publications including the Financial Reporting Council's new guidance for audit committees. The Chairman of the Committee also encourages debate and discussion of topical issues outside of the routine agenda items.

As mentioned above there is in place a whistle-blowing policy, which is overseen by the Audit Committee, and which allows staff to raise any concerns in confidence, directly with the Chairman of the Audit Committee. The policy and related posters were updated last year and recirculated around the business to raise awareness of the whistle-blowing arrangements.

## D) ACCOUNTABILITY

### Auditors

The Group's auditors provide services in relation to routine tax compliance. It is Group policy to seek third party quotations if the auditors are offered the opportunity to provide any other significant non-audit services. The Audit Committee reviews and sets limits for the amounts which can be spent on non-audit items and has put in place controls over such expenditure to ensure that auditor objectivity and independence is safeguarded.





## Corporate Governance Report

continued

### Internal Control and Risk Management

The Board has overall responsibility for the Group's system of internal control and management of risks and reviewing its effectiveness. The system is designed to provide reasonable but not absolute assurance of:

- the mitigation of risks which might cause the failure of business objectives;
- no material misstatements or losses;
- the safeguarding of assets against unauthorised use or disposition;
- the maintenance of proper accounting records and the reliability of financial information used within the business or for publication; and
- compliance with applicable laws and regulations.

Management within the Finance Department are responsible for ensuring appropriate maintenance of financial records and processes that ensure that all financial information is relevant, reliable, in accordance with the applicable laws and regulations, and distributed both internally and externally in a timely manner. A review of the financial statements is completed by management to ensure that the financial position and results of the Group are appropriately reflected. All financial information published by the Group is subject to the review of the Audit Committee.

The Board has reviewed the effectiveness of the Group's system of internal control which has also been discussed in detail by the Audit Committee, including taking account of material developments since the year end. The review covers all material controls including financial and operational controls, compliance and risk management systems. An evaluation of the risk culture of the Group was conducted, through interviews with the Executive Directors and senior management. The results are used to drive continuous improvement in the risk management framework within the Group. An independent review of the Group's health and safety management system was also commissioned. Steering committees were established in each division to implement the recommendations.

The Board has established procedures necessary to implement the Turnbull Guidance ("Internal Control: Guidance for Directors on the Combined Code") for the full financial year. The Group Risk Manager co-ordinates this process by leading regular risk assessment workshops in which new risks are identified, and existing risks re-evaluated by the risk owners. The risks identified comprise the Group's risk register. Regular meetings chaired by the Executive Directors are held in addition to the workshops in order to assess the effectiveness of the controls identified, identify new risks and review existing risk improvement plans.

Key elements of the system of internal control designed to address significant risks and uncertainties as documented on pages 22 and 23 include:

- clearly defined levels of responsibility and delegation throughout the Group, together with well structured reporting lines up to the Board;
- the preparation of comprehensive annual budgets for each division, including commentary on key business opportunities and risks, approved by the Executive Directors and further reviewed by the Main Board on a consolidated basis;
- an Executive Committee review of actual monthly results against budget, together with commentary on significant variances and updates of both profit and cash flow expectations for the year;
- a detailed investment approval process requiring Board authorisation for all major projects;
- detailed post implementation appraisals of major capital expenditure projects;
- regular reporting of legal and accounting developments to the Board;
- regular review of the Group's risk register and discussion of significant risks by the Board and Audit Committee, which among other things takes account of the significance of environmental, social and governance matters to the business;
- monitoring of accident statistics and the results of health and safety audits; and
- maintenance of an ISO 9001 certified quality control system.

The Group does not have a formal internal audit function and after a review by the Audit Committee and the Board, the Board has confirmed that it believes that the existing arrangements for internal audit are appropriate. The Group carries out internal audits on financial areas according to a programme agreed between the Audit Committee and the Finance Director and with, as appropriate, input from the Managing Directors and the external auditors. The audits are co-ordinated by an experienced senior member of the finance team and



## Corporate Governance Report

continued

are undertaken by other members of the finance team; in each case the person undertaking the audit is independent of the area which is the subject of the audit. The internal audit reports, the management responses and the recommended actions are presented in summary form to the Audit Committee on a regular basis. There are also in place procedures to ensure recommended actions are implemented.

Among the areas audited in the financial year were lease assignments, and the procedures in relation to new suppliers. A review was also performed of all tax accounting processes and controls in order to confirm that the Group is in a position to ensure compliance with the new Senior Accounting Officer legislation enacted in the Finance Act 2009.

In addition, the Group employs retail business auditors who do not have a direct report into the Audit Committee but who monitor the controls in place in the Managed Pub estate, in particular those over stock and cash. This team reports directly to the Fuller's Inns Chief Accountant.

### E) RELATIONS WITH SHAREHOLDERS

The Company has an ongoing programme of individual meetings with institutional shareholders, allowing the Company to update shareholders on the performance of the business and the strategy for the future, and to give shareholders an opportunity to discuss corporate governance matters. The Company's brokers contact key shareholders to establish if they would like to see the Chairman and Finance Director in the days following the publication of half year and full results. This year the brokers also contacted shareholders who had raised concerns over matters tabled at the AGM, to offer them individual meetings. The Company believes the best people to carry out meetings with shareholders are the Chairman and the Finance Director; however they are joined by the Managing Directors of Fuller's Inns and the Fuller's Beer Company when the preliminary and half year results are presented to the City. The Chairman and the President are the key contacts with the Company's family shareholders and the President has a specific role to keep in touch with those shareholders. It is envisaged that Sir James Fuller and Richard Fuller will assist the Chairman with this role, following Anthony Fuller's retirement. The Senior Independent Director and the other Non Executive Directors are all willing to attend meetings with shareholders or be contacted by shareholders should they have any concerns which have not been resolved through the normal channels. During the year the Senior Independent Director was asked to meet with one of our institutional shareholders and this meeting was held as requested. All Board members receive copies of feedback reports from the City presentations and meetings with shareholders, thus keeping them in touch with shareholder opinion.

The Board supports the use of the AGM to communicate, in particular, with private investors, and the Chairman routinely makes a detailed presentation to shareholders updating them on the Company's performance and progress. The Public Relations team also attend the AGM and provide further information to shareholders about the Company through photo boards featuring pub and product information. The Board is keen to encourage institutional investors to attend the meeting as well, in line with the duties set out in the Code for institutional shareholders, and especially if they have concerns over any issues being voted upon at the AGM, so that they can meet all the Directors and discuss them in person, and particularly if they have declined an invitation for an individual meeting. The Chairman will arrange for the Chairman of the Company's Board Committees to answer relevant questions at the meeting and for all Directors to be present.

By Order of the Board

**Marie Gracie, FCS**  
Company Secretary

11 June 2010

Griffin Brewery  
Chiswick Lane South  
Chiswick  
London W4 2QB





## Directors' Remuneration Report

The principal purpose of this report for the 52 weeks ended 27 March 2010 is to inform shareholders of the Group's policy on Directors' Remuneration, as recommended by the Remuneration Committee. The report has been approved and adopted by the Board and has been prepared in accordance with the requirements of the Companies Act 2006, Schedule 8 to the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, the Listing Rules and the Code. The information contained in the tables on pages 36, 38 to 39 and 41 to 42 and in the description of non-cash emoluments in section A) and in the information about options and the LTIP outlined in sections C) and D), is subject to audit.

An ordinary resolution will be put to shareholders at the AGM on 23 July 2010 inviting them to consider and approve this report.

### Remuneration Committee

The Remuneration Committee members are currently John Dunsmore (Chairman), Nick MacAndrew and Nigel Atkinson. Members of the Committee have no personal financial interest in the Company, other than as shareholders and Directors. Details of the payments made to Non Executive Directors are set out on page 45.

The Committee is provided with independent advice from external consultants. Xafinity Consulting Limited provided the Committee and the Company with advice on matters relating to pensions. BDO LLP provided the Committee and the Company with advice in connection with the Company's LTIP and share option schemes. Both of these consultants have been providing advice to the Company for some years and were not specifically appointed by the Committee. The Committee commissioned PricewaterhouseCoopers to conduct an independent remuneration review and initial recommendations were delivered to the Committee in May 2010. The review is drawing to a conclusion and the Committee expect to share any resultant recommendations with major shareholders before any significant changes are implemented.

The Chairman of the Company, Michael Turner, may be invited to attend meetings and advise, as appropriate, on the remuneration and performance of the other Executive Directors and related matters.

The Committee is advised internally by the Company Secretary, Marie Gracie who also acts as Secretary to the Committee, and a number of other members of the senior management team, depending on the issues being considered.

### Remuneration Policy

It is the policy of the Remuneration Committee to provide competitive packages for the Executive Directors, which reflect the Group's performance against financial objectives, reward above average performance and which are designed to attract, retain and motivate high calibre executives. The Committee seeks to structure total benefit packages which align the interests of shareholders and Executive Directors. To this end, the Committee believes that it is appropriate to have a significant proportion of Executive Directors' packages made up of performance related elements and this is reflected in the use made of the Company's bonus scheme, LTIP and share option schemes. In addition, Executive Directors' packages include pension benefits, as discussed in section F) below. The Committee are kept apprised of the pay reviews awarded to employees and any changes in their terms and conditions, so that these can be taken into account when determining Directors' remuneration for the relevant financial year. When setting the remuneration of Executive Directors, the Committee takes account of the Group's performance on environmental, social and governance matters.

As mentioned above, the Committee commissioned a review of the total remuneration package of the Executive team this year. A key focus of the review was comparative salary positioning, but PricewaterhouseCoopers were also asked to comment briefly on other aspects of the total remuneration package. The Committee has only recently received this report and have not yet made any decisions in relation thereto. The Committee's aim remains to ensure that the Executive team are rewarded where long term growth and success are achieved.

### Risk in relation to Remuneration

The Committee believes that the Group's remuneration policy is consistent with risk management, in that existing remuneration structures do not entice management to take risks to achieve targets. It was felt that there is a very low risk of short term decisions driving annual bonus payouts and the focus is based on a long term remuneration model, delivering value through the Company's various share option plans. The Committee is satisfied that the incentive structure for Executive Directors does not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour.



## Directors' Remuneration Report

continued

The various elements of executive remuneration and underlying policy are as follows:

### A) BASE SALARY AND BENEFITS

The Committee sets the base salary for each Executive Director by reference to individual and corporate performance, competitive market practice and independent salary survey information. Last year there was a Group wide pay freeze and Directors received no salary increases. The Directors' pay review this year is likely to be influenced by the information provided to the Committee by PricewaterhouseCoopers. A car allowance is paid to Directors to allow them to purchase and maintain cars at their own expense – this is a non-pensionable amount. Directors can also claim back business related mileage. Other non-cash benefits to Executive Directors include private healthcare and product allowances. These benefits are also extended to some other employees.

Simon Emeny is a Non Executive Director of Dunelm plc. He retains fees of £26,775 per annum in respect of this position.

### B) BONUS

Executive Directors and senior management participate in the Company's performance related bonus scheme by invitation. All payments under the scheme are discretionary and non-pensionable. The Committee added a new proviso to the scheme at the beginning of the year, which is that where bonuses are due to be paid in a year in which profits have declined to a specified degree, the Committee will assess the performance of the Group relative to a peer group of companies which they have selected. They will only authorise payments where the Group has performed better than the average of this peer group and where the Committee also believes the Group's performance represents outperformance.

The Managing Directors of Fuller's Inns and of the Fuller's Beer Company and the Sales and Personnel Director earn a bonus in part by achieving key strategic objectives within the divisions for which they are directly responsible and in part where the Group achieves a growth target in pre-tax pre-exceptional earnings per share. The other Board members have bonuses based just on the Group target.

The target for the bonus, which is set in March each year for the following year, includes the cost of the bonus itself. The 2009/2010 scheme for Executive Directors provided a bonus opportunity of a maximum of 50% of base salary.

### Directors' Emoluments and Other Payments

The following table shows a breakdown of the remuneration of individual Directors who served in all or part of the year:

	Basic salary £000	Car allowance £000	Fees £000	Consultancy £000	Benefits in kind £000	Bonus £000	Total 2010 £000	Defined contribution pension 2010 £000	Total 2009 £000	Defined contribution pension 2009 £000
Michael Turner	310	19	–	–	3	155	487	–	398	–
Tim Turner <sup>1</sup>	170	17	–	–	3	85	275	–	225	–
John Roberts	196	17	–	–	3	97	313	13	261	13
Simon Emeny	238	16	–	–	2	119	375	20	299	21
James Douglas	207	17	–	–	3	103	330	36	271	36
Richard Fuller <sup>2</sup>	47	–	–	–	7	23	77	–	–	–
Anthony Fuller	–	–	30	10	2	–	42	–	41	–
Nick MacAndrew	–	–	55	–	1	–	56	–	53	–
Nigel Atkinson	–	–	40	3	3	–	46	–	72	–
John Dunsmore <sup>3</sup>	–	–	45	–	–	–	45	–	11	–
<b>Total</b>	<b>1,168</b>	<b>86</b>	<b>170</b>	<b>13</b>	<b>27</b>	<b>582</b>	<b>2,046</b>	<b>69</b>	<b>1,631</b>	<b>70</b>

<sup>1</sup> Tim Turner retired on 31 March 2010.

<sup>2</sup> Richard Fuller was appointed on 8 December 2009 and so served only 4 months in 2010.

<sup>3</sup> John Dunsmore was appointed on 20 January 2009.



## Directors' Remuneration Report

continued

### C) SHARE OPTION SCHEMES AND SIP

The Company encourages Executive Directors, senior management and qualifying employees to acquire and hold Fuller's shares, and believes that equity-based reward programmes align the interests of Directors, and employees in general, with those of shareholders.

#### i) Executive and Senior Executive Share Option Schemes

The Company has an HMRC approved Executive Share Option Scheme (the "Approved Scheme") which incorporates performance targets and restrictions. Under this scheme, senior executives and other staff may be issued share options up to the HMRC maximum value of £30,000 at any one time. For options to vest, growth in earnings per share adjusted principally to exclude exceptional items ("Normalised EPS") must exceed growth in the Retail Price Index ("RPI") by at least nine per cent over the three year vesting period. Once the options have vested they must be exercised within the following seven years. The performance targets and restrictions are considered to be a realistic test of management performance and were chosen because they are consistent with corporate profit growth objectives and ensure that options only become exercisable against the background of a sustained real increase in the financial performance of the Group.

The Company also has a Senior Executive Share Option Scheme (the "Senior Scheme"). The maximum benefit granted under the Senior Scheme equates to 20% of salary per annum subject to the discretion of the Remuneration Committee. Currently the only participants in the Senior Scheme are Executive Directors. For options to vest under the Senior Scheme, growth in Normalised EPS must exceed growth in RPI by at least nine per cent over a three year period. If this is achieved 40% of the award will vest. If Normalised EPS exceeds RPI by more than 21%, 100% of the award will vest. The performance targets and restrictions are considered to be a realistic test of management performance and were chosen because they are consistent with corporate profit growth objectives and ensure that the options only become exercisable against the background of a sustained real increase in the financial performance of the Group. Once the options have vested they must be exercised within the following seven years.

For both the Approved Scheme and the Senior Scheme the assessment as to whether the performance conditions have been met is relatively straightforward in that the Remuneration Committee determines this using the earnings per share information which is published in the Group's Annual Report and Accounts. However, the level of vesting is confirmed by BDO LLP, based on earnings per share calculations provided by the Group.

#### ii) Savings Related Share Option Scheme (the "SAYE Scheme")

The Company also operates an SAYE Scheme, which is available to all Company employees with at least one year's service. Under the SAYE Scheme, options are granted over the Company's 40p 'A' ordinary shares at a discount of 20% on the prevailing market price at the time of the grant. Eligible employees may agree to save up to £250 per month over a period of three or five years and then purchase shares within six months of the end of the term. The aim of the SAYE Scheme is to encourage share ownership at all levels of the Company. Performance conditions are not applied to the SAYE Scheme.

#### iii) Share Incentive Plan ("SIP")

All Company employees with not less than five months service in November in any year, are eligible to receive free 40p 'A' ordinary shares in December of that year through an HMRC approved SIP. The shares are held by the Trustees of the scheme for a minimum of three years and a maximum of five years before being passed on to participants. The amount of shares awarded is based on length of service and base salary. The maximum value of the shares allowable under the SIP to any individual in any one year is £3,000. Performance conditions are not applied to the SIP.





## Directors' Remuneration Report

continued

### C) SHARE OPTION SCHEMES AND SIP continued

Details of all options granted to Executive Directors are given in the table below and details of all options granted are in note 28.

#### Directors' Share Options

	At 28 March 2009 or date of appointment	Exercised	Lapsed	Issued	At 27 March 2010	Exercise price £	Date of grant	Date from which exercisable	Expiry date	Type	Cost of options under SAYE schemes £	Price at exercise date £	Notional gain on exercise £
<b>Michael Turner</b>	14,150	-	-	-	14,150	2.12	25/6/03	25/6/06	24/6/13	A	-	-	-
	4,180	(4,180)	-	-	-	2.20	17/7/03	17/7/08	16/7/13	U	-	5.15	12,331
	15,587	(15,587)	-	-	-	2.63	7/7/04	7/7/07	6/7/14	U	-	5.15	39,279
	11,660	-	-	-	11,660	3.67	19/7/05	19/7/08	18/7/15	U	-	-	-
	3,375	-	-	-	3,375	2.93	1/9/05	1/9/10	1/3/11	S	9,889	-	-
	10,040	-	-	-	10,040	4.98	18/7/06	18/7/09	18/7/16	U	-	-	-
	7,985	-	-	-	7,985	7.51	18/7/07	18/7/10	17/7/17	U	-	-	-
	15,308	-	-	-	15,308	4.05	15/7/08	15/7/11	15/7/18	U	-	-	-
	1,966	-	-	-	1,966	3.31	1/9/08	1/9/13	1/3/14	S	6,507	-	-
	-	-	-	12,916	12,916	4.80	16/7/09	16/7/12	16/7/19	U	-	-	-
	84,251	(19,767)	-	12,916	77,400								
<b>Tim Turner</b>	9,427	(9,427)	-	-	-	2.63	7/7/04	7/7/07	6/7/14	U	-	5.05	22,813
	7,027	(7,027)	-	-	-	3.67	19/7/05	19/7/08	18/7/15	U	-	5.05	9,697
	5,823	-	-	-	5,823	4.98	18/7/06	18/7/09	17/7/16	U	-	-	-
	952	(952)	-	-	-	3.92	1/9/06	1/9/09	1/3/10	S	-	4.91	942
	4,258	-	-	-	4,258	7.51	18/7/07	18/7/10	17/7/17	U	-	-	-
	7,407	-	-	-	7,407	4.05	15/7/08	15/7/11	15/7/18	A	-	-	-
	987	-	-	-	987	4.05	15/7/08	15/7/11	15/7/18	U	-	-	-
	1,135	-	-	-	1,135	3.31	1/9/08	1/9/13	1/3/14	S	3,757	-	-
	-	-	-	7,083	7,083	4.80	16/7/09	16/7/12	16/7/19	U	-	-	-
	-	-	-	1,403	1,403	3.88	1/9/09	1/9/12	1/3/13	S	5,444	-	-
	37,016	(17,406)	-	8,486	28,096								
<b>John Roberts</b>	12,180	(12,180)	-	-	-	2.20	17/7/03	17/7/08	16/7/13	U	-	5.05	34,713
	10,873	(10,873)	-	-	-	2.63	7/7/04	7/7/07	6/7/14	U	-	5.05	26,313
	3,130	(3,130)	-	-	-	2.08	1/9/04	1/9/09	1/3/10	S	-	4.78	8,451
	8,173	-	-	-	8,173	3.67	19/7/05	19/7/08	18/7/15	A	-	-	-
	7,228	-	-	-	7,228	4.98	18/7/06	18/7/09	17/7/16	U	-	-	-
	5,058	-	-	-	5,058	7.51	18/7/07	18/7/10	17/7/17	U	-	-	-
	9,654	-	-	-	9,654	4.05	15/7/08	15/7/11	15/7/18	U	-	-	-
	2,950	-	-	-	2,950	3.31	1/9/08	1/9/13	1/3/14	S	9,765	-	-
	-	-	-	8,145	8,145	4.80	16/7/09	16/7/12	16/7/19	U	-	-	-
	-	-	-	1,603	1,603	3.88	1/9/09	1/9/12	1/3/13	S	6,220	-	-
	59,246	(26,183)	-	9,748	42,811								

A: Executive Share Option Scheme  
S: Savings Related Share Option Scheme  
U: Senior Executive Share Option Scheme



## Directors' Remuneration Report

continued

	At 28 March 2009 or date of appointment	Exercised	Lapsed	Issued	At 27 March 2010	Exercise price £	Date of grant	Date from which exercisable	Expiry date	Cost of options under SAYE schemes £	Price at exercise date £	Notional gain on exercise £	
<b>Simon Emeny</b>	14,135	(14,135)	-	-	-	2.20	17/7/03	17/7/08	16/7/13	U	-	5.10	40,992
	9,100	-	-	-	9,100	3.67	19/7/05	19/7/08	18/7/15	U	-	-	-
	4,277	-	-	-	4,277	2.93	1/9/05	1/9/10	1/3/11	S	12,532	-	-
	6,023	-	-	-	6,023	4.98	18/7/06	18/7/09	17/7/16	A	-	-	-
	2,008	-	-	-	2,008	4.98	18/7/06	18/7/09	17/7/16	U	-	-	-
	6,123	-	-	-	6,123	7.51	18/7/07	18/7/10	17/7/17	U	-	-	-
	11,753	-	-	-	11,753	4.05	15/7/08	15/7/11	15/7/18	U	-	-	-
	1,180	-	-	-	1,180	3.31	1/9/08	1/9/13	1/3/14	S	3,906	-	-
	-	-	-	9,916	9,916	4.80	16/7/09	16/7/12	16/7/19	U	-	-	-
	54,599	(14,135)	-	9,916	50,380								
<b>James Douglas</b>	7,407	-	-	-	7,407	4.05	15/7/08	15/7/11	15/7/18	A	-	-	-
	2,814	-	-	-	2,814	4.05	15/7/08	15/7/11	15/7/18	U	-	-	-
	-	-	-	8,625	8,625	4.80	16/7/09	16/7/12	16/7/19	U	-	-	-
	10,221	-	-	8,625	18,846								
<b>Richard Fuller<sup>2</sup></b>	9,533	-	-	-	9,533	2.63	5/7/04	5/7/07	5/7/14	A	-	-	-
	1,125	-	-	-	1,125	2.93	1/9/05	1/9/10	1/3/11	S	3,296	-	-
	820	-	-	-	820	3.92	1/9/06	1/9/11	1/3/12	S	3,214	-	-
	1,966	-	-	-	1,966	3.31	1/9/08	1/9/13	1/3/14	S	6,507	-	-
	-	-	-	801	801	3.88	1/9/09	1/9/14	1/3/15	S	3,108	-	-
	13,444	-	-	801	14,245								
<b>Total<sup>1</sup></b>	<b>258,777</b>	<b>(77,491)</b>	<b>-</b>	<b>50,492</b>	<b>231,778</b>								

<sup>1</sup> Total current Directors.

<sup>2</sup> Richard Fuller was appointed on 8 December 2009.

A: Executive Share Option Scheme  
S: Savings Related Share Option Scheme  
U: Senior Executive Share Option Scheme

### Directors' Options Analysed by Exercise Price (£)

Exercise price (£)	At 28 March 2009*	Exercised	Lapsed	Issued	At 27 March 2010
2.08	3,130	(3,130)	-	-	-
2.12	14,150	-	-	-	14,150
2.20	30,495	(30,495)	-	-	-
2.63	45,420	(35,887)	-	-	9,533
2.93	8,777	-	-	-	8,777
3.67	35,960	(7,027)	-	-	28,933
3.92	1,772	(952)	-	-	820
4.98	31,122	-	-	-	31,122
7.51	23,424	-	-	-	23,424
3.31	9,197	-	-	-	9,197
4.05	55,330	-	-	-	55,330
4.80	-	-	-	46,685	46,685
3.88	-	-	-	3,807	3,807
<b>Total</b>	<b>258,777</b>	<b>(77,491)</b>	<b>-</b>	<b>50,492</b>	<b>231,778</b>

The market price of the shares at 27 March 2010 was £5.44 and the range during the year was from £4.05 to £5.70.

\* The number of options at 28 March 2009 includes 13,444 in respect of Richard Fuller who was appointed Director on 9 December 2009.



## Directors' Remuneration Report

continued

### D) Long Term Incentive Plan ("LTIP")

The aim of the LTIP is to align the efforts of Directors and senior managers with the Company's objective of creating shareholder value and increasing earnings per share in the longer term. The performance conditions for the LTIP were chosen accordingly and all subsisting LTIP awards have a performance condition wholly based on growth in earnings per share adjusted principally to exclude exceptional items ("Normalised EPS"). The Normalised EPS based measure ensures that awards only become exercisable against a background of a sustained real increase in the financial performance of the Group.

To assess the awards, the average growth in Normalised EPS is compared with the growth in inflation over the performance period. The performance period covers three financial years starting from the date of grant. No vest occurs if the Normalised EPS growth fails to exceed the RPI by at least 9% over the period (for LTIP grants made up to July 2008 this was 6%). 40% of the award vests if the target is hit, and there is a sliding scale above that point. This is an increase from 25% under the previous LTIP (grants made up to 2008), recognising the harder hurdle that needs to be passed before grants can vest. Some institutional shareholders believe that this is too high a percentage for the first point of vest, but the Remuneration Committee believe that it is fair given that the hurdle rate has been raised, that grants can never exceed more than 100% of salary under the scheme (which is modest compared to many other schemes) and that in some years, there is unlikely to be a vest at all. For a 100% award of shares to be made, growth in Normalised EPS would need to exceed the growth in RPI by 24% or more over the period (21% for grants made up to 2008). The Remuneration Committee determines whether the Normalised EPS performance condition has been met using the earnings per share information which is published in the Group's Annual Report and Accounts. BDO LLP confirm the level of vesting of awards based on earnings per share calculations provided by the Group.

Under the LTIP, the rules allow for discretionary annual awards of 'A' and 'B' ordinary shares up to a value representing 100% of a participant's salary in any one year (80% for grants made up to 2008). For awards made up to and including 2006, where shares vest, participants are invited to re-deposit half of their shares for a further three year period. The Company then makes a matched share award up to the number of shares deposited. Both the deposited shares and the matched shares award are released to the participants in full after the second three year period, providing the participant is still employed by the Company. The practice of offering matching awards was discontinued after the award made in July 2006. On 12 March 2010, 50% of the performance awards granted in 2007 (LTIP 10 and LTIP 10a) and all of the matched awards granted in 2007 (LTIP 7) held by Directors were changed from conditional share awards to restricted share awards, on the same terms and vesting conditions. Details of the awards made during the year to Directors are given in the following tables.

In all cases the LTIP grants were calculated by reference to the middle market quotation as at the following dates:

Date	'A' ordinary shares	'B' ordinary shares
	£	£
24 June 2003	2.12	0.21
4 July 2004	2.62	0.26
18 July 2005	3.67	0.37
17 July 2006	4.98	0.50
16 July 2007	7.51	0.75
28 November 2007	6.30	0.63
14 July 2008	4.05	0.41
15 July 2009	4.80	0.48

In all cases shares will vest, subject to performance criteria being attained, within 72 days of the publication of results for the last financial year in the performance period.





## Directors' Remuneration Report

continued

### Directors' LTIP Movements in the Year

		Total held at 28 March 2009	Granted during year	Original awards vested	Matching awards granted	Matching awards vested	Lapsed during year	Total held at 27 March 2010	Monetary value of vest* £'000
<b>Michael Turner</b>	'A' ordinary 40p	104,166	51,666	(16,062)	8,031	(10,352)	-	<b>137,449</b>	125
	'B' ordinary 4p	260,438	129,166	(40,160)	20,080	(25,885)	-	<b>343,639</b>	31
<b>Tim Turner</b>	'A' ordinary 40p	59,217	28,333	(9,315)	4,657	(6,337)	-	<b>76,555</b>	74
	'B' ordinary 4p	148,054	70,833	(23,292)	11,646	(15,847)	-	<b>191,394</b>	19
<b>John Roberts</b>	'A' ordinary 40p	69,222	32,583	(11,565)	5,782	(7,077)	-	<b>88,945</b>	89
	'B' ordinary 4p	173,065	81,458	(28,915)	14,457	(17,697)	-	<b>222,368</b>	22
<b>Simon Emeny</b>	'A' ordinary 40p	81,074	39,666	(12,850)	6,425	(8,212)	-	<b>106,103</b>	100
	'B' ordinary 4p	202,701	99,166	(32,127)	16,063	(20,535)	-	<b>265,268</b>	25
<b>James Douglas</b>	'A' ordinary 40p	32,213	34,500	-	-	-	-	<b>66,713</b>	-
	'B' ordinary 4p	80,533	86,250	-	-	-	-	<b>166,783</b>	-
<b>Richard Fuller</b>	'A' ordinary 40p	32,450	10,908	(5,300)	2,650	(3,445)	-	<b>37,263</b>	42
	'B' ordinary 4p	81,140	27,270	(13,252)	6,626	(8,617)	-	<b>93,167</b>	10

\* The market price of 'A' shares on 20 July 2009 for the Original awards vested and Matching awards vested was £4.75. Thus we assume a "market" price for 'B' shares of £0.475.

The table above excludes vested shares that have been redeposited with the LTIP Trust in order to obtain the matching grant and includes those awards converted to restricted awards on 12 March 2010.

### Directors' LTIP Grants Held

Grant		LTIP 7 <sup>1</sup>	LTIP 8	LTIP 9	LTIP 10 <sup>2</sup>	LTIP 11	LTIP 12	
Grant date		05 July 04	19 July 05	18 July 06	17 July 07	15 July 08	16 July 09	
Start of performance period		April 04	April 05	April 06	April 07	April 08	April 09	<b>Total at</b>
End of performance period		March 07	March 08	March 09	March 10	March 11	March 12	<b>27 March</b>
Matching period end		04 July 10	18 July 11	17 July 12	n/a	n/a	n/a	<b>2010</b>
<b>Michael Turner</b>	'A' ordinary 40p	12,517	9,328	8,031	19,167	36,740	51,666	<b>137,449</b>
	'B' ordinary 4p	31,297	23,323	20,080	47,922	91,851	129,166	<b>343,639</b>
<b>Tim Turner</b>	'A' ordinary 40p	7,572	5,623	4,657	10,222	20,148	28,333	<b>76,555</b>
	'B' ordinary 4p	18,930	14,058	11,646	25,557	50,370	70,833	<b>191,394</b>
<b>John Roberts</b>	'A' ordinary 40p	8,732	6,538	5,782	12,140	23,170	32,583	<b>88,945</b>
	'B' ordinary 4p	21,830	16,348	14,457	30,350	57,925	81,458	<b>222,368</b>
<b>Simon Emeny</b>	'A' ordinary 40p	9,830	7,280	6,425	14,695	28,207	39,666	<b>106,103</b>
	'B' ordinary 4p	24,580	18,201	16,063	36,740	70,518	99,166	<b>265,268</b>
<b>James Douglas</b>	'A' ordinary 40p	-	-	-	7,680	24,533	34,500	<b>66,713</b>
	'B' ordinary 4p	-	-	-	19,200	61,333	86,250	<b>166,783</b>
<b>Richard Fuller</b>	'A' ordinary 40p	4,350	3,268	2,650	5,510	10,577	10,908	<b>37,263</b>
	'B' ordinary 4p	10,877	8,173	6,626	13,777	26,444	27,270	<b>93,167</b>

<sup>1</sup> LTIP 7 - 100% of the award was converted to a restricted award on 12 March 2010 and is included in the figures above.

<sup>2</sup> Includes LTIP 10a granted to James Douglas after his appointment as a Director. The grant date was 29 November 2007, with the same performance period as above. LTIP 10 and LTIP 10a - 50% of the award was converted to a restricted award on 12 March 2010 and is included in the figures above.



## Directors' Remuneration Report

continued

### Directors' Shareholdings

		Changes by 27 May 2010		27 March 2010		28 March 2009	
		Beneficial	Non Beneficial	Beneficial	Non Beneficial	Beneficial	Non Beneficial
<b>Michael Turner</b>	'A' ordinary 40p	-	-	<b>374,556</b>	<b>139,880</b>	360,771	139,880
	'B' ordinary 4p	-	-	<b>4,587,489</b>	<b>3,490,974</b>	4,521,442	3,490,974
	'C' ordinary 40p	-	-	<b>1,016,570</b>	<b>750,517</b>	1,016,570	745,517
	2nd preference £1	-	-	<b>22,993</b>	<b>40,192</b>	22,993	40,166
<b>Tim Turner</b>	'A' ordinary 40p	-	-	<b>287,928</b>	<b>139,880</b>	278,573	139,880
	'B' ordinary 4p	-	-	<b>4,572,928</b>	<b>3,490,974</b>	4,533,786	3,490,974
	'C' ordinary 40p	-	-	<b>1,272,052</b>	<b>750,517</b>	1,272,052	745,517
	2nd preference £1	-	-	<b>22,916</b>	<b>40,192</b>	22,916	40,166
<b>John Roberts</b>	'A' ordinary 40p	-	-	<b>54,790</b>	-	69,634	-
	'B' ordinary 4p	-	-	<b>285,218</b>	-	238,576	-
<b>Simon Emeny</b>	'A' ordinary 40p	-	-	<b>47,555</b>	-	66,012	-
	'B' ordinary 4p	-	-	<b>458,156</b>	-	405,494	-
<b>James Douglas</b>	'A' ordinary 40p	-	-	<b>2,680</b>	-	2,102	-
<b>Richard Fuller*</b>	'A' ordinary 40p	-	-	<b>13,606</b>	-	20,028	-
	'B' ordinary 4p	-	-	<b>3,363,356</b>	-	3,363,356	-
	'C' ordinary 40p	-	-	<b>25,000</b>	-	25,000	-
	2nd preference £1	-	-	<b>303</b>	-	303	-
<b>Anthony Fuller</b>	'A' ordinary 40p	-	-	<b>65,897</b>	-	65,897	-
	'B' ordinary 4p	-	-	<b>5,096,572</b>	<b>9,653,476</b>	5,096,572	9,572,512
	'C' ordinary 40p	-	-	<b>1,436,000</b>	<b>1,252,359</b>	1,436,000	1,252,359
	1st preference £1	-	-	<b>9,679</b>	<b>4,839</b>	9,679	4,839
	2nd preference £1	-	-	<b>94</b>	-	94	-
<b>Nick MacAndrew</b>	'A' ordinary 40p	-	-	<b>25,000</b>	-	25,000	-
<b>Nigel Atkinson</b>	'A' ordinary 40p	-	-	<b>4,575</b>	-	4,575	-
<b>John Dunsmore</b>	'A' ordinary 40p	-	-	<b>2,324</b>	-	-	-

\* Richard Fuller was appointed on 8 December 2009.



## Directors' Remuneration Report

continued

### E) SERVICE CONTRACTS

The Company's policy on the duration of Directors' contracts is that Executive Directors should have rolling service contracts terminable on no more than one year's notice served by the Company or Director. The Company's policy on early termination of contracts is that each Executive Director is entitled to a payment equal to salary and the value of all benefits for the unexpired period of his notice, without any reduction for mitigation. Service contracts reflect this policy and the Remuneration Committee believes that such payments are set at a fair level and that therefore a mitigation clause is unnecessary.

#### Service Contract Table

	Date of contract	Notice period
Michael Turner	1 June 1997	12 months
Tim Turner	1 June 1997	12 months
John Roberts	1 June 1997	12 months
Simon Emeny	13 January 1999	12 months
James Douglas	31 July 2007	12 months
Richard Fuller	8 December 2009	12 months

#### Non Executive Directors' Arrangements

	Term expires
Anthony Fuller	July 2010
Nick MacAndrew	July 2011
Nigel Atkinson	April 2012
John Dunsmore	January 2012
Sir James Fuller	May 2013

### F) PENSIONS

Michael Turner is a deferred member of the defined benefit Company pension plan, under the Directors' section and Tim Turner now draws a pension from that section of the plan. Richard Fuller is a member of the defined benefit Company pension plan, under the Directors' section, on a non-contributory basis.

Simon Emeny and John Roberts are members of the defined benefit Company pension plan, under the Main section on a non-contributory basis. In addition, a salary supplement of 17.5% of the excess of their base salary over the earnings cap was paid by the Company to their nominated pension provider.

James Douglas is a member of the defined contribution Company pension plan. In addition to the contribution that James Douglas makes to the Scheme, the Company makes a contribution of 17.5% of his salary to the Scheme.

In accordance with the requirements of the Listing Rules, Directors' pension entitlements under defined benefit plans are shown below. The Companies Act 2006 requires the disclosure of similar information but in a different format and not adjusting for inflation, while the Listing Rules requirement makes allowance for inflation.

The following tables provide the information required on both bases. The additional notes are to help shareholders understand the difference between the two. Michael Turner and Tim Turner withdrew from the Directors' section of the defined benefit Company pension plan sponsored by the Company on 5 April 2006. Immediately before they left the plan the Company augmented their accrued entitlement so that they will receive their promised pension at age 60 presuming they remain with the Company until then. The value of this augmentation is taken into account in the figures in the table below. The Company made a lump sum payment of £620,000 into the plan on 3 April 2006 in order to fund this augmentation. If Michael Turner leaves the Company before he is 60, he will be obliged to repay the value of the augmentation relating to the period from his date of leaving up to his 60th birthday.





## Directors' Remuneration Report

continued

### F) PENSIONS continued

#### Listing Rules Requirement

	Increase in accrued pension (allowing for inflation) <sup>1</sup> £	Total accrued pension at end of period <sup>2</sup> £	Transfer value of increase (net of member contributions) <sup>3</sup> £
Michael Turner	(9,228)	207,429	–
Tim Turner <sup>4</sup>	n/a	119,320	735
John Roberts	2,183	15,059	28,343
Simon Emeny	2,183	15,059	18,682
Richard Fuller <sup>5</sup>	9,606	69,142	94,628

<sup>1</sup> Increase in accrued pension (allowing for inflation) – this is the accrued pension at the year end less the accrued pension at the start of the year adjusted for inflation over the year.

<sup>2</sup> Total accrued pension at end of year – this is what the Director is entitled to receive as an annual pension based on service to date.

<sup>3</sup> Transfer value of increase net of member contributions – this is the transfer value of the accrued pension at the end of the year less the transfer value of the accrued pension at the start of the year adjusted for inflation calculated by reference to transfer value factors at the year end. The transfer values are calculated using the basis in force at the end of the year. Therefore there is no distortion caused by changes in monetary conditions or changes to the transfer basis.

<sup>4</sup> Tim Turner reached retirement age on 8 December 2009 and thereafter was drawing his pension and so accrued no further benefits. He retired from the Company on 31 March 2010.

<sup>5</sup> Richard Fuller was appointed on 8 December 2009 therefore the table above shows movements between 8 December 2009 and 27 March 2010.

The above table is intended to show the real increase in accrued pension and the real increase in transfer value during the year. These figures therefore exclude the impact of inflation during the year.

#### Companies Act 2006 Requirement

The table below is intended to show the actual increase in accrued pension during the year and the actual increase in transfer value during the year. These figures are not adjusted for inflation during the year.

	Increase in accrued pension <sup>1</sup> £	Total accrued pension at end of period <sup>2</sup> £	Transfer value at start of period <sup>3</sup> £	Transfer value at end of period <sup>4</sup> £	Transfer value equivalent of increase (net of member contributions) <sup>5</sup> £
Michael Turner	–	207,429	3,633,766	4,360,850	727,084
Tim Turner <sup>6</sup>	32	119,320	2,404,687	2,735,573	330,886
John Roberts	2,731	15,059	70,878	156,332	85,454
Simon Emeny	2,731	15,059	46,861	103,044	56,183
Richard Fuller <sup>7</sup>	10,334	69,142	544,254	633,129	88,875

<sup>1</sup> Increase in accrued pension – this is the accrued pension at the year end less the accrued pension at the start of the year (as disclosed last year), without adjustment for inflation.

<sup>2</sup> Total accrued pension at end of year – this is the same figure as the Listing Rules requirement.

<sup>3</sup> Transfer value at start of year – this is the transfer value of the accrued pension at the start of the year (as disclosed last year).

<sup>4</sup> Transfer value of end of year – this is the transfer value of the accrued pension at the end of the year.

<sup>5</sup> Transfer value equivalent of increase (net of member contributions) – this is the difference between the two transfer values less any member contributions in the year. Unlike the Listing Rules requirement, this shows the difference between the transfer value as published last year and the transfer value at the year end. The transfer value this year end will reflect pensionable salary increases since last year, the addition of another year's accrual of benefit and market movements in equities and gilts over the year to which transfer values are referenced.

<sup>6</sup> Tim Turner reached retirement age on 8 December 2009 and thereafter was drawing his pension and so accrued no further benefits. He retired from the Company on 31 March 2010.

<sup>7</sup> Richard Fuller was appointed on 8 December 2009 therefore the table above shows movements between 8 December 2009 and 27 March 2010.



## Directors' Remuneration Report

continued

### G) REMUNERATION POLICY FOR NON EXECUTIVE DIRECTORS

The remuneration of the Non Executive Directors is determined by the Executive Committee. The policy is to ensure in all cases that the fees paid are not out of line with the market and go some way towards rewarding the Non Executives for the time they commit to their various roles. Accordingly all Non Executive Directors receive a basic fee. The Senior Independent Director receives a fee for that role and there are additional fees for chairing or being a member of the Audit and Remuneration Committees. The President also receives consultancy fees for additional services and advice provided to the Group. It is the Company's policy that Non Executive Directors should not participate in bonus schemes, share options or long term incentive plans. None of the Non Executive Directors are members of any Group pension scheme, with the exception of the President, Anthony Fuller, who receives a pension from the Directors' section of the defined benefit Company pension plan, accrued when he was an Executive Director and Nigel Atkinson, who is a deferred member of the Gales section of the defined benefit Company pension plan, accrued when he was Managing Director of Gales.

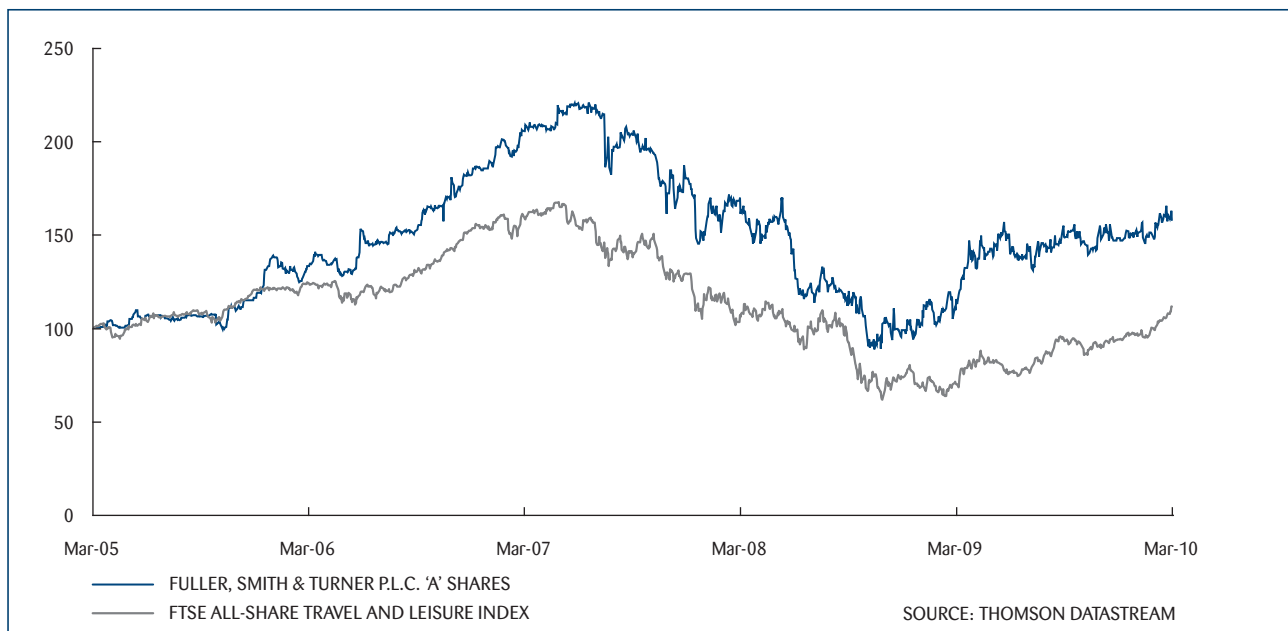
Non Executive Directors receive non-cash benefits in the form of product allowances and the reimbursement of travel and other business related expenses. The President and Nigel Atkinson also benefit from private healthcare.

None of the Non Executive Directors have service contracts and their appointments are reviewed at between one and three yearly intervals. They are renewable as shown on page 43.

### H) PERFORMANCE GRAPH

The graph below shows a comparison of the Total Shareholder Return ("TSR") for the Company's listed 'A' ordinary shares for the last five financial years against the TSR for the companies in the FTSE Travel and Leisure Index. The Company is a constituent of this Index and therefore it is an appropriate choice for this report.

#### Total Shareholder Return



On behalf of the Board

**John Dunsmore**

Chairman, Remuneration Committee

11 June 2010



## **Independent Auditors' Report**

to the Members of Fuller, Smith & Turner P.L.C.

We have audited the financial statements of Fuller, Smith & Turner P.L.C. for the 52 weeks ended 27 March 2010 which comprise the Group Income Statement, the Group and Company Statements of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Statements of Changes in Equity, the Group and Company Cash Flow Statements and the related notes 1 to 33. 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 and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

As explained more fully in the Directors' Responsibilities Statement set out on page 28, 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 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.

### **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 Group's and the Parent 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.

### **OPINION ON FINANCIAL STATEMENTS**

#### **In our opinion:**

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 27 March 2010 and of the Group's profit for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### **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 29 to 34 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.





## Independent Auditors' Report

to the Members of Fuller, Smith & Turner P.L.C. continued

### 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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company 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 19, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 29 to 34 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

### Les Clifford (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

11 June 2010



## Group Income Statement

for the 52 weeks ended 27 March 2010

	Note	52 weeks ended 27 March 2010			52 weeks ended 28 March 2009		
		Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
<b>Revenue</b>	3	<b>227.7</b>	<b>–</b>	<b>227.7</b>	210.0	–	210.0
Operating costs	4, 5	(195.7)	(0.9)	(196.6)	(181.0)	(8.4)	(189.4)
<b>Operating profit</b>		<b>32.0</b>	<b>(0.9)</b>	<b>31.1</b>	29.0	(8.4)	20.6
Profit on disposal of properties	5	–	1.1	1.1	–	–	–
Finance revenue	6	–	–	–	0.2	–	0.2
Finance costs	7	(5.4)	–	(5.4)	(6.4)	–	(6.4)
<b>Profit before tax</b>		<b>26.6</b>	<b>0.2</b>	<b>26.8</b>	22.8	(8.4)	14.4
Taxation	5, 8	(7.5)	(0.1)	(7.6)	(6.6)	1.1	(5.5)
<b>Profit for the year attributable to equity shareholders of the Parent Company</b>		<b>19.1</b>	<b>0.1</b>	<b>19.2</b>	16.2	(7.3)	8.9

		2010 Pence	2009 Pence
<b>Earnings per share per 40p 'A' and 'C' ordinary share</b>			
Basic	9	34.37	16.00
Diluted	9	33.82	15.83
Adjusted	9	34.19	29.12
Diluted adjusted	9	33.64	28.81

		2010 Pence	2009 Pence
<b>Earnings per share per 4p 'B' ordinary share</b>			
Basic	9	3.44	1.60
Diluted	9	3.38	1.58
Adjusted	9	3.42	2.91
Diluted adjusted	9	3.36	2.88

The results and earnings per share measures above are all in respect of continuing operations of the Group.

## Group and Company Statements of Comprehensive Income

for the 52 weeks ended 27 March 2010

	52 weeks ended	52 weeks ended
	27 March 2010 £m	28 March 2009 £m
<b>Group</b>		
<b>Profit for the year</b>	<b>19.2</b>	8.9
Net gains/(losses) on valuation of financial assets and liabilities	0.9	(1.8)
Net actuarial losses on pension schemes (note 23)	(4.5)	(3.5)
Tax on components of other comprehensive income (note 8)	1.1	1.5
<b>Other comprehensive loss for the year, net of tax</b>	<b>(2.5)</b>	(3.8)
<b>Total comprehensive income for the year, net of tax, attributable to equity shareholders of the Parent Company</b>	<b>16.7</b>	5.1
<b>Company</b>	£m	£m
<b>Profit for the year</b>	<b>17.4</b>	5.3
Net gains/(losses) on valuation of financial assets and liabilities	0.8	(1.3)
Net actuarial losses on pension schemes (note 23)	(4.5)	(3.5)
Tax on components of other comprehensive income	1.1	1.4
<b>Other comprehensive loss for the year, net of tax</b>	<b>(2.6)</b>	(3.4)
<b>Total comprehensive income for the year, net of tax, attributable to equity shareholders of the Parent Company</b>	<b>14.8</b>	1.9



## Balance Sheets

27 March 2010

	Note	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
<b>Non-current assets</b>					
Goodwill	11	23.9	24.1	–	–
Property, plant and equipment	12	348.2	318.7	348.2	317.5
Investment properties	13	9.3	8.5	4.0	4.4
Other non-current assets	15	0.4	0.6	0.4	0.6
Investments in subsidiaries	16	–	–	91.8	91.8
Deferred tax assets	25	6.1	5.0	5.7	4.6
<b>Total non-current assets</b>		<b>387.9</b>	<b>356.9</b>	<b>450.1</b>	<b>418.9</b>
<b>Current assets</b>					
Inventories	17	7.6	6.1	7.6	6.1
Trade and other receivables	18	15.6	16.0	15.6	16.0
Cash and short term deposits	19	1.1	0.9	1.1	0.9
<b>Total current assets</b>		<b>24.3</b>	<b>23.0</b>	<b>24.3</b>	<b>23.0</b>
<b>Assets classified as held for sale</b>	20	<b>0.6</b>	–	<b>0.6</b>	–
<b>Current liabilities</b>					
Bank loans	22	80.2	7.5	70.2	7.5
Loan notes	22	–	1.3	–	1.3
Debenture stock	22	1.2	–	1.2	–
Derivative financial liabilities	14	0.6	–	0.3	–
Trade and other payables	21	39.7	33.6	130.8	122.7
Current tax payable		3.8	3.9	3.8	3.9
Provisions	25	0.4	0.4	0.4	0.4
<b>Total current liabilities</b>		<b>125.9</b>	<b>46.7</b>	<b>206.7</b>	<b>135.8</b>
<b>Non-current liabilities</b>					
Bank loans	22	–	57.7	–	47.7
Debenture stock	22	25.8	27.0	25.8	27.0
Preference shares	24	1.6	1.6	1.6	1.6
Derivative financial liabilities	14	–	1.5	–	1.1
Retirement benefit obligations	23	12.7	8.4	12.7	8.4
Deferred tax liabilities	25	37.5	37.6	36.0	36.1
Provisions	25	2.1	2.4	2.1	2.4
<b>Total non-current liabilities</b>		<b>79.7</b>	<b>136.2</b>	<b>78.2</b>	<b>124.3</b>
<b>Net assets</b>		<b>207.2</b>	<b>197.0</b>	<b>190.1</b>	<b>181.8</b>
<b>Capital and reserves</b>					
Share capital	27	22.8	22.8	22.8	22.8
Share premium account	27	4.8	4.8	4.8	4.8
Capital redemption reserve	27	3.1	3.1	3.1	3.1
Own shares	27	(4.0)	(5.9)	(4.0)	(5.9)
Hedging reserve		(0.4)	(1.1)	(0.2)	(0.8)
Retained earnings		180.9	173.3	163.6	157.8
<b>Total shareholders' equity</b>		<b>207.2</b>	<b>197.0</b>	<b>190.1</b>	<b>181.8</b>

Approved by the Board and signed on 11 June 2010.

**M J Turner, FCA**  
Chairman





## Group and Company Statements of Changes in Equity

for the 52 weeks ended 27 March 2010

Group	Share capital (note 27) £m	Share premium account £m	Capital redemption reserve £m	Own shares (note 27) £m	Hedging reserve £m	Retained earnings £m	Total £m
At 29 March 2008	22.8	4.8	3.1	(6.0)	0.2	172.8	197.7
Profit for the year	-	-	-	-	-	8.9	8.9
Other comprehensive loss for the year	-	-	-	-	(1.3)	(2.5)	(3.8)
<b>Total comprehensive income for the year</b>	-	-	-	-	(1.3)	6.4	5.1
Shares purchased to be held in ESOT or as treasury	-	-	-	(2.2)	-	-	(2.2)
Shares released from ESOT and treasury	-	-	-	2.3	-	(1.8)	0.5
Dividends (note 10)	-	-	-	-	-	(5.4)	(5.4)
Share-based payment charges	-	-	-	-	-	1.4	1.4
Tax charged directly to equity (note 8)	-	-	-	-	-	(0.1)	(0.1)
<b>At 28 March 2009</b>	<b>22.8</b>	<b>4.8</b>	<b>3.1</b>	<b>(5.9)</b>	<b>(1.1)</b>	<b>173.3</b>	<b>197.0</b>
Profit for the year	-	-	-	-	-	19.2	19.2
Other comprehensive income/(loss) for the year	-	-	-	-	0.7	(3.2)	(2.5)
<b>Total comprehensive income for the year</b>	-	-	-	-	0.7	16.0	16.7
Shares purchased to be held in ESOT or as treasury	-	-	-	(0.8)	-	-	(0.8)
Shares released from ESOT and treasury	-	-	-	2.7	-	(1.9)	0.8
Dividends (note 10)	-	-	-	-	-	(9.4)	(9.4)
Share-based payment charges	-	-	-	-	-	2.1	2.1
Tax credited directly to equity (note 8)	-	-	-	-	-	0.8	0.8
<b>At 27 March 2010</b>	<b>22.8</b>	<b>4.8</b>	<b>3.1</b>	<b>(4.0)</b>	<b>(0.4)</b>	<b>180.9</b>	<b>207.2</b>
<b>Company</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
At 29 March 2008	22.8	4.8	3.1	(6.0)	0.1	160.9	185.7
Profit for the year	-	-	-	-	-	5.3	5.3
Other comprehensive loss for the year	-	-	-	-	(0.9)	(2.5)	(3.4)
<b>Total comprehensive income for the year</b>	-	-	-	-	(0.9)	2.8	1.9
Shares purchased to be held in ESOT or as treasury	-	-	-	(2.2)	-	-	(2.2)
Shares released from ESOT and treasury	-	-	-	2.3	-	(1.8)	0.5
Dividends (note 10)	-	-	-	-	-	(5.4)	(5.4)
Share-based payment charges	-	-	-	-	-	1.4	1.4
Tax charged directly to equity	-	-	-	-	-	(0.1)	(0.1)
<b>At 28 March 2009</b>	<b>22.8</b>	<b>4.8</b>	<b>3.1</b>	<b>(5.9)</b>	<b>(0.8)</b>	<b>157.8</b>	<b>181.8</b>
Profit for the year	-	-	-	-	-	17.4	17.4
Other comprehensive income/(loss) for the year	-	-	-	-	0.6	(3.2)	(2.6)
<b>Total comprehensive income for the year</b>	-	-	-	-	0.6	14.2	14.8
Shares purchased to be held in ESOT or as treasury	-	-	-	(0.8)	-	-	(0.8)
Shares released from ESOT and treasury	-	-	-	2.7	-	(1.9)	0.8
Dividends (note 10)	-	-	-	-	-	(9.4)	(9.4)
Share-based payment charges	-	-	-	-	-	2.1	2.1
Tax credited directly to equity	-	-	-	-	-	0.8	0.8
<b>At 27 March 2010</b>	<b>22.8</b>	<b>4.8</b>	<b>3.1</b>	<b>(4.0)</b>	<b>(0.2)</b>	<b>163.6</b>	<b>190.1</b>

### Profit attributable to members of the Parent Company

As permitted by Section 408 of the Companies Act 2006 a separate Income Statement for the Parent Company has not been prepared. The profit attributable to ordinary shareholders and included in the financial statements of the Parent Company was £17.4 million (2009: £5.3 million). There was no dividend from subsidiary companies during the current year (2009: £nil).



## Group and Company Cash Flow Statements

for the 52 weeks ended 27 March 2010

	Note	Group 52 weeks ended 27 March 2010 £m	Group 52 weeks ended 28 March 2009 £m	Company 52 weeks ended 27 March 2010 £m	Company 52 weeks ended 28 March 2009 £m
<b>Profit before tax</b>		<b>26.8</b>	14.4	<b>24.2</b>	9.1
Net finance costs		5.4	6.2	8.0	11.3
Exceptional items	5	(0.2)	8.4	(0.4)	8.0
Depreciation	4	11.5	11.0	11.5	11.0
Loss on disposal of property, plant and equipment		0.1	0.2	0.1	0.2
		<b>43.6</b>	40.2	<b>43.4</b>	39.6
Difference between pension charge and cash paid		(1.1)	(0.8)	(1.1)	(0.8)
Share-based payment charges	28	2.1	1.4	2.1	1.4
Change in trade and other receivables		0.6	–	0.6	–
Change in inventories		(1.5)	(0.3)	(1.5)	(0.3)
Change in trade and other payables		5.0	1.2	5.2	1.8
Cash impact of exceptional items	5	0.4	–	0.4	–
<b>Cash generated from operations</b>		<b>49.1</b>	41.7	<b>49.1</b>	41.7
Tax paid		(7.0)	(3.7)	(7.0)	(3.7)
<b>Cash generated from operating activities</b>		<b>42.1</b>	38.0	<b>42.1</b>	38.0
<b>Cash flow from investing activities</b>					
Purchase of property, plant and equipment		(44.1)	(24.2)	(44.1)	(24.2)
Sale of property, plant and equipment		2.4	0.5	2.4	0.5
Interest received		–	0.2	–	0.2
<b>Net cash outflow from investing activities</b>		<b>(41.7)</b>	(23.5)	<b>(41.7)</b>	(23.5)
<b>Cash flow from financing activities</b>					
Purchase of own shares	27	(0.8)	(2.2)	(0.8)	(2.2)
Receipts on release of own shares to option schemes		0.8	0.5	0.8	0.5
Interest paid		(4.4)	(6.0)	(4.4)	(6.0)
Preference dividends paid	10	(0.1)	(0.1)	(0.1)	(0.1)
Equity dividends paid	10	(9.4)	(5.4)	(9.4)	(5.4)
Drawdown of bank loans	29	22.5	2.5	22.5	2.5
Repayment of loan notes	29	(1.3)	(0.5)	(1.3)	(0.5)
Repayment of bank loans	29	(7.5)	(6.3)	(7.5)	(6.3)
<b>Net cash outflow from financing activities</b>		<b>(0.2)</b>	(17.5)	<b>(0.2)</b>	(17.5)
<b>Net movement in cash and cash equivalents</b>		<b>0.2</b>	(3.0)	<b>0.2</b>	(3.0)
Cash and cash equivalents at the start of the year	19	0.9	3.9	0.9	3.9
<b>Cash and cash equivalents at the end of the year</b>	19	<b>1.1</b>	0.9	<b>1.1</b>	0.9

*There were no significant non-cash transactions during either year.*



## Notes to the Financial Statements

### 1. Authorisation of Financial Statements and Accounting Policies

#### AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH IFRSs

The financial statements of Fuller, Smith & Turner P.L.C. and its subsidiaries (the "Group") for the 52 weeks ended 27 March 2010 were authorised for issue by the Board of Directors on 11 June 2010 and the Balance Sheet was signed on the Board's behalf by M J Turner. Fuller, Smith & Turner P.L.C. is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary 'A' shares are traded on the London Stock Exchange.

The Group's and Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted for use in the European Union and applied to the financial statements of the Group and the Company for the 52 weeks ended 27 March 2010, in accordance with the provisions of the Companies Act 2006.

The principal accounting policies adopted by the Group and by the Company are set out in the accounting policies below. The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual Income Statement and related notes.

#### SIGNIFICANT ACCOUNTING POLICIES

##### Basis of Preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the 52 weeks ended 27 March 2010.

The Group and Company financial statements are presented in Sterling and all values are shown in millions of pounds (£m) rounded to the nearest hundred thousand, except when otherwise indicated.

##### Adoption of new Standards and Interpretations:

The following new and amended IFRS and IFRIC interpretations are effective for the Group's period commencing 29 March 2009:

- IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (amendment) effective 1 January 2009
- IFRS 2 Share-based Payment: Vesting Conditions and Cancellations effective 1 January 2009
- IFRS 7 Financial Instruments: Disclosures effective 1 January 2009
- IFRS 8 Operating Segments effective 1 January 2009
- IAS 1 Presentation of Financial Statements effective 1 January 2009
- IAS 23 Borrowing Costs (Revised) effective 1 January 2009
- IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation effective 1 January 2009
- IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement effective for periods ending on or after 30 June 2009
- IFRIC 13 Customer Loyalty Programmes effective 1 July 2008
- IFRIC 14 The Limit on a Defined Benefit Asset effective 1 January 2009
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation effective 1 October 2008
- Improvements to IFRSs (May 2008)

Some of these new Standards have had an impact on the accounting policies, financial position or performance of the Group, as detailed below:

##### *IFRS 2 Share-based Payment – Vesting Conditions and Cancellations*

This standard has been amended to clarify the definition of vesting conditions and cancellations. The adoption of this amendment required the Group to recalculate the cumulative share based payment expense for outstanding share scheme grants but this did not have a significant effect on the financial position or performance of the Group.





## Notes to the Financial Statements

continued

### *IFRS 7 Financial Instruments (amendment)*

The amended standard requires additional disclosures of fair value measurement and liquidity risk. Fair value measurements relating to items recorded at fair value are to be disclosed by the reliability of the source of inputs using a three level fair value hierarchy, for all financial instruments carried at fair value. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 26. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in note 26.

### *IFRS 8 Operating Segments*

This standard requires disclosure on segments to be based on information presented to the Board. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group has reviewed its operating segments and has now split the Fuller's Inns division into the Managed Pubs and Hotels and Tenanted Inns operating segments and as such prior period information also shows the two segments separately. Additional disclosure on the segments is shown in note 2.

### *IAS 1 Revised Presentation of Financial Statements*

This revised standard separates owner and non-owner changes in equity. The statement of changes in equity is now shown as a primary statement. The Group has chosen to present the new "Statement of Comprehensive Income" as a linked statement to the Income Statement rather than as one single statement.

### *IAS 23 Borrowing Costs (revised)*

This revised standard requires directly attributable borrowing costs in connection with the acquisition or construction of certain assets to be capitalised. Previously this was optional and the Group has expensed these costs when incurred, except where connected to longer term development projects. In accordance with the transitional requirements this has been adopted prospectively and therefore borrowing costs on qualifying assets have been capitalised from 29 March 2009.

### **Basis of Consolidation**

The Group financial statements consolidate the financial statements of Fuller, Smith & Turner P.L.C. and the entities it controls (its subsidiaries) drawn up for the 52 weeks ended 27 March 2010 (2009: 52 weeks ended 28 March 2009).

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. The financial statements of subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies. All intercompany balances and transactions, including unrealised profits arising from them, are eliminated.

### **Goodwill**

Business combinations on or after 28 March 2004 are accounted for under IFRS 3 using the purchase method. No goodwill has arisen from acquisitions made prior to 28 March 2004. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the Balance Sheet as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised immediately in the Income Statement.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired. Any impairment of goodwill made cannot be reversed if circumstances subsequently change.

For the purpose of impairment testing, goodwill is allocated to the related cash-generating units (or group of cash generating units) monitored by management. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the Income Statement.

The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it.



## Notes to the Financial Statements

continued

### 1. Authorisation of Financial Statements and Accounting Policies continued

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#### Property Plant and Equipment

Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis down to the estimated residual value over the expected useful life of the asset as follows:

Freehold buildings – Hotel accommodation and offices – Up to 50 years.

Freehold buildings – Licensed retail property, unlicensed property and brewery – 50 to 100 years.

Leasehold improvements – The term of the lease.

Roofs – From 20 to 50 years.

Plant, machinery and vehicles, containers, fixtures and fittings – From three years up to 25 years.

As required under IAS 16 Property Plant and Equipment, expected useful lives and residual values are reviewed every year. Land is not depreciated.

#### Investment Property

The Group owns properties that are not used for the production of goods or services but are held for capital appreciation or rental purposes. These properties are classified as investment properties and their carrying values are based on cost. Depreciation is calculated on a straight-line basis down to the estimated residual value over the expected useful life of the asset, which for investment properties is 50 to 100 years.

#### Impairment

Carrying values are reviewed for impairment if events indicate that the carrying value of the asset may not be recoverable. If such an indicator exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. An asset's recoverable amount is the greater of the fair value less costs to sell, and the value in use. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the smallest cash-generating unit to which the asset belongs. Impairment losses, and any reversal of such losses, are recognised in the Income Statement.

#### Leases

##### Group as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the Income Statement on a straight-line basis over the lease term. Premiums paid or payable on acquiring a new lease which are considered to be in consideration for a reduction in rent are spread on a straight-line basis over the term of the lease. Such premiums are classified in the Balance Sheet as current or non-current prepayments. Contingent rents are dependent on turnover levels and are expensed as incurred.

##### Group as a lessor

Assets leased under operating leases are included in property, plant and equipment and depreciated over their estimated useful lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

Incentives received or receivable to enter into an operating lease are spread on a straight-line basis over the lease term.

#### Assets Held for Sale

Assets are classified as held for sale when the carrying amount will be recovered principally through a sale transaction rather than continuing use. To be classified as such management need to have initiated a sales plan as at the Balance Sheet date and must expect the sale to qualify for recognition as a completed sale within one year. Assets held for sale are valued at the lower of the carrying amount and fair value less costs to sell. No depreciation is charged whilst assets are classified as held for sale.

#### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the First In First Out method. The cost of own beer consists of materials with the addition of relevant overhead expenses. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the costs to be incurred in marketing, selling and distribution.



## Notes to the Financial Statements

continued

### 1. Authorisation of Financial Statements and Accounting Policies continued

#### Financial Instruments

##### Financial assets

##### *Trade and other receivables*

Trade receivables and loans to customers do not carry any interest and are recognised at their original invoiced amounts, less an allowance for any amounts that are not considered to be collectible. Increases to the allowance account are recognised in the Income Statement within operating costs. At the point a trade receivable is written off the ledger as uncollectible, the cost is charged against the allowance account and any subsequent recoveries of amounts previously written off are credited to the Income Statement.

##### *Cash and short-term deposits*

Cash and short-term deposits comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

##### *Derecognition*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where the rights to receive cash flows from the asset have expired.

#### Financial Liabilities

##### *Trade and other payables*

Trade and other payables do not bear interest and are carried at original cost.

##### *Bank loans, overdrafts and debentures*

Interest-bearing bank loans, overdrafts and debentures are initially recorded at the fair value of proceeds received, net of direct issue costs, and thereafter at amortised cost. Finance charges, including premiums payable on settlement or redemption and direct issue costs are accounted for on an effective interest rate basis in the Income Statement. Finance charges are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

##### *Derecognition*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

##### *Derivative financial instruments and hedging*

In order to hedge its exposure to certain foreign exchange transaction risks, the Group enters into forward foreign exchange contracts. In order to hedge its exposure to interest rate risks, the Group enters into interest rate derivative contracts. The Group uses these contracts in order to hedge known borrowings. The Group does not use any derivative financial instruments for speculative purposes.

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments. This represents a Level 2 fair value under the hierarchy in IFRS 7.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective. For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability. The Group does not have any fair value hedges at present; or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.





## Notes to the Financial Statements

continued

### 1. Authorisation of Financial Statements and Accounting Policies continued

Interest rate swaps and caps are classified as cash flow hedges. If they are effective hedges, then any changes in fair value are deferred in equity until the hedged transaction occurs, when any changes in fair value will be recycled through the Income Statement together with any changes in the fair value of the hedged item. If the hedges are not effective hedges, then any changes in fair value are recognised in the Income Statement immediately.

If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, 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.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the Income Statement.

#### Classification of Shares as Debt or Equity

When shares are issued, any component that creates a financial liability of the Company or Group is presented as a liability in the Balance Sheet; measured initially at fair value net of transaction costs and thereafter at amortised cost until extinguished on conversion or redemption. The corresponding dividends relating to the liability component are charged as interest expense in the Income Statement. The initial fair value of the liability component is determined using a market rate for an equivalent liability without a conversion feature.

The remainder of the proceeds on issue is allocated to the equity component and included in shareholders' equity, net of transaction costs. The carrying amount of the equity component is not remeasured in subsequent years.

The Group's ordinary shares are classified as equity instruments. For the purposes of the disclosures given in note 28, the Group considers its capital to comprise its ordinary share capital, share premium, capital redemption reserve, hedging reserve and accumulated retained earnings plus its preference shares which are classified as a financial liability in the Balance Sheet. There have been no changes to what the Group considers to be capital since the prior year.

#### Preference Shares

The Group's preference shares are reported under non-current liabilities. The corresponding dividends on preference shares are charged as interest in the Income Statement. Preference shares carry interest at fixed rates.

#### Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and revenue can be reliably measured. It is measured at the fair value of consideration received or receivable, net of discounts and VAT.

Sales of goods are recognised when the goods are delivered and title has passed. Rental income is recognised on a straight-line basis over the term of the lease. Revenue for bedroom accommodation is recognised at the point the services are rendered. Amusement machine revenue is recognised in the accounting period to which the income relates.

#### Operating Profit

Operating profit is revenue less operating costs. Revenue is as detailed above and as shown in note 3. Operating costs are all costs excluding finance costs, costs associated with the disposal of properties and the tax charge.

#### Finance Revenue

Finance income is recognised as interest accrues using the effective interest method.

#### Borrowing Costs

Borrowing costs are generally recognised as an expense when incurred. Interest expenses directly attributable to the acquisition or construction of an asset that takes a substantial period of time to get ready for use are capitalised as part of the cost of the assets being created. This is applied to development projects where the development is expected to last in excess of six months at the commencement of the project.

#### Taxation

The current tax payable is based on taxable profit for the year using UK tax rates enacted or substantively enacted at the Balance Sheet date and any adjustment to tax payable in respect of previous years. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years or are never taxable or deductible.



## Notes to the Financial Statements

continued

### 1. Authorisation of Financial Statements and Accounting Policies continued

Tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise tax is recognised in the Statement of Comprehensive Income or the Income Statement, as applicable.

Deferred tax is provided on all temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences except where the liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax is not recognised in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which they can be utilised except where the deferred tax asset arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. The carrying amount of deferred tax assets is reviewed at each Balance Sheet date.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply in the periods when the asset is realised or the liability is settled, based on tax rates and laws enacted or substantively enacted at the Balance Sheet date.

#### Foreign Currencies

Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions.

Monetary assets and liabilities are translated at the year end exchange rates and the resulting exchange differences are taken to the Income Statement, except where hedge accounting is applied.

#### Pensions and Other Post-Employment Benefits

##### *Defined contribution schemes*

Payments to defined contribution retirement benefit schemes are charged to the Income Statement as they fall due.

##### *Defined benefit schemes*

The Group operates a defined benefit pension plan for eligible employees where contributions are made into a separate fund administered by trustees.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method calculated by qualified actuaries. This attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in the Income Statement on a straight-line basis over the vesting period or immediately if the benefits have vested.

When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are remeasured using current actuarial assumptions and the resultant gain or loss recognised in the Income Statement during the period in which the settlement or curtailment occurs.

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year.

The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The difference between the expected return on plan assets and the interest cost is recognised in the Income Statement as other finance income or expense. Actuarial gains and losses are recognised in full in the Statement of Comprehensive Income in the period in which they occur.



## Notes to the Financial Statements

continued

### 1. Authorisation of Financial Statements and Accounting Policies continued

The defined benefit pension asset or liability in the Balance Sheet comprises the total of the present value of the defined benefit obligation (using a discount rate based on high quality corporate bonds), less any past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of a net pension benefit asset is restricted to the sum of any unrecognised past service costs and the present value of any amount the Group expects to recover by way of refunds from the plan or reductions in the future contributions.

#### Exceptional Items

The Group presents as exceptional items on the face of the Income Statement, those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to better assess trends in financial performance.

#### Share-Based Payments

The Group has an employee Share Incentive Plan, that awards shares to employees based on the reported profits of the Group for the year, and a Long Term Incentive Plan which awards shares to Directors and senior executives subject to specific performance criteria. The Group also issues equity-settled share-based payments to certain employees under approved and unapproved Share Option schemes and a Savings Related Share Option Scheme.

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. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon 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 and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous Balance Sheet date is recognised in the Income Statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled (including when a non-vesting condition within the control of the entity or employee is not met), it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the Income Statement for the award is expensed 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.

The Group has taken advantage of the transitional provisions of IFRS 1 in respect of equity-settled awards so as to apply IFRS 2 only to those equity-settled awards granted after 7 November 2002 that had not vested before 1 January 2005.

#### Own Shares

Shares to be awarded under employee incentive plans and those that have been awarded but have yet to vest unconditionally are held at cost by an employee share ownership trust and shown as a deduction from equity in the Balance Sheet.

In addition to the purchase of shares by the various employee share ownership trusts for specific awards, the Group also from time to time acquires own shares to be held as treasury shares. These shares are occasionally but not exclusively used to satisfy awards under various share option schemes. Treasury shares are held at cost and shown as a deduction from total equity in the Balance Sheet.





## Notes to the Financial Statements

continued

### 1. Authorisation of Financial Statements and Accounting Policies continued

Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from sale and the original cost being taken to revenue reserves. No gain or loss is recognised in the performance statements on the purchase, sale, issue or cancellation of treasury shares.

#### Dividends

Dividends recommended by the Board but unpaid at the year 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).

#### Financial Guarantee Contracts

Where the Company enters into contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

#### The Company's Investments in Subsidiaries

The Company recognises its investments in subsidiaries at cost. Distributions received are recognised in the Income Statement. The cost of the investment held is subject to annual impairment review.

#### New Standards and Interpretations Not Applied

The IASB and IFRIC have issued the following standards and interpretations with an effective date for periods starting on or after the date on which these financial statements start. The Directors do not anticipate that the adoption of any of these standards and interpretations, wherever relevant to Fuller's, will have a significant impact on the Group's results or assets and liabilities in the period of initial application and are not expected to require significant additional disclosure:

#### International Accounting Standards

	Effective date
• IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions	1 January 2010
• IFRS 3 Business Combinations (revised) and IAS 27 Consolidated and Separate Financial Statements (amended) including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39	1 July 2009
• IFRS 9 Financial Instruments	1 January 2013
• IAS 24 Related Party Disclosures (revised)	1 January 2011
• IAS 32 Classification of Rights Issues (amendment)	1 February 2010
• IAS 39 Eligible Hedged Items (amendment)	1 July 2009

#### International Financial Reporting Interpretations Committee

• IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment)	1 January 2011
• IFRIC 17 Distributions of Non-cash Assets to Owners	1 July 2009
• IFRIC 18 Transfers of Assets from Customers	1 July 2009
• IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

#### Significant Estimates and Judgements

The measurement and impairment of goodwill, plant, property and equipment and investment properties, the measurement of defined benefit pension obligations, and the provision for taxation have all required significant estimations and assumptions.

The Group determines whether goodwill is impaired on an annual basis and this requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. This involves estimation of future cash flows and choosing a suitable discount rate. Full details are supplied in note 11.

The Group reviews for impairment all property, plant and equipment at cash-generating unit level where there is any indication of impairment. This requires an estimation of the value in use and involves estimation of future cash flows and choosing a suitable discount rate. See note 12.

Measurement of defined benefit pension obligations requires estimation of future changes in salaries and inflation, as well as mortality rates, the expected return on assets and the selection of a suitable discount rate. These have been determined on advice from the Group's qualified actuary. The estimates used are provided in note 23.



## Notes to the Financial Statements

continued

### 1. Authorisation of Financial Statements and Accounting Policies continued

Judgement is required when determining the provision for taxes as the tax treatment of some transactions cannot be finally determined until a formal resolution has been reached with the tax authorities. Tax benefits are not recognised unless it is probable that the benefit will be obtained. Tax provisions are made if it is possible that a liability will arise. The Group reviews each significant tax liability or benefit to assess the appropriate accounting treatment. See notes 8 and 25.

### 2. Segmental Analysis

#### Operating Segments

For management purposes, the Group's operating segments are:

- Managed Pubs and Hotels, which comprises managed pubs and managed hotels;
- Tenanted Inns, which comprises pubs operated by third parties under tenancy or lease agreements; and
- Fuller's Beer Company, which comprises the brewing and distribution of beer, wines and spirits.

The Group's business is vertically integrated. The most important measure used to evaluate the performance of the business is adjusted profit, which is the profit before tax, adjusted for exceptional items. The operating segments are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic operating unit. More details of these segments are given in the Chairman's Statement on pages 2 to 13 of this report. Segment performance is evaluated based on operating profit before exceptional items and is measured consistently with the operating profit before exceptional items in the consolidated financial statements.

Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between operating segments. Those transfers are eliminated on consolidation. Group financing, including finance costs and revenue, and taxation are managed on a Group basis.

As segment assets and liabilities are not regularly provided to the Chief Operating Decision Maker, the Group has elected, as provided under IFRS 8 Operating Segments (amended) not to disclose a measure of segment assets and liabilities.

	Managed Pubs and Hotels £m	Tenanted Inns £m	Fuller's Beer Company £m	Unallocated <sup>1</sup> £m	Total £m
<b>52 weeks ended 27 March 2010</b>					
<b>Revenue</b>					
Segment revenue	137.9	26.1	97.9	–	261.9
Inter-segment sales	–	–	(34.2)	–	(34.2)
<b>Revenue from third parties</b>	<b>137.9</b>	<b>26.1</b>	<b>63.7</b>	<b>–</b>	<b>227.7</b>
<b>Segment result</b>	<b>15.8</b>	<b>9.9</b>	<b>8.9</b>	<b>(2.6)</b>	<b>32.0</b>
Operating exceptional items					(0.9)
Operating profit					31.1
Profit on disposal of properties					1.1
Net finance costs					(5.4)
<b>Profit before tax</b>					<b>26.8</b>
<b>Other segment information</b>					
Capital expenditure:					
Property, plant and equipment	37.3	2.9	3.9	–	44.1
Depreciation	7.8	1.6	2.1	–	11.5
Impairment losses on property	1.3	0.7	–	–	2.0
Reversal of impairment losses on property	(1.0)	–	–	–	(1.0)
Impairment losses on goodwill	0.2	–	–	–	0.2

<sup>1</sup> Unallocated expenses represent primarily the salary and costs of central management.



## Notes to the Financial Statements

continued

### 2. Segmental Analysis continued

52 weeks ended 28 March 2009 (restated <sup>2</sup> )	Managed Pubs and Hotels £m	Tenanted Inns £m	Fuller's Beer Company £m	Unallocated <sup>1</sup> £m	Total
<b>Revenue</b>					
Segment revenue	124.0	26.0	91.8	–	241.8
Inter-segment sales	–	–	(31.8)	–	(31.8)
<b>Revenue from third parties</b>	<b>124.0</b>	<b>26.0</b>	<b>60.0</b>	<b>–</b>	<b>210.0</b>
<b>Segment result</b>					
Operating exceptional items	12.6	10.2	8.3	(2.1)	29.0
Operating profit					(8.4)
Net finance costs					20.6
<b>Profit before tax</b>					<b>(6.2)</b>
					14.4
<b>Other segment information</b>					
<b>Capital expenditure:</b>					
Property, plant and equipment	17.9	2.6	3.7	–	24.2
Depreciation	7.4	1.5	2.1	–	11.0
Impairment losses on property	6.5	0.4	–	–	6.9
Impairment losses on goodwill	0.4	–	–	–	0.4

<sup>1</sup> Unallocated expenses represent primarily the salary and costs of central management.

<sup>2</sup> Segmental analysis for the 52 weeks ended 28 March 2009 has been restated as a result of the adoption of IFRS 8 Operating Segments, to show Managed Pubs and Hotels and Tenanted Inns as separate operating segments (note 1).

### Geographical Information

The majority of the Group's business is within the UK and the Group identifies two distinct geographic markets:

52 weeks ended 27 March 2010	UK £m	Rest of the World £m	Total £m
<b>Revenue</b>			
Sales to external customers	223.8	3.9	227.7
<b>Revenue</b>			
52 weeks ended 28 March 2009	UK £m	Rest of the World £m	Total £m
Sales to external customers	206.8	3.2	210.0

Sales to external customers disclosed in geographical information are based on the geographical location of its customers.

All of the Group's assets, liabilities and capital expenditure relate to the UK only (2010 and 2009).





## Notes to the Financial Statements

continued

### 3. Revenue

	2010 £m	2009 £m
Revenue disclosed in the Income Statement is analysed as follows:		
Sale of goods and services	220.0	202.4
Rental income	7.7	7.6
<b>Revenue</b>	<b>227.7</b>	<b>210.0</b>

### 4. Operating Costs

	2010 £m	2009 £m
Production costs and cost of goods used in retailing	74.7	68.6
Change in stocks of finished goods and beer in progress	1.5	0.3
Staff costs	58.0	52.0
Repairs to properties	5.7	5.3
Depreciation of property, plant and equipment	11.5	11.0
Operating lease rentals – minimum lease payments <sup>1</sup>	5.6	5.6
– contingent rents <sup>2</sup>	1.1	1.0
Exceptional items (note 5)	0.9	8.4
Other	37.6	37.2
	<b>196.6</b>	<b>189.4</b>

<sup>1</sup> Included within minimum lease payments are sublease payments of £0.5m (2009: £0.5m).

<sup>2</sup> Contingent rents are dependent on turnover levels.

Details of income and direct expenses relating to rental income from investment properties are shown in note 13.

<b>a) Auditors' Remuneration</b>	2010 £m	2009 £m
Fee payable to Company's auditors:		
Statutory audit fees of Group financial statements	0.1	0.1
Statutory audit fees of subsidiaries	–	–
	<b>0.1</b>	<b>0.1</b>

Total non-audit fees, relating to tax and covenants review, did not exceed £50,000 for either year.

<b>b) Staff Costs*</b>	2010 £m	2009 £m
Wages and salaries**	52.8	46.8
Social security costs	4.0	3.7
Pension benefits	1.2	1.5
	<b>58.0</b>	<b>52.0</b>

\* Includes Directors.

\*\* Includes share-based payment expense.



## Notes to the Financial Statements

continued

### 4. Operating Costs continued

#### c) Average Number of Employees\*

	2010 Number	2009 Number
The average monthly number of persons employed by the Group (including part-time staff) was as follows:		
Fuller's Inns	2,958	2,614
Fuller's Beer Company	291	296
Central Services	14	13
	<b>3,263</b>	<b>2,923</b>

\* Includes Directors.

#### d) Directors' Emoluments

Full details are provided in the Directors' Remuneration Report and tables on pages 35, 36 and 45. Four Directors had benefits accruing under defined benefit pension schemes at the end of the year (2009: four). One Director had benefits accruing under the Company's defined contribution scheme at the end of the year (2009: one).

### 5. Exceptional Items

	2010 £m	2009 £m
<b>Amounts included in operating profit:</b>		
Impairment of properties	(2.0)	(6.9)
Reversal of impairment	1.0	-
Impairment of goodwill	(0.2)	(0.4)
VAT repayment	0.3	-
Onerous lease charge	-	(0.8)
Reorganisation costs	-	(0.3)
	<b>(0.9)</b>	<b>(8.4)</b>
Profit on disposal of properties	1.1	-
<b>Total exceptional items before tax</b>	<b>0.2</b>	<b>(8.4)</b>
<b>Exceptional tax:</b>		
Profit on disposal of properties	(0.3)	-
Operating expenses	0.2	2.3
Phased withdrawal of Industrial Buildings Allowance (note 8)	-	(1.2)
Total exceptional tax	(0.1)	1.1
<b>Total exceptional items</b>	<b>0.1</b>	<b>(7.3)</b>

The property impairment charge of £2.0 million during the 52 weeks ended 27 March 2010 relates to the write down of licensed properties to their recoverable value. The reversal of impairment credit of £1.0 million during the 52 weeks ended 27 March 2010 relates to the write back of previously impaired licensed properties to their recoverable value. The charge of £6.9 million during the 52 weeks ended 28 March 2009 represents a £6.2 million write down of licensed properties and a £0.7 million write down of investment properties to their recoverable value. See notes 12 and 13.



## Notes to the Financial Statements

continued

### 5. Exceptional Items continued

The goodwill impairment charge of £0.2 million during the 52 weeks ended 27 March 2010 (2009: £0.4 million) relates to the write down of goodwill in relation to the Jacomb Guinness cash-generating unit where the total asset values exceeded their value in use (note 11).

The VAT repayment income of £0.3 million during the 52 weeks ended 27 March 2010 relates to the reclaim of VAT overpaid in previous years.

The profit on disposal of properties of £1.1 million during the 52 weeks ended 27 March 2010 relates to the disposal of five licensed and unlicensed properties.

The onerous lease charge of £0.8 million during the 52 weeks ended 28 March 2009 relates to additional provisions made in respect of leasehold properties (note 25).

The reorganisation costs of £0.3 million during the 52 weeks ended 28 March 2009 were incurred within Managed Pubs and Hotels and Fuller's Beer Company and relate principally to staff costs.

The cash impact of exceptional items before tax for the 52 weeks ended 27 March 2010 was £0.4 million cash inflow (2009: £nil).

### 6. Finance Revenue

	2010 £m	2009 £m
Interest receivable from:		
Cash and cash equivalents	–	0.2
	–	0.2

### 7. Finance Costs

	2010 £m	2009 £m
Interest expense arising on:		
Financial liabilities at amortised cost – borrowings	4.3	5.7
Financial liabilities at amortised cost – preference shares	0.1	0.1
Total interest expense for financial liabilities	4.4	5.8
Finance charge on net pension liabilities	0.9	0.3
Unwinding of discounts on provisions	0.1	0.3
	5.4	6.4



## Notes to the Financial Statements

continued

### 8. Taxation

#### a) Tax on Profit on Ordinary Activities

Group	2010 £m	2009 £m
<b>Tax charged in the Income Statement</b>		
Current income tax:		
Corporation tax	8.1	6.8
Amounts over provided in previous years	(1.0)	–
Total current income tax	7.1	6.8
Deferred tax:		
Origination and reversal of temporary differences	(0.4)	(2.5)
Amounts under provided in previous years	0.9	–
Charge due to withdrawal of Industrial Buildings Allowances	–	1.2
Total deferred tax	0.5	(1.3)
<b>Total tax charged in the Income Statement</b>	<b>7.6</b>	<b>5.5</b>
<b>Tax relating to items charged/(credited) to Statement of Comprehensive Income</b>		
Deferred tax:		
Net gains/(losses) on valuation of financial assets and liabilities	0.2	(0.5)
Net actuarial losses on pension schemes	(1.3)	(1.0)
<b>Tax credit included in the Statement of Comprehensive Income</b>	<b>(1.1)</b>	<b>(1.5)</b>
<b>Tax relating to items (credited)/charged directly to equity</b>		
Deferred tax:		
Reduction in deferred tax liability due to indexation	(0.5)	–
Share-based payments	(0.1)	0.3
Current tax:		
Share-based payments	(0.2)	(0.2)
<b>Tax (credit)/charge included in the Statement of Changes in Equity</b>	<b>(0.8)</b>	<b>0.1</b>
<b>Deferred tax in the Income Statement</b>		
Accelerated tax depreciation	0.4	(1.4)
Retirement benefit obligations	0.1	0.1
Tax losses carried forward	0.2	–
Employee share schemes	(0.1)	–
Others	(0.1)	–
	<b>0.5</b>	<b>(1.3)</b>

During the 52 weeks ended 28 March 2009, a charge of £1.2 million was recognised as an exceptional cost due to the phased withdrawal of Industrial Buildings Allowances and reflects the loss of allowances in future periods (note 5).





## Notes to the Financial Statements

continued

### 8. Taxation continued

#### b) Reconciliation of the Total Tax Charge

The tax expense in the Income Statement for the year is higher than the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are reconciled below:

Group	2010 £m	2009 £m
Profit from continuing operations before taxation	26.8	14.4
Accounting profit multiplied by the UK standard rate of corporation tax of 28% (2009: 28%)	7.5	4.0
Items not deductible for tax purposes	0.2	0.2
Current and deferred tax overprovided in previous years	(0.1)	–
Charge due to withdrawal of Industrial Buildings Allowances	–	1.2
Other	–	0.1
<b>Total tax charged in the Income Statement</b>	<b>7.6</b>	<b>5.5</b>

#### c) Tax Consequences Arising from the Payment of Dividends

There are no tax consequences attaching to the payment of dividends by the Group to its shareholders.

### 9. Earnings Per Share

	2010 £m	2009 £m
<b>Profit attributable to equity shareholders</b>	<b>19.2</b>	<b>8.9</b>
Exceptional items net of tax	(0.1)	7.3
<b>Adjusted earnings attributable to equity shareholders</b>	<b>19.1</b>	<b>16.2</b>

	Number	Number
<b>Weighted average share capital</b>	<b>55,858,000</b>	<b>55,624,000</b>
Dilutive outstanding options and share awards	914,000	613,000
<b>Diluted weighted average share capital</b>	<b>56,772,000</b>	<b>56,237,000</b>

	2010 Pence	2009 Pence
<b>40p 'A' and 'C' ordinary share</b>		
Basic earnings per share	34.37	16.00
Diluted earnings per share	33.82	15.83
Adjusted earnings per share	34.19	29.12
Diluted adjusted earnings per share	33.64	28.81
<b>4p 'B' ordinary share</b>		
Basic earnings per share	3.44	1.60
Diluted earnings per share	3.38	1.58
Adjusted earnings per share	3.42	2.91
Diluted adjusted earnings per share	3.36	2.88

For the purposes of calculating the number of shares to be used above, 'B' shares have been treated as one tenth of an 'A' or 'C' share. The earnings per share calculation is based on earnings from continuing operations and on the weighted average ordinary share capital which excludes shares held by trusts relating to employee share options and shares held in treasury of 1,125,936 (2009: 1,360,363).

Diluted earnings per share are calculated using the same earnings figure as for basic earnings per share, divided by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Adjusted earnings per share are calculated on profit before tax excluding exceptional items and on the same weighted average ordinary share capital as for the basic and diluted earnings per share. An adjusted earnings per share measure has been included as the Directors consider that this measure better reflects the underlying earnings of the Group.



## Notes to the Financial Statements

continued

### 10. Dividends

	52 weeks ended 27 March 2010 £m	52 weeks ended 28 March 2009 £m
<b>Declared and paid during the year</b>		
Equity dividends on ordinary shares:		
Final dividend for 2009: 7.00p (2008: 6.90p)	3.9	3.8
First interim dividend for 2010: 4.50p (2009: 2.85p)	2.5	1.6
Second interim dividend for 2010*: 5.35p (2009: nil)	3.0	–
<b>Equity dividends paid</b>	<b>9.4</b>	<b>5.4</b>
<b>Dividends on cumulative preference shares</b> (note 7)	<b>0.1</b>	<b>0.1</b>
Proposed for approval at the AGM:		
<b>Final dividend 2010: 1.15p</b> (2009: 7.00p)	<b>0.6</b>	<b>3.9</b>

\* The second interim dividend was paid on 5 March 2010. The Directors do not intend to pay a second interim dividend in the next financial year. The proposed final dividend for 2010 has taken into account the level of interim dividends already paid during the year.

The pence figures above are for the 40p 'A' ordinary shares and 40p 'C' ordinary shares. The 4p 'B' ordinary shares carry dividend rights of one tenth of those applicable to the 40p 'A' ordinary shares. Own shares held in the employee share trusts do not qualify for dividends as the trustees have waived their rights. Dividends are also not paid on own shares held as treasury shares.

### 11. Goodwill

Group	Cost £m	Provision £m	Net book value £m
At 29 March 2008	24.5	–	24.5
Impairment loss	–	(0.4)	(0.4)
At 28 March 2009	24.5	(0.4)	24.1
Impairment loss	–	(0.2)	(0.2)
<b>At 27 March 2010</b>	<b>24.5</b>	<b>(0.6)</b>	<b>23.9</b>

### Cash-Generating Units

The carrying amount of goodwill is allocated to cash-generating units as: £22.7 million to the Gales estate; and £1.2 million to the Jacomb Guinness estate at 27 March 2010 (2009: £22.7 million Gales, £1.4 million Jacomb Guinness).

### Key Assumptions Used in Value In Use Calculations

Goodwill acquired through business combinations has been allocated for impairment testing on an estate cash-generating unit level. This represents the lowest level within the Group at which goodwill is monitored for internal management purposes. Recoverable amount is based on a calculation of value in use based upon the budget for the forthcoming financial year approved by senior management. Cash flows beyond the budget period are extrapolated up to 5 years with a terminal value then calculated on the assumption that the growth rate does not exceed 3.0% (2009: 2.5%). This rate does not exceed the average long term growth rate for the relevant markets. The pre-tax discount rate applied to cash flow projections is 8.9% (2009: 8.8%) and is based upon the Directors' assessment of the Group's weighted average cost of capital and current market conditions.

The calculation of value in use is most sensitive to the assumptions in respect of growth rate and discount rate. The calculation of value in use is also dependent upon the following assumptions: sales volume; gross margin in managed premises; barrelage and rent projections in tenanted premises; and wage cost in managed premises.

Gross margins are based on historical performance levels. It has been assumed that any increase in excise duty will be reflected in an increase in sales price and hence will have no effect on cash margins.

All of the key assumptions above have their assigned values based on management knowledge and historical information.



## Notes to the Financial Statements

continued

### 11. Goodwill continued

#### Impairment

An impairment charge of £0.2 million was recognised during the 52 weeks ended 27 March 2010 (2009: £0.4 million) in respect of the write down of the goodwill in relation to the Jacomb Guinness cash-generating unit where the total asset values exceeded their value in use.

#### Sensitivity to Changes in Assumptions

The value in use calculations are sensitive to the assumptions used as follows:

Increasing the discount rate used in the Jacomb Guinness cash-generating unit goodwill impairment calculations for the year ended 27 March 2010 by 1% would cause an additional risk of impairment of £1.1 million (2009: £0.9 million). Decreasing the discount rate used by 1% would correspondingly reduce the assets at risk of impairment by £1.5 million (2009: £1.2 million). Increasing the growth rate used in the goodwill impairment calculations for the year ended 27 March 2010 by 0.5% would reduce the assets at risk of impairment by £0.7 million (2009: £0.6 million). Decreasing the growth rate used by 0.5% would correspondingly cause an additional risk of impairment of £0.6 million (2009: £0.5 million).

There is no impairment to the Gales cash-generating unit at 27 March 2010 and applying the same changes in assumptions there would be no risk of impairment (2009: No risk).

### 12. Property, Plant and Equipment

	Land & buildings £m	Plant, machinery & vehicles £m	Containers, fixtures & fittings £m	Total £m
<b>Group: Cost</b>				
At 29 March 2008	279.6	25.1	76.6	381.3
Additions	13.2	2.2	7.4	22.8
Disposals	(0.4)	(0.2)	(1.6)	(2.2)
Transfer from assets held for sale	1.8	–	0.1	1.9
At 28 March 2009	294.2	27.1	82.5	403.8
Additions	35.2	1.8	7.9	44.9
Disposals	(1.6)	(0.5)	(1.2)	(3.3)
Transfer to investment properties	(1.2)	–	–	(1.2)
Transfer to assets held for sale	(0.5)	–	–	(0.5)
<b>At 27 March 2010</b>	<b>326.1</b>	<b>28.4</b>	<b>89.2</b>	<b>443.7</b>
<b>Group: Depreciation and impairment</b>				
At 29 March 2008	10.8	15.3	43.1	69.2
Provided during the year	1.8	1.4	7.8	11.0
Impairment loss	6.1	–	0.1	6.2
Disposals	–	(0.2)	(1.2)	(1.4)
Transfer from assets held for sale	0.1	–	–	0.1
At 28 March 2009	18.8	16.5	49.8	85.1
Provided during the year	1.8	1.5	8.2	11.5
Impairment loss net of reversals	1.0	–	–	1.0
Disposals	(0.7)	(0.5)	(0.8)	(2.0)
Transfer to assets held for sale	(0.1)	–	–	(0.1)
<b>At 27 March 2010</b>	<b>20.8</b>	<b>17.5</b>	<b>57.2</b>	<b>95.5</b>
<b>Net book value at 27 March 2010</b>	<b>305.3</b>	<b>10.9</b>	<b>32.0</b>	<b>348.2</b>
Net book value at 28 March 2009	275.4	10.6	32.7	318.7
Net book value at 29 March 2008	268.8	9.8	33.5	312.1



## Notes to the Financial Statements

continued

### 12. Property, Plant and Equipment continued

	Land & buildings £m	Plant, machinery & vehicles £m	Containers, fixtures & fittings £m	Total £m
<b>Company: Cost</b>				
At 29 March 2008	278.3	25.0	75.1	378.4
Additions	13.2	2.2	7.4	22.8
Disposals	(0.4)	(0.2)	(1.6)	(2.2)
Transfer from assets held for sale	1.8	–	0.1	1.9
At 28 March 2009	292.9	27.0	81.0	400.9
Additions	35.2	1.8	7.9	44.9
Disposals	(1.6)	(0.5)	(1.2)	(3.3)
Transfer to assets held for sale	(0.5)	–	–	(0.5)
<b>At 27 March 2010</b>	<b>326.0</b>	<b>28.3</b>	<b>87.7</b>	<b>442.0</b>
<b>Company: Depreciation and impairment</b>				
At 29 March 2008	10.7	15.3	41.5	67.5
Provided during the year	1.8	1.4	7.8	11.0
Impairment loss	6.1	–	0.1	6.2
Disposals	–	(0.2)	(1.2)	(1.4)
Transfer from assets held for sale	0.1	–	–	0.1
At 28 March 2009	18.7	16.5	48.2	83.4
Provided during the year	1.8	1.5	8.2	11.5
Impairment loss net of reversals	1.0	–	–	1.0
Disposals	(0.7)	(0.5)	(0.8)	(2.0)
Transfer to assets held for sale	(0.1)	–	–	(0.1)
<b>At 27 March 2010</b>	<b>20.7</b>	<b>17.5</b>	<b>55.6</b>	<b>93.8</b>
<b>Net book value at 27 March 2010</b>	<b>305.3</b>	<b>10.8</b>	<b>32.1</b>	<b>348.2</b>
Net book value at 28 March 2009	274.2	10.5	32.8	317.5
Net book value at 29 March 2008	267.6	9.7	33.6	310.9

#### Group and Company

The amount of interest capitalised during the 52 weeks ended 27 March 2010 was £36,000 (2009: £60,000), bringing the total amount of capitalised interest to date to £100,000 (2009: £64,000).

#### Impairment

The Group considers each trading outlet to be a cash-generating unit (“CGU”) and each CGU is reviewed annually for indicators of impairment.

In assessing whether an asset has been impaired, the carrying amount of the CGU is compared to 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.

During the 52 weeks ended 27 March 2010, the Group recognised an impairment loss of £2.0 million (2009: £6.2 million) in respect of the write down of licensed properties purchased in recent years where their asset values exceeded either fair value less costs to sell or their value in use. The impairment losses were driven principally by high individual asset prices in the market at the point of acquisition based on anticipated higher growth rates than are now expected and changes in the local competitive environment in which the pubs are situated.

Following an improvement in trading performance and an increase in the amounts of estimated future cash flows of certain previously impaired sites, reversals of £1.0 million have been recognised during the 52 weeks ended 27 March 2010. The key assumptions used in the value in use calculations are those detailed in note 11 except that the pre-tax discount rate used for leasehold properties was 11.3% (2009: 10.3%).





## Notes to the Financial Statements

continued

### 12. Property, Plant and Equipment continued

Increasing the discount rate used in the fixed asset impairment calculations for the year ended 27 March 2010 by 1% would cause an additional risk of impairment of £2.5 million (2009: £4.8 million). Decreasing the discount rate used by 1% would correspondingly reduce the assets at risk of impairment by £1.6 million (2009: £2.7 million). Increasing the growth rate used in the impairment calculations for the year ended 27 March 2010 by 0.5% would reduce the assets at risk of impairment by £0.9 million (2009: £1.4 million). Decreasing the growth rate used by 0.5% would correspondingly cause an additional risk of impairment of £1.2 million (2009: £2.2 million).

### 13. Investment Properties

	Group Freehold & leasehold properties £m	Company Freehold & leasehold properties £m
<b>Cost</b>		
At 29 March 2008	8.8	4.7
Additions	0.5	0.5
At 28 March 2009	9.3	5.2
Disposals	(0.3)	(0.3)
Transfer from property, plant and equipment	1.2	–
Transfer to assets held for sale	(0.2)	(0.2)
<b>At 27 March 2010</b>	<b>10.0</b>	<b>4.7</b>
<b>Depreciation and impairment</b>		
At 29 March 2008	0.1	0.1
Provided during the year	–	–
Impairment loss	0.7	0.7
At 28 March 2009	0.8	0.8
Disposals	(0.1)	(0.1)
Provided during the year	–	–
<b>At 27 March 2010</b>	<b>0.7</b>	<b>0.7</b>
<b>Net book value at 27 March 2010</b>	<b>9.3</b>	<b>4.0</b>
Net book value at 28 March 2009	8.5	4.4
Net book value at 29 March 2008	8.7	4.6
<b>Fair value at 27 March 2010</b>	<b>14.7</b>	<b>9.4</b>
Fair value at 28 March 2009	13.4	7.7
Fair value at 29 March 2008	13.0	8.9

The fair value of investment properties has been estimated by the Directors, based on the rental income earned on the properties during the year and average yields earned on comparable properties from publicly available information. An independent valuation of the properties has not been performed.

The properties are let on both landlord and tenant repairing leases.



## Notes to the Financial Statements

continued

### 13. Investment Properties continued

#### Impairment

The Group considers each property to be a cash-generating unit (“CGU”) and each CGU is reviewed annually for indicators of impairment.

In assessing whether an asset has been impaired, the carrying amount of the CGU is compared to its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and its value in use.

During the 52 weeks ended 28 March 2009, the Group suffered an impairment loss of £0.7 million in respect of the write down of investment properties where their asset values exceeded their fair value less costs to sell.

Amounts recognised in the profit for the financial year relating to investment properties are as follows:

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Rental income	0.4	0.4	0.4	0.4
Direct operating expenses	(0.1)	(0.1)	(0.1)	(0.1)

All direct operating expenses relate to properties that generate rental income.

### 14. Derivative Financial Instruments

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Interest rate swap in current liabilities	0.6	–	0.3	–
Interest rate swap in non-current liabilities	–	1.5	–	1.1
<b>Total financial liabilities</b>	<b>0.6</b>	<b>1.5</b>	<b>0.3</b>	<b>1.1</b>

Details of the interest rate swaps and cap are provided in note 26. They expire by 7 November 2010.

### 15. Other Non-Current Assets

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Loans to customers due after one year	0.3	0.4	0.3	0.4
Non-current portion of lease premiums	0.1	0.2	0.1	0.2
	<b>0.4</b>	<b>0.6</b>	<b>0.4</b>	<b>0.6</b>

### 16. Investments in Subsidiaries

Company	Cost £m	Provision £m	Net book value £m
At 29 March 2008, 28 March 2009 and at 27 March 2010	92.0	(0.2)	91.8

Principal subsidiary undertakings	Holding	Proportion held	Nature of business
Griffin Catering Services Limited	£1 ordinary shares	100% (indirect)	Managed houses service company
George Gale & Co. Limited	£1 ordinary shares	100%	Property holding company
	25p ‘A’ ordinary shares	100%	
	£10 preference shares	100%	

The above companies are registered and operate in England and Wales.



## Notes to the Financial Statements

continued

### 17. Inventories

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Raw materials, beer in progress	1.3	0.7	1.3	0.7
Beer, wines and spirits	4.4	3.8	4.4	3.8
Stock at retail outlets	1.9	1.6	1.9	1.6
	<b>7.6</b>	<b>6.1</b>	<b>7.6</b>	<b>6.1</b>

The difference between purchase price or production cost and their replacement cost is not material.

### 18. Trade and Other Receivables

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Trade receivables	12.3	12.8	12.3	12.8
Other receivables	1.6	1.6	1.6	1.6
Prepayments and accrued income	1.7	1.6	1.7	1.6
	<b>15.6</b>	<b>16.0</b>	<b>15.6</b>	<b>16.0</b>

The trade receivables balance above is shown net of the provision for bad debts. As a general rule the Group provides fully against all trade receivables which are over six months overdue. In addition to this there are individual specific provisions against balances which are considered by management to be at risk of default.

The movements on this bad debt provision account during the year are summarised below:

	2010 £m	2009 £m
<b>Group and Company</b>		
Trade receivables provision at 28 March 2009	1.0	0.6
Increase in provision recognised in profit and loss	0.5	0.6
Amounts written off during the year	(0.2)	(0.2)
<b>Trade receivables provision at 27 March 2010</b>	<b>1.3</b>	<b>1.0</b>

The provision for trade receivables is recorded in the accounts separately from the gross receivable. The contractual ageing of the trade receivables balance is as follows:

	2010 £m	2009 £m
<b>Group and Company</b>		
Current	12.8	13.0
Overdue up to 30 days	0.2	0.2
Overdue between 30 and 60 days	0.1	0.1
Overdue more than 60 days	0.5	0.5
Less provision	(1.3)	(1.0)
<b>Trade receivables net of provision</b>	<b>12.3</b>	<b>12.8</b>

Included in the Group's trade receivables balance are trade receivables with a carrying value of £0.1 million (2009: £0.1 million) which are overdue at the Balance Sheet date for which the Group has not provided as the Group considers these amounts to be recoverable.

In addition, there are loans to customers included in other receivables of £0.2 million (2009: £0.2 million) due within one year and £0.5 million (2009: £0.5 million) due in more than one year, against which there is a provision of £0.3 million (2009: £0.2 million).



## Notes to the Financial Statements

continued

### 19. Cash and Short Term Deposits

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Cash at bank and in hand	1.1	0.9	1.1	0.9

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash at bank and in hand, as above.

At 27 March 2010, the Group had available £5.0 million (2009: £27.5 million) of undrawn committed loan facilities. These facilities are available until November 2010 (see note 22). Cash at bank earns interest at floating rates.

### 20. Assets Classified as Held for Sale

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Investment property	0.2	–	0.2	–
Property, plant and equipment	0.4	–	0.4	–
	<b>0.6</b>	–	<b>0.6</b>	–

At 27 March 2010 three properties were transferred to assets held for sale, as they were in advanced stages of the sales process and have subsequently completed since the Balance Sheet date. All of the disposals resulted in a profit on sale.

### 21. Trade and Other Payables

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
<b>Due within one year:</b>				
Trade payables	14.6	12.8	14.6	12.8
Amounts due to subsidiary undertakings	–	–	91.1	89.1
Other tax and social security	8.9	6.0	8.9	6.0
Other payables	5.2	5.0	5.2	5.0
Accruals	11.0	9.8	11.0	9.8
	<b>39.7</b>	33.6	<b>130.8</b>	122.7

Amounts due to subsidiary undertakings included in Company trade and other payables of £91.1 million (2009: £89.1 million) have no fixed repayment date. Interest is payable on the balance at 3% above the Bank of England base rate. All other significant trade and other receivables and trade and other payables are due within one year and are at nil rate of interest.





## Notes to the Financial Statements

continued

### 22. Borrowings

The Group and the Company have the following borrowings:

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Bank loans	80.2	65.2	70.2	55.2
Loan notes	–	1.3	–	1.3
Debenture stock	27.0	27.0	27.0	27.0

#### Bank Loans

Since the year-end the Company has entered into a new £100 million bank facility to replace its existing facilities. The new facility may be drawn down and the existing facility repaid at any time up to the expiry of the existing facility in November 2010. The facility has a five year term expiring in May 2015, has no amortisation requirements and provides £18 million of additional funding above the amount currently available under the existing facility. See note 33.

The bank loans at 27 March 2010 are unsecured, and are repayable as shown in the table below. Interest is payable at LIBOR plus a margin, which was 0.5% at 27 March 2010 (2009: 0.5%). The variable rate interest payments under the loans have been partially swapped for fixed interest payments and a proportion of the remaining variable rate interest payments have also been capped. Details of the swap and cap arrangements are given in note 26. These facilities are available until November 2010.

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
The bank loans are repayable as follows:				
On demand or within one year	80.2	7.5	70.2	7.5
In the second year	–	57.7	–	47.7
	80.2	65.2	70.2	55.2
Less: amount due for settlement within 12 months (shown under current liabilities)	(80.2)	(7.5)	(70.2)	(7.5)
Non-current liabilities	–	57.7	–	47.7

#### Loan Notes

The loan notes at 28 March 2009 were repayable within one year. The Group paid interest on the loan notes at 0.75% below 6 month LIBOR, on 1 June and 1 December each year. They were redeemable at par at the option of the loan note holders at any interest payment date from 1 December 2006. The loan notes were issued in £1 denominations. On 1 December 2009 the Company redeemed all outstanding loan notes at par.

#### Debenture Stock

The debenture stocks are secured on specified fixed and floating assets of the Company and are redeemable on maturity.

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Debenture stock:				
11.50% 1st Mortgage Debenture Stock 2010	1.2	1.2	1.2	1.2
10.70% 1st Mortgage Debenture Stock 2023	6.0	6.0	6.0	6.0
6.875% Debenture Stock 2028 (1st floating charge)	19.9	19.9	19.9	19.9
Less: 2028 debenture issue costs	(0.1)	(0.1)	(0.1)	(0.1)
	27.0	27.0	27.0	27.0



## Notes to the Financial Statements

continued

### 22. Borrowings continued

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Analysis of repayments:				
Debenture stock repayable within one year	1.2	–	1.2	–
Debenture stock repayable between one and two years	–	1.2	–	1.2
Debenture stock repayable after five years	25.8	25.8	25.8	25.8
	<b>27.0</b>	<b>27.0</b>	<b>27.0</b>	<b>27.0</b>

All borrowings at both year ends are denominated in Sterling. Further information on borrowings is given in note 26.

### 23. Pensions

#### a) Retirement Benefit Plans – Group and Company

Since 23 March 2007 the Group has operated one funded defined benefit pension scheme, the Fuller, Smith & Turner Pension Plan. The plan is Defined Benefit in nature, with assets held in separate professionally managed, trustee-administered funds. The pension cost relating to the position of the plan is assessed with the advice of an independent actuary. The plan is closed to new entrants.

The Group also operates three defined contribution stakeholder pension plans for its employees. The Fuller's Stakeholder Pension Plan was set up for new employees of the Parent Company after the closure of the Fuller, Smith & Turner Pension Plan to new entrants on 1 August 2005. The Griffin Stakeholder Pension Plan operates for those employees of a Group subsidiary. The Gales 2001 scheme was set up following the closure of the Gales defined benefit scheme in 2001.

The Group also pays benefits to a number of former employees which are unfunded. The Directors consider these benefits to be defined benefit in nature and the full defined benefit liability is recognised on the Balance Sheet.

#### Group and Company

	2010 £m	2009 £m
<b>Total amounts charged in respect of pensions in the period</b>		
Charged to income statement:		
Defined benefit scheme – operating profit before exceptional items	1.0	1.4
Defined benefit scheme – net finance charge	0.9	0.3
Defined contribution schemes – total operating charge	0.2	0.1
	<b>2.1</b>	<b>1.8</b>
Charge to equity:		
Defined benefit scheme – net actuarial losses	4.5	3.5
<b>Total pension charge</b>	<b>6.6</b>	<b>5.3</b>

The total contributions to the defined benefit plans in the next financial year are expected to be £2.1 million for the Group and the Company.

#### b) Defined Contribution Stakeholder Pension Plans – Group and Company

The total cost charged to income in respect of the defined contribution stakeholder schemes is shown above.



## Notes to the Financial Statements

continued

### 23. Pensions continued

#### c) Defined Benefit Plan – Group and Company

The merged defined benefit plan was actuarially assessed as at 27 March 2010, using the projected unit credit method.

The merged pension plan has not invested in any of the Group's own financial instruments nor in properties or other assets used by the Group.

#### Key Assumptions

The mortality assumptions used in the 2010 valuation of the plan are set out below:

	2010 Years	2009 Years
Current pensioners (at 65) – males	20.4	20.4
Current pensioners (at 65) – females	23.4	23.4
Future pensioners (at 65) – males	21.3	21.3
Future pensioners (at 65) – females	24.2	24.2

The assumptions for future pensioners are based on the average current age of the active population, which is 52 years for male members of the scheme (2009: 52) and 51 years for female members (2009: 51).

#### Key financial assumptions used in the valuation of the scheme

	At 27 March 2010	At 28 March 2009
Rate of increase in salaries	4.00%	3.20%
Rate of increase in pensions in payment	3.50%	2.70%
Discount rate	5.60%	6.70%
Inflation assumption	3.50%	2.70%

The present value of the scheme liabilities is sensitive to the assumptions used. An increase in the rate of increase in salaries of 0.5% would increase the scheme deficit by £2.0 million; an increase in the rate of increase of pensions in payment of 0.5% would increase the scheme deficit by £3.6 million; an increase in the discount rate of 1.0% would reduce the deficit in the scheme by £14.1 million; and an increase in the inflation assumption of 0.5% would increase the deficit by £7.2 million.

Assets in the scheme and the expected rate of return	Value at 27 March 2010 £m	Long term rate of return expected at 27 March 2010 %	Value at 28 March 2009 £m	Long term rate of return expected at 28 March 2009 %
	Bonds – Government	–	4.50%	10.1
Bonds – Corporate	18.9	5.60%	9.9	6.70%
Equities	47.3	7.00%	27.6	7.00%
Property	1.0	7.00%	0.7	7.00%
Cash	2.9	2.00%	3.0	2.00%
Annuities	1.0	5.60%	0.8	6.70%
<b>Total market value of assets</b>	<b>71.1</b>	<b>6.40%</b>	<b>52.1</b>	<b>6.01%</b>

#### The amount included in the Balance Sheet arising from the Group's obligations in respect of its defined benefit retirement plan

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Fair value of plan assets	71.1	52.1	61.2	52.3	45.2
Present value of scheme liabilities	(83.8)	(60.5)	(66.6)	(68.3)	(66.8)
<b>Deficit in the scheme</b>	<b>(12.7)</b>	<b>(8.4)</b>	<b>(5.4)</b>	<b>(16.0)</b>	<b>(21.6)</b>



## Notes to the Financial Statements

continued

### 23. Pensions continued

The amount included in the Balance Sheet arising from the Company's obligations in respect of its defined benefit retirement plan

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Fair value of plan assets	71.1	52.1	61.2	52.3	34.0
Present value of scheme liabilities	(83.8)	(60.5)	(66.6)	(68.3)	(50.2)
<b>Deficit in the scheme</b>	<b>(12.7)</b>	<b>(8.4)</b>	<b>(5.4)</b>	<b>(16.0)</b>	<b>(16.2)</b>

Included within the total present value of Group and Company scheme liabilities of £83.8 million (2009: £60.5 million) are liabilities of £3.1 million (2009: £2.8 million) which are entirely unfunded.

Group and Company	2010 £m	2009 £m
<b>Analysis of the amount charged to operating profit</b>		
Current service cost of defined benefit scheme	1.0	1.4
<b>Total operating charge</b>	<b>1.0</b>	<b>1.4</b>
<b>Analysis of the amount charged to other finance expense</b>		
Expected return on pension scheme assets	(3.1)	(3.8)
Interest on pension scheme liabilities	4.0	4.1
<b>Net charge</b>	<b>0.9</b>	<b>0.3</b>
<b>Movements in the fair value of scheme assets during the year</b>		
Fair value at beginning of the year	52.1	61.2
Expected return on scheme assets	3.1	3.8
Actuarial gains/(losses)	15.5	(13.7)
Employer contributions	1.6	1.7
Employer special contributions	0.5	0.5
Employee contributions	0.6	0.6
Benefits paid	(2.3)	(2.0)
<b>Fair value at the end of the year</b>	<b>71.1</b>	<b>52.1</b>
<b>Movements in the present value of defined benefit obligations during the year</b>		
Present value of obligation at beginning of the year	(60.5)	(66.6)
Service cost	(1.0)	(1.4)
Interest cost	(4.0)	(4.1)
Employee contributions	(0.6)	(0.6)
Benefits paid	2.3	2.0
Actuarial (losses)/gains	(20.0)	10.2
<b>Present value of obligation at the end of the year</b>	<b>(83.8)</b>	<b>(60.5)</b>
<b>The analysis of the actuarial (losses)/gains in the Statement of Comprehensive Income</b>		
Actual return less expected return on pension scheme assets	15.5	(13.7)
Experience gains arising on the scheme liabilities	0.2	0.3
Changes in assumptions underlying the present value of the scheme liabilities	(20.2)	9.9
<b>Actuarial losses</b>	<b>(4.5)</b>	<b>(3.5)</b>





## Notes to the Financial Statements

continued

### 23. Pensions continued

#### History of Experience Gains and Losses

A five year history is presented below:

Group	2010	2009	2008	2007	2006
Difference between actual and expected returns on assets (£ million)	15.5	(13.7)	(4.0)	0.5	6.5
% of scheme assets	21.8%	(26.2%)	(6.5%)	1.0%	14.4%
Experience (losses)/gains on liabilities (£ million)	0.2	0.3	0.5	(1.0)	(0.2)
% of scheme liabilities	0.2%	0.6%	0.8%	(1.5%)	(0.3%)
Total actuarial (losses)/gains (£ million)	(4.5)	(3.5)	4.3	2.6	(1.4)
% of scheme liabilities	(5.4%)	(5.7%)	6.5%	3.8%	(2.1%)

The cumulative amount of actuarial losses recognised since 28 March 2004 in the Group Statement of Comprehensive Income is £4.9 million (2009: losses of £0.4 million).

Company	2010	2009	2008	2007	2006
Difference between actual and expected returns on assets (£ million)	15.5	(13.7)	(4.0)	0.5	5.1
% of scheme assets	21.5%	(26.2%)	(6.5%)	1.0%	15.1%
Experience (losses)/gains on liabilities (£ million)	0.2	0.3	0.5	(0.7)	(0.3)
% of scheme liabilities	0.2%	0.6%	0.8%	(1.0%)	(0.5%)
Total actuarial (losses)/gains (£ million)	(4.5)	(3.5)	4.3	2.0	(3.1)
% of scheme liabilities	(5.4%)	(5.7%)	6.5%	2.9%	(6.3%)

The cumulative amount of actuarial losses recognised since 28 March 2004 in the Company Statement of Comprehensive Income is £7.2 million (2009: losses of £2.7 million).

The expected return on assets is the product of the weighted average rate of return on assets and the fair value of scheme assets at the start of the year, adjusted for expected contributions less benefits paid.



## Notes to the Financial Statements

continued

### 24. Preference Share Capital

Group and Company	First 6% cumulative preference share of £1 each	Second 8% cumulative preference share of £1 each	Total
	Number 000s	Number 000s	Number 000s
<b>Authorised share capital</b>			
Number authorised:			
At 29 March 2008, 28 March 2009 and at 27 March 2010	400	1,200	1,600
Monetary amount:	£m	£m	£m
At 29 March 2008, 28 March 2009 and at 27 March 2010	0.4	1.2	1.6
<b>Issued and fully paid</b>	Number 000s	Number 000s	Number 000s
Number in issue:			
At 29 March 2008, 28 March 2009 and at 27 March 2010	400	1,200	1,600
Monetary amount:	£m	£m	£m
At 29 March 2008, 28 March 2009 and at 27 March 2010	0.4	1.2	1.6

The first 6% cumulative preference shares of £1 each are entitled to first payment of a fixed cumulative dividend and on winding up to a return of paid capital plus arrears of dividends. The second 8% cumulative preference shares of £1 each are entitled to second payment of a fixed cumulative dividend and on winding up a return of capital paid up (plus a premium calculated by reference to an average quoted price on the Stock Exchange for the previous six months) plus arrears of dividends.

Preference shareholders may only vote in limited circumstances: principally on winding up, alteration of class rights or on unpaid preference dividends.

Preference shares cannot be redeemed by the holders, other than on winding up.

### 25. Provisions

Group and Company	2010 £m	2009 £m
<b>Onerous lease provision</b>		
At 28 March 2009	2.8	2.0
Arising during the year	0.4	0.8
Released during the year	(0.4)	–
Utilised	(0.4)	(0.3)
Unwinding of discount	0.1	0.3
At 27 March 2010	2.5	2.8
<b>Analysed as:</b>		
Due within one year	0.4	0.4
Due in more than one year	2.1	2.4
	2.5	2.8

The onerous lease provision is recognised in respect of leasehold properties where the lease contracts are deemed to be onerous. Provision is made for the discounted value of the lower of the unavoidable lease costs or the losses expected to be incurred by the Company.



## Notes to the Financial Statements

continued

### 25. Provisions continued

#### Deferred Tax Provision

The deferred tax included in the Balance Sheet is as follows:

Group	Asset	Liability	Net	Asset	Liability	Net
	2010	2010	2010	2009	2009	2009
	£m	£m	£m	£m	£m	£m
<b>Deferred tax</b>						
Retirement benefit obligations	3.6	–	3.6	2.4	–	2.4
Tax losses carried forward	0.9	–	0.9	1.1	–	1.1
Employee share schemes	1.0	–	1.0	0.8	–	0.8
Financial liabilities	0.2	–	0.2	0.4	–	0.4
Accelerated tax depreciation	–	(24.1)	(24.1)	–	(23.6)	(23.6)
Rolled over capital gains	–	(13.4)	(13.4)	–	(14.0)	(14.0)
Others	0.4	–	0.4	0.3	–	0.3
	6.1	(37.5)	(31.4)	5.0	(37.6)	(32.6)

Company	Asset	Liability	Net	Asset	Liability	Net
	2010	2010	2010	2009	2009	2009
	£m	£m	£m	£m	£m	£m
<b>Deferred tax</b>						
Retirement benefit obligations	3.6	–	3.6	2.4	–	2.4
Tax losses carried forward	0.6	–	0.6	0.8	–	0.8
Employee share schemes	1.0	–	1.0	0.8	–	0.8
Financial liabilities	0.1	–	0.1	0.3	–	0.3
Accelerated tax depreciation	–	(22.6)	(22.6)	–	(22.1)	(22.1)
Rolled over capital gains	–	(13.4)	(13.4)	–	(14.0)	(14.0)
Others	0.4	–	0.4	0.3	–	0.3
	5.7	(36.0)	(30.3)	4.6	(36.1)	(31.5)

### 26. Financial Instruments

Details of the Group's treasury function are included in the Financial Review's discussion of financial risks and treasury policies on page 19.

The accounting treatment of the Group's financial instruments is detailed in note 1.

#### a) Capital Management – Group and Company

As described in note 1, the Group considers its capital to comprise the following:

Capital	Group	Group	Company	Company
	2010	2009	2010	2009
	£m	£m	£m	£m
Ordinary share capital	22.8	22.8	22.8	22.8
Share premium	4.8	4.8	4.8	4.8
Capital redemption reserve	3.1	3.1	3.1	3.1
Hedging reserve	(0.4)	(1.1)	(0.2)	(0.8)
Retained earnings	180.9	173.3	163.6	157.8
Preference shares	1.6	1.6	1.6	1.6
	212.8	204.5	195.7	189.3



## Notes to the Financial Statements

continued

### 26. Financial Instruments continued

In managing its capital the primary objective is to ensure that the Group is able to continue to operate as a going concern and to maximise return to shareholders through a combination of capital growth, distributions and the payment of preference dividends to its preference shareholders. The Group seeks to maintain a ratio of debt and equity that balances risks and returns at an acceptable level and maintains sufficient funds to meet working capital targets, investment requirements and comply with lending covenants. The Group has an ongoing share buyback programme and spent cash of £0.8 million in the 52 weeks ended 27 March 2010 (2009: £2.2 million). In 2010 all of the buybacks related to purchases made by employee share ownership trusts (2009: £0.4 million). The Board reviews the Group's dividend policy and funding requirements annually.

#### b) Categories of Financial Assets and Liabilities

The Group's financial assets and liabilities as recognised at the Balance Sheet date may also be categorised as follows:

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
<b>Non-current assets</b>				
Loans and other receivables in scope of IAS 39	0.3	0.4	0.3	0.4
	<b>0.3</b>	0.4	<b>0.3</b>	0.4
<b>Current assets</b>				
Loans and other receivables:				
Trade and other receivables in scope of IAS 39	12.5	13.0	12.5	13.0
Cash and short term deposits	1.1	0.9	1.1	0.9
	<b>13.6</b>	13.9	<b>13.6</b>	13.9
<b>Total financial assets</b>	<b>13.9</b>	14.3	<b>13.9</b>	14.3
<b>Current liabilities</b>				
Derivative financial liabilities hedge accounted	0.6	–	0.3	–
Carried at amortised cost:				
Trade and other payables in scope of IAS 39	26.0	23.0	117.1	112.1
Loans and borrowings	81.4	8.8	71.4	8.8
Total carried at amortised cost	107.4	31.8	188.5	120.9
<b>Total current liabilities</b>	<b>108.0</b>	31.8	<b>188.8</b>	120.9
<b>Non-current liabilities</b>				
Derivative financial liabilities hedge accounted	–	1.5	–	1.1
Carried at amortised cost:				
Other payables in scope of IAS 39	2.1	2.4	2.1	2.4
Loans and borrowings	25.8	84.7	25.8	74.7
Preference shares	1.6	1.6	1.6	1.6
Total carried at amortised cost	29.5	88.7	29.5	78.7
<b>Total non-current liabilities</b>	<b>29.5</b>	90.2	<b>29.5</b>	79.8
<b>Total financial liabilities</b>	<b>137.5</b>	122.0	<b>218.3</b>	200.7

#### c) Financial Risks – Group and Company

The main risks associated with the Group's financial assets and liabilities are set out below, as are the Group's policies for their management. Derivative instruments are used to change the economic characteristics of financial instruments in accordance with Group policy.





## Notes to the Financial Statements

continued

### 26. Financial Instruments continued

#### i) Interest Rate Risk

The Group's policy is to manage its cost of borrowings using a mixture of fixed rates, variable rates and interest rate caps. Fixed rates do not expose the Group to cash flow interest rate risk, but do not enjoy a reduction in borrowing costs in markets where rates are falling. Interest rate caps limit the maximum rate payable but require payment of a lump sum premium. The fair value risk inherent in fixed rate borrowings means that the Group is exposed to unplanned costs if debt is paid off earlier than anticipated. Interest rate caps bear no such risk. Floating rate borrowings, although not exposed to changes in fair value, expose the Group to cash flow risk following rises in interest rates and cost.

The Group and Company's debentures totalling £27.0 million (2009: £27.0 million) are at fixed rates. The Group and Company's loan notes were repaid in full in December 2009 (2009: £1.3 million) and were at a floating rate which repriced every six months. The bank loans totalling £80.2 million (2009: £65.2 million) for the Group and £70.2 million (2009: £55.2 million) for the Company are at floating rates. The Group's policy is always to keep at least 50% of total outstanding borrowings at fixed or capped rates of interest, using interest rate swaps and caps agreed with other parties or through using loan instruments that require us to pay a fixed rate to generate the desired interest rate profile, agreeing to exchange, at specified intervals, the difference between fixed and variable interest amounts, calculated by reference to an agreed notional principal amount. At the year end 38% (2009: 70%) of the Group's bank loans and 54% (2009: 79%) of gross borrowings and 29% (2009: 64%) of the Company's bank loans and 50% (2009: 77%) of gross borrowings were at fixed or capped rates after taking account of interest rate swaps and caps.

#### Interest Rate Swap – Group and Company

The Group has entered into interest rate swap agreements in order to hedge the risk of variation in interest cash flows on its borrowings. At the Balance Sheet date £23.0 million (2009: £38.0 million) of the Group's borrowings were hedged by an interest rate swap at a blended fixed rate of 4.88% (2009: 4.89%). These swaps expire between September and November 2010. At the Balance Sheet date £13.0 million (2009: £28.0 million) of the Company's borrowings were hedged by an interest rate swap at a blended fixed rate of 4.87% (2009: 4.88%). These swaps expire between September and November 2010.

#### Interest Rate Cap – Group and Company

The Group has entered into interest rate cap agreements in order to hedge the risk of variation in interest cash flows on its borrowings. At the Balance Sheet date £7.5 million (2009: £7.5 million) of the Group and Company's borrowings were hedged by an interest rate cap at a fixed rate of 4.89% (2009: 4.89%). This cap expires in November 2010.

#### Basis Swap – Group and Company

During the prior year the Group changed its borrowing period from three months to one month and entered into amortising basis swaps for a total of £55.5 million in order to hedge the associated risk. These swaps expired between May and June 2009. At the Balance Sheet date £nil (2009: £45.5 million) of Group borrowings remained hedged by the basis swap. £nil (2009: £35.5 million) of the Company borrowings remained hedged by the basis swap.

The interest rate swaps and cap are expected to impact the Income Statement in line with the liquidity risk table shown in section (iv) below. The cashflow hedges were assessed as being highly effective at 27 March 2010 and a net unrealised gain of £0.9 million (2009: net unrealised loss of £1.8 million) has been recorded in Other Comprehensive Income.

#### Sensitivity – Group and Company

The Group borrows in Sterling at market rates. 3 month Sterling LIBOR rate during the 52 weeks ended 27 March 2010 ranged between 1.70% and 0.54%. The Directors consider 2% to be a reasonable possible increase in rates and 0.5% to be a reasonable possible decrease in rates given the current economic conditions. The annualised effect of a 0.5% decrease in the interest rate at the Balance Sheet date on the floating rate debt at the Balance Sheet date would, all other variables being constant, have resulted in an increase in post-tax profit of £0.3 million (2009: £0.1 million) for the Group and an increase of £0.7 million (2009: £0.6 million) for the Company, and the same increase to net equity. A 2% increase in the interest rate would, on the same basis, have decreased post-tax profit and net equity by £1.1 million (2009: £0.5 million) for the Group and £3.0 million (2009: £2.3 million) for the Company which has substantial interest bearing payables due to subsidiary companies (note 21).



## Notes to the Financial Statements

continued

### 26. Financial Instruments continued

#### (ii) Foreign Currency Risk

The Group buys and sells goods and services denominated in non-sterling currencies principally the US dollar and Euro. As a result, movements in exchange rates can affect the value of the Group's revenues and purchases.

The Group minimises its transactional currency exposures in non-sterling currencies. It buys or sells forward the net known value of all committed purchase or sales orders. From time to time, the Executive Directors will agree to buy or sell a proportion of the estimated sale or buy orders for the remaining part of the year. Forward currency contracts must be in the same currency as the hedged items. The Group does not trade in forward currency hedges.

The Group has transactional currency exposures principally in US dollars (US\$), Euro (€) and Australian dollars (AUS\$). Such exposures arise from sales or purchases in currencies other than Sterling. The Group policy on covering foreign currency exposure is included in the Financial Review's discussion of financial risks and treasury policies on page 19.

At 27 March 2010 the Group and Company had forward contracts open to sell US\$0.8 million (2009: US\$0.7 million), to buy €2.3 million (2009: €0.6 million) and to buy AUS\$0.1 million (2009: AUS\$nil). These have a Sterling equivalent of £0.5 million, £2.0 million and £nil respectively (2009: £0.5 million, £0.6 million and £nil respectively) and a net loss of £nil (2009: loss of £nil) when comparing the contractual rates with the year-end exchange rates.

At 27 March 2010 the only significant foreign currency assets or liabilities were the following bank deposits:

<b>Group and Company</b>	<b>2010</b>	<b>2009</b>
	<b>£m</b>	<b>£m</b>
Euro	<b>0.3</b>	0.2
US dollars	<b>(0.1)</b>	0.1

#### (iii) Credit Risk

The risk of financial loss due to a counter party's failure to honour its obligations arises principally in relation to transactions where the Group provides goods and services on deferred payment terms, deposits surplus cash and enters into derivative contracts.

Group policies are aimed at minimising losses and deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures. Individual customers are subject to credit limits to control debt exposure. Credit insurance is taken out where appropriate for wholesale customers and goods may also be sold on a cash with order basis. The largest part of the Group's revenue is in the retail sector where it is illegal to sell alcohol in licensed premises to customers on deferred credit terms.

Cash deposits with financial institutions and derivative transactions are only permitted for short periods with financial institutions approved by the Board.

There are no significant concentrations of credit risk within the Group. The maximum credit risk exposure relating to financial assets is represented by their carrying value as at the Balance Sheet date.

#### Trade and other receivables

The Group records impairment losses on its trade receivables separately from gross receivables. Further detail is included in note 18.

#### (iv) Liquidity Risk

The Group minimises liquidity risk by managing cash generation, applying debtor collection targets, monitoring daily cash receipts and payments and setting rolling cash forecasts. Investments have cash payback periods applied as part of a tightly controlled investment appraisal process. The Group's rating with credit agencies is excellent.

The Group has a mixture of long and short term borrowings and overdraft facilities. 25% (2009: 29%) of the Group's borrowings are repayable over five years, and nil % (2009: nil %) between three and five years. The Group's principal loan facilities expire in November 2010.



## Notes to the Financial Statements

continued

### 26. Financial Instruments continued

Since the year-end the Company has entered into a new £100 million bank facility to replace its existing facilities. The new facility may be drawn down and the existing facility repaid at any time up to the expiry of the existing facility in November 2010. The facility has a five year term expiring in May 2015, has no amortisation requirements and provides £18 million of additional funding above the amount currently available under the existing facility. See note 33.

The tables below summarise the maturity profile of the Group's financial liabilities at 27 March 2010 based on undiscounted contractual cash flows, including interest payable. Floating rate interest is estimated using the prevailing interest rate at the Balance Sheet date.

	On demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	Total £m
<b>Group at 27 March 2010</b>						
Interest bearing loans and borrowings <sup>1</sup>	–	4.5	79.7	8.1	49.0	141.3
Preference shares <sup>3</sup>	–	–	0.1	0.5	3.4	4.0
Trade and other payables	6.8	18.9	0.3	1.4	2.3	29.7

<sup>1</sup> Bank loans are included after taking account of the following cash flows in relation to the interest rate swap and cap held in respect of these borrowings:

Interest rate swaps and cap	–	0.2	0.4	–	–	0.6
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	On demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	Total £m
<b>Group at 28 March 2009</b>						
Interest bearing loans and borrowings <sup>1</sup>	–	6.2	6.9	68.4	50.9	132.4
Preference shares <sup>3</sup>	–	–	0.1	0.5	3.4	4.0
Trade and other payables <sup>4</sup>	6.9	15.8	0.3	1.5	3.0	27.5

<sup>1</sup> Bank loans are included after taking account of the following cash flows in relation to the interest rate swap and cap held in respect of these borrowings:

Interest rate swaps and cap	–	0.3	0.6	0.5	–	1.4
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	On demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	Total £m
<b>Company at 27 March 2010</b>						
Interest bearing loans and borrowings <sup>1</sup>	–	4.5	69.6	8.1	49.0	131.2
Amounts due to subsidiary undertakings <sup>2</sup>	91.1	–	–	–	–	91.1
Preference shares <sup>3</sup>	–	–	0.1	0.5	3.4	4.0
Trade and other payables	6.8	18.9	0.3	1.4	2.3	29.7

<sup>1</sup> Bank loans are included after taking account of the following cash flows in relation to the interest rate swap and cap held in respect of these borrowings:

Interest rate swaps and cap	–	0.1	0.2	–	–	0.3
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	On demand £m	Less than 3 months £m	3 to 12 months £m	1 to 5 years £m	More than 5 years £m	Total £m
<b>Company at 28 March 2009</b>						
Interest bearing loans and borrowings <sup>1</sup>	–	6.0	6.5	58.0	50.9	121.4
Amounts due to subsidiary undertakings <sup>2</sup>	89.1	–	–	–	–	89.1
Preference shares <sup>3</sup>	–	–	0.1	0.5	3.4	4.0
Trade and other payables <sup>4</sup>	6.9	15.8	0.3	1.5	3.0	27.5

<sup>1</sup> Bank loans are included after taking account of the following cash flows in relation to the interest rate swap and cap held in respect of these borrowings:

Interest rate swaps and cap	–	0.2	0.4	0.3	–	0.9
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<sup>2</sup> Amounts due to subsidiary undertakings have no fixed repayment date. Interest is payable on the balance at 3% above the Bank of England base rate.

<sup>3</sup> The preference shares have no contractual repayment date. For the purposes of the table above interest payments have been shown for 20 years from the balance sheet date but no further.

<sup>4</sup> Trade and other payables has been restated for the 52 weeks ended 28 March 2009 to include provisions.



## Notes to the Financial Statements

continued

### 26. Financial Instruments continued

#### Security – Group and Company

The 11.5% debentures 2010 and the 10.7% debentures 2023 are secured on property, plant and equipment with a net book value of £16.3 million (2009: £16.5 million). The 6.875% debentures 2028 are secured by a floating charge over the assets of the Company.

#### Covenants – Group and Company

The Group and Company are subject to a number of covenants in relation to their borrowing facilities which, if contravened, would result in its loans becoming immediately repayable. These covenants *inter alia* specify maximum net debt to earnings before interest, tax, depreciation and amortisation, and minimum earnings before interest, tax, depreciation and amortisation to interest and minimum net assets and net assets to debt ratios.

#### d) Fair Value

##### Fair Values of Financial Assets and Liabilities

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

Group	Book value	Book value	Fair value	Fair value
	2010	2009	2010	2009
	£m	£m	£m	£m
<b>Financial assets</b>				
Cash	1.1	0.9	1.1	0.9
Trade and other receivables due within one year in scope of IAS 39	12.5	13.0	12.5	13.0
Loans and other receivables due in more than one year in scope of IAS 39	0.3	0.4	0.3	0.4
<b>Financial liabilities</b>				
Trade and other payables in scope of IAS 39	(28.1)	(25.4)	(28.1)	(25.4)
Fixed rate borrowings	(27.0)	(27.0)	(29.1)	(30.7)
Floating rate borrowings	(80.2)	(65.2)	(80.2)	(65.2)
Loan notes	–	(1.3)	–	(1.3)
Preference shares	(1.6)	(1.6)	(1.8)	(1.8)
Interest rate swap	(0.6)	(1.5)	(0.6)	(1.5)
<b>Company</b>				
	Book value	Book value	Fair value	Fair value
	2010	2009	2010	2009
	£m	£m	£m	£m
<b>Financial assets</b>				
Cash	1.1	0.9	1.1	0.9
Trade and other receivables due within one year in scope of IAS 39	12.5	13.0	12.5	13.0
Loans and other receivables due in more than one year in scope of IAS 39	0.3	0.4	0.3	0.4
<b>Financial liabilities</b>				
Trade and other payables in scope of IAS 39	(119.2)	(114.5)	(119.2)	(114.5)
Fixed rate borrowings	(27.0)	(27.0)	(29.1)	(30.7)
Floating rate borrowings	(70.2)	(55.2)	(70.2)	(55.2)
Loan notes	–	(1.3)	–	(1.3)
Preference shares	(1.6)	(1.6)	(1.8)	(1.8)
Interest rate swap	(0.3)	(1.1)	(0.3)	(1.1)





## Notes to the Financial Statements

continued

### d) Fair Value continued

The fair values of borrowings have been calculated by discounting the expected future cash flows at prevailing interest rates. The fair values of loan notes and preference shares have been calculated using the market interest rates. Derivative fair values are obtained from quoted market prices in active markets and are classed as Level 2 fair values for both years. The Group distinguishes Level 2 fair values as being: valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, but where these are not derived directly from quoted prices in active markets.

## 27. Share Capital and Reserves

### a) Share Capital

	'A' ordinary shares of 40p each	'C' ordinary shares of 40p each	'B' ordinary shares of 4p each	Total
	Number 000s	Number 000s	Number 000s	Number 000s
<b>Authorised share capital: Number authorised</b>				
At 29 March 2008	46,613	15,887	125,000	187,500
Share conversions	77	(77)	–	–
At 28 March 2009	46,690	15,810	125,000	187,500
Share conversions	18	(18)	–	–
<b>At 27 March 2010</b>	<b>46,708</b>	<b>15,792</b>	<b>125,000</b>	<b>187,500</b>
<b>Authorised share capital: Monetary amount</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
At 29 March 2008	18.6	6.4	5.0	30.0
Share conversions	–	–	–	–
At 28 March 2009	18.6	6.4	5.0	30.0
Share conversions	–	–	–	–
<b>At 27 March 2010</b>	<b>18.6</b>	<b>6.4</b>	<b>5.0</b>	<b>30.0</b>
	Number 000s	Number 000s	Number 000s	Number 000s
<b>Issued and fully paid: Number in issue</b>				
At 29 March 2008	33,329	14,752	89,052	137,133
Share conversions	77	(77)	–	–
At 28 March 2009	33,406	14,675	89,052	137,133
Share conversions	18	(18)	–	–
<b>At 27 March 2010</b>	<b>33,424</b>	<b>14,657</b>	<b>89,052</b>	<b>137,133</b>
<b>Proportion of total equity shares at 27 March 2010</b>	<b>24.4%</b>	<b>10.7%</b>	<b>64.9%</b>	<b>100%</b>
<b>Issued and fully paid: Monetary amount</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
At 29 March 2008	13.3	5.9	3.6	22.8
Share conversions	–	–	–	–
At 28 March 2009	13.3	5.9	3.6	22.8
Share conversions	–	–	–	–
<b>At 27 March 2010</b>	<b>13.3</b>	<b>5.9</b>	<b>3.6</b>	<b>22.8</b>

Share capital represents the nominal value proceeds received on the issue of the Company's equity share capital, comprising 40p and 4p ordinary shares. The Company's preference shares are classified as non-current liabilities in accordance with IFRS (see note 24).

During the year, 18,787 40p 'C' ordinary shares (2009: 77,707) were converted to 40p 'A' ordinary shares at a ratio of 1:1.

The ordinary shareholders are entitled to be paid a dividend out of any surplus profits and to participate in surplus assets on winding up in proportion to the nominal value of each class of share ('B' shares have one tenth of the nominal value of 'A' and 'C' shares).



## Notes to the Financial Statements

continued

### 27. Share Capital and Reserves continued

All equity shares in the Company carry one vote per share, save that shares held in treasury have their voting rights suspended. The 'A' and 'C' shares have a 40p nominal value and the 'B' shares have a 4p nominal value so that a 'B' share dividend will be paid at 10% of the rate applying to 'A' and 'C' shares. The 'A' shares are listed on the London Stock Exchange. The 'C' shares carry a right for the holder to convert them to 'A' shares by written notice in the 30 day period following the half year and preliminary announcements. The 'B' shares are not listed and have no conversion rights. In most circumstances the value of a 'B' share is deemed to be 10% of the value of the listed 'A' shares. The Trustee holding shares for participants of the LTIP currently waives dividends for shares held during the initial three year period. Dividends are not paid on shares held in treasury.

The Articles include provisions relating to the Company's 'B' and 'C' shares which provide that shareholders who wish to transfer their shares may only do so if the transfer is to another 'B' or 'C' shareholder, or if the transfer is to certain of that shareholder's family members or their executors or administrators or, where shares are held by trustees, to new trustees, or to the trustees of any employee share scheme, or if the Company is unable to identify another shareholder of that class willing to purchase the shares within the specified period, to any person.

#### b) Own Shares

Own shares relates to shares held by independently managed employee share ownership trusts ("ESOTs") together with the Company's holding of treasury shares. Shares are purchased by the ESOTs in order to satisfy potential awards under the Long Term Incentive Plan ("LTIP") and Share Incentive Scheme ("SIP"). Treasury shares are used, *inter alia*, to satisfy options under the Company's share options schemes. The LTIP ESOT has waived its rights to dividends on the shares it holds. Treasury shares have voting and dividend rights suspended. All own shares held, apart from allocated SIP shares (treated as issued share capital), are excluded from earnings and net assets per share calculations.

	Treasury shares 'A' ordinary 40p shares 000's	LTIP ESOT 'A' ordinary 40p shares 000's	LTIP ESOT 'B' ordinary 4p shares 000's	SIP ESOT 'A' ordinary 40p shares 000's	Total 'A' ordinary 40p shares 000's	Total 'B' ordinary 4p shares 000's
<b>Number</b>						
At 29 March 2008	1,131	–	1,307	10	1,141	1,307
Shares purchased	446	–	–	97	543	–
Shares transferred	(152)	152	–	–	–	–
Shares released	(213)	(152)	(381)	(106)	(471)	(381)
At 28 March 2009	1,212	–	926	1	1,213	926
Shares purchased	–	76	–	93	169	–
Shares transferred	(196)	196	–	–	–	–
Shares released	(306)	(153)	(383)	(93)	(552)	(383)
<b>At 27 March 2010</b>	<b>710</b>	<b>119</b>	<b>543</b>	<b>1</b>	<b>830</b>	<b>543</b>
<b>Monetary amount</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
At 29 March 2008	5.5	–	0.4	0.1	5.6	0.4
Shares purchased	1.8	–	–	0.4	2.2	–
Shares transferred	(0.7)	0.7	–	–	–	–
Shares released	(1.0)	(0.7)	(0.1)	(0.5)	(2.2)	(0.1)
At 28 March 2009	5.6	–	0.3	–	5.6	0.3
Shares purchased	–	0.4	–	0.4	0.8	–
Shares transferred	(0.9)	0.9	–	–	–	–
Shares released	(1.4)	(0.8)	(0.1)	(0.4)	(2.6)	(0.1)
<b>At 27 March 2010</b>	<b>3.3</b>	<b>0.5</b>	<b>0.2</b>	<b>–</b>	<b>3.8</b>	<b>0.2</b>
<b>Market value at 27 March 2010</b>	<b>3.9</b>	<b>0.6</b>	<b>0.3</b>	<b>–</b>	<b>4.5</b>	<b>0.3</b>

All of the shares in the LTIP ESOT had been allocated at each year end. None of the treasury shares are under option at either year end.



## Notes to the Financial Statements

continued

### 27. Share Capital and Reserves continued

#### c) Other Capital Reserves

##### Share Premium Account

The balance in the share premium account represents the proceeds received above the nominal value on the issue of the Company's equity share capital.

##### Capital Redemption Reserve

The capital redemption reserve balance arises from the buyback of the Company's own equity share capital.

##### Hedging Reserve

The hedging reserve contains the effective portion of the cash flow hedge relationships incurred at the Balance Sheet date, net of tax.

### 28. Share Options and Share Schemes

The key points of each of the Group's share schemes for grants up to 27 March 2010 are summarised below. All schemes are equity-settled. All disclosure relates to both Group and Company.

#### Savings Related Share Option Scheme ("SAYE")

This scheme grants options over shares at a discount of 20% on the average market price over the three days immediately prior to the date of grant. Employees must save a regular amount each month. Savings are made over three or five years, at the participant's choice. The right to buy shares at the discounted price lasts for six months after the end of the savings contract. There are no performance conditions, other than continued employment.

#### Senior Executive Share Option Scheme

If growth in Earnings Per Share adjusted principally to exclude exceptional items ("Normalised EPS") exceeds growth in the Retail Price Index ("RPI") by 9% over the performance period of the option, then 40% of the award will vest. Vesting levels are then on a sliding scale, with 100% vesting occurring if growth in Normalised EPS exceeds growth in RPI by more than 21%. The performance period for grants under this scheme is three years. Options must be exercised within seven years of the end of the performance period.

#### Executive Share Option Scheme

The options vest if growth in Normalised EPS exceeds the growth in RPI by 9% or more, over the three year performance period of the option. The options must then be exercised within seven years after the end of the performance period.

#### LTIP

This plan awards free shares. Vesting is conditional on growth in Normalised EPS exceeding growth in RPI by 9% (grants before 2009: 6%) or more over the 3 year initial performance period of the award. Vesting levels are on a sliding scale from 40% up to 100% (grants before 2009: 25% to 100%), if growth in Normalised EPS exceeds growth in RPI by 24% (grants before 2009: 21%) or more. An independent firm of advisors verify the vesting level each year. The initial vesting period is three years. After this time the shares may be passed to the plan participants, as long as vesting conditions are met. For grants up to and including that made in 2006, participants can choose to redeposit their shares for a further three year period. If participants choose to redeposit, then the Company will match the redeposited shares at a ratio of 1:1 at the end of the matching period, providing none of the redeposited shares have been sold and the participant remains employed by the Company.

On 12 March 2010, 50% of the performance awards granted in 2007 (LTIP 10 and LTIP10a) and all of the matched awards granted in 2007 (LTIP 7) held by certain employees were changed from conditional share awards to restricted share awards, on the same terms and vesting conditions. This was accounted for as a modification of the existing award and has had no effect on the tables in section c) below.



## Notes to the Financial Statements

continued

### 28. Share Options and Share Schemes continued

#### SIP

This plan awards free shares. The number of shares awarded up to a maximum value of £3,000 per person per year, is based on length of service and salary. There are no performance conditions. The life of each plan is five years, after which shares are released to participants.

#### Share-Based Payment Expense Recognised in the Year

The expense recognised for share-based payments in respect of employee services received during the 52 weeks ended 27 March 2010 is £2.1 million (2009: £1.4 million). The whole of that expense arises from equity settled share-based payment transactions.

#### Movements in the Year

The following tables illustrate the number and weighted average exercise prices ("WAEP") of, and movements in, each category of share instrument 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.

#### Market Value

The market value of the shares at 27 March 2010 was £5.44 (2009: £3.88).

#### a) Save As You Earn

	2010 Number 000's	2010 WAEP	2009 Number 000's	2009 WAEP
Outstanding at beginning of the year	609	£3.48	574	£3.54
Granted	182	£3.88	277	£3.31
Lapsed	(41)	£3.89	(86)	£5.31
Exercised	(154)	£2.78	(156)	£2.31
<b>Outstanding at end of the year</b>	<b>596</b>	<b>£3.75</b>	<b>609</b>	<b>£3.48</b>
Exercisable at end of the year	-	n/a	-	n/a
Weighted average share price for options exercised in the year	£4.95		£4.05	
Weighted average contractual life remaining for share options outstanding at the year end	2.78 years		3.33 years	
Weighted average share price for options granted in the year	£5.08		£4.17	
Weighted average fair value of options granted during the year	£1.23		£1.08	
Range of exercise prices for options outstanding at the year end – from	£2.93		£2.08	
– to	£6.04		£6.04	

None of the above options were granted before 7 November 2002, and so none of them were excluded from the IFRS 2 charge on the basis of their date of grant.





## Notes to the Financial Statements

continued

### 28. Share Options and Share Schemes continued

Share options have been granted to employees under the Saving Related Share Option Scheme. Outstanding options are as follows:

Exercisable at	Exercise price 40p shares £	Number of 'A' ordinary shares under option 2010 000s	Number of 'A' ordinary shares under option 2009 000s
September 2009	2.08	–	97
September 2009	3.92	–	64
September 2010	2.93	57	57
September 2010	6.04	26	29
September 2011	3.92	54	54
September 2011	3.31	134	148
September 2012	6.04	30	35
September 2012	3.88	101	–
September 2013	3.31	120	125
September 2014	3.88	74	–
		<b>596</b>	<b>609</b>

Options under the Savings Related Share Option Scheme are granted at a discount of 20% to the prevailing market price.

#### b) Share Option Schemes

	2010 Number 000's	2010 WAEP	2009 Number 000's	2009 WAEP
<b>Senior Executive Share Option Scheme</b>				
Outstanding at beginning of the year	183	£3.98	169	£3.88
Granted	47	£4.80	40	£4.05
Lapsed	–	n/a	(7)	£5.26
Exercised	(74)	£2.55	(19)	£2.79
<b>Outstanding at end of the year</b>	<b>156</b>	<b>£4.89</b>	<b>183</b>	<b>£3.98</b>
Exercisable at end of the year	46	£4.39	94	£2.80
Weighted average share price for options exercised in the year	£5.08		£3.95	
Weighted average contractual life remaining for share options outstanding at the year end	7.74 years		6.82 years	
Weighted average share price for options granted in the year	£4.75		£4.04	
Weighted average fair value of options granted during the year	£0.79		£0.62	
Range of exercise prices for options outstanding at the year end – from	£3.67		£2.20	
– to	£7.51		£7.51	

None of the above options were granted before 7 November 2002, and so none were excluded from the IFRS 2 charge on the basis of their date of grant.

Share options have been granted to employees under unapproved Executive Share Option Schemes.



## Notes to the Financial Statements

continued

### 28. Share Options and Share Schemes continued

	2010 Number 000's	2010 WAEP	2009 Number 000's	2009 WAEP
<b>Executive Approved Scheme</b>				
Outstanding at beginning of the year	359	£4.07	344	£3.98
Granted	31	£4.80	75	£4.05
Lapsed	(17)	£5.37	(22)	£6.22
Exercised	(79)	£2.67	(38)	£2.02
<b>Outstanding at end of the year</b>	<b>294</b>	<b>£4.47</b>	<b>359</b>	<b>£4.07</b>
Exercisable at end of the year	142	£3.64	181	£2.93
Number of options in the opening balance that were granted before 7 November 2002	42		69	
Number of options in the closing balance that were granted before 7 November 2002	12		42	
Weighted average share price for options exercised in the year	£5.28		£3.72	
Weighted average contractual life remaining for share options outstanding at the year end	6.65 years		6.67 years	
Weighted average share price for options granted in the year	£4.75		£4.04	
Weighted average fair value of options granted during the year	£0.60		£0.62	
Range of exercise prices for options outstanding at the year end – from	£2.08		£2.08	
– to	£7.51		£7.51	

Share options have been granted to employees under approved Executive Share Option Schemes.

Outstanding options which are capable of being exercised between three and ten years from date of issue (five and ten years in the case of the 2010 to 2013 scheme noted below) and their exercise prices are shown in the table below:

Exercisable in/between	Exercise price 40p shares £	Senior Executive Scheme		Exercise price 40p shares £	Executive Approved Scheme	
		Number of 'A' ordinary shares under option 2010 000s	Number of 'A' ordinary shares under option 2009 000s		Number of 'A' ordinary shares under option 2010 000s	Number of 'A' ordinary shares under option 2009 000s
2010 and 2011	–	–	–	2.09	6	30
2010 and 2012	–	–	–	2.08	6	12
2010 and 2013	2.20	–	31	2.12	14	34
2010 and 2014	2.63	–	36	2.62	15	15
2010 and 2015	3.67	21	28	3.67	54	82
2010 and 2015	–	–	–	3.68	8	8
2010 and 2016	4.98	25	25	4.98	39	57
2010 and 2017	7.51	23	23	7.51	46	46
2011 and 2018	4.05	40	40	4.05	75	75
2012 and 2019	4.80	47	–	4.80	31	–
		156	183		294	359



## Notes to the Financial Statements

continued

### 28. Share Options and Share Schemes continued

#### c) LTIP

	2010 'A' shares Number 000s	2010 'B' shares Number 000s	2009 'A' shares Number 000s	2009 'B' shares Number 000s
<b>Shares</b>				
Outstanding at beginning of the year	680	1,700	607	1,518
Granted including matching awards	305	764	237	592
Lapsed	(13)	(33)	(12)	(29)
Vested	(153)	(382)	(152)	(381)
<b>Outstanding at end of the year</b>	<b>819</b>	<b>2,049</b>	<b>680</b>	<b>1,700</b>

In addition to the above, there are shares held by the LTIP Trust in respect of vested shares redeposited for matching, as follows:

Redeposited shares at end of the year	165	412	178	446
Number of shares in the opening balance that were granted before 7 November 2002	–	–	32	80
Weighted average share price for shares vested in the year	£4.75	£0.48	£4.23	£0.42
For shares outstanding at the year end, the weighted average contractual life remaining is	1.52 years	1.52 years	1.65 years	1.65 years
Weighted average share price for shares granted in the year	£4.75	£0.48	£4.04	£0.40
Weighted average fair value of shares granted in the year	£4.43	£0.44	£3.74	£0.37

There were no shares outstanding at either year end which were granted before 7 November 2002. All LTIPs have a vesting price of £nil. LTIP shares do not receive dividends until vested.

#### d) SIP

	2010 Number 000s	2009 Number 000s
<b>Shares</b>		
Outstanding at beginning of the year	373	391
Granted	95	108
Lapsed	(1)	(1)
Released	(107)	(125)
<b>Outstanding at end of the year</b>	<b>360</b>	<b>373</b>
Weighted average share price for shares released in the year	£5.17	£3.74
For shares outstanding at the year end, the weighted average contractual life remaining is	3.02 years	2.84 years
Weighted average share price of shares granted in the year	£5.19	£3.35
Weighted average fair value of shares granted in the year	£5.19	£3.35

There were no shares outstanding at either year end which were granted before 7 November 2002. Outstanding SIP shares represent shares allocated and held by the SIP Trustees on behalf of employees, which remain in the trust for between three and five years. All SIPs have a vesting price of £nil. SIP shares receive dividends once allocated.



## Notes to the Financial Statements

continued

### 28. Share Options and Share Schemes continued

#### e) Fair Value of Grants

##### (i) Equity-Settled Options and LTIPs

The fair value of equity-settled share options and LTIPs granted is estimated as at the date of grant using a Black-Scholes model, taking into account the terms and conditions upon which the awards were granted. The following tables list the inputs to the model used for the 52 weeks ended 27 March 2010 and 28 March 2009, except for the weighted average share price for grants in the year and the number of shares granted, which are disclosed in sections a) to d) above.

Equity-Settled Share Options	Save As You Earn Scheme		Executive and Senior Executive Option Schemes	
	2010	2009	2010	2009
Dividend yield (%)	2.0%	2.2%	2.0%	2.2%
Expected share price volatility (%)	17%	15 to 20%	17%	20%
Risk-free interest rate (%)	2.0 to 2.7%	4.3 to 4.4%	2.7 to 3.3%	4.8%
Expected life of option (years)	3 to 5 years	3 to 5 years	4 to 6 years	5 years

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options grant were incorporated into the measurement of fair value.

LTIPs Granted	2010	2009
Dividend yield (%)	2.0%	2.2%
Risk free interest rate (%)	2.3%	4.8%
Expected life of award (years)	3 years	3 years

##### (ii) SIPs Granted

The fair value of SIPs is the share price at the date of allocation. The value of SIPs awarded is a fixed rate based on the Group's performance in the preceding financial year. The number of shares awarded is therefore dependent on the share price at the date of the award.





## Notes to the Financial Statements

continued

### 29. Analysis of Net Debt

Group	At 29 March 2009 £m	Cash flows £m	Non-cash flows £m	At 27 March 2010 £m
<b>Cash and cash equivalents</b>				
Cash and short term deposits	0.9	0.2	-	1.1
	0.9	0.2	-	1.1
<b>Debt due within one year</b>				
Bank loans	(7.5)	7.5	(80.2)	(80.2)
Debenture stock	-	-	(1.2)	(1.2)
Loan notes	(1.3)	1.3	-	-
	(8.8)	8.8	(81.4)	(81.4)
<b>Debt due after one year</b>				
Bank loans	(57.7)	(22.5)	80.2	-
Debenture stock	(27.0)	-	1.2	(25.8)
Preference shares	(1.6)	-	-	(1.6)
	(86.3)	(22.5)	81.4	(27.4)
<b>Net debt</b>	<b>(94.2)</b>	<b>(13.5)</b>	<b>-</b>	<b>(107.7)</b>

Group	At 30 March 2008 £m	Cash flows £m	Non-cash flows £m	At 28 March 2009 £m
<b>Cash and cash equivalents</b>				
Cash and short term deposits	3.9	(3.0)	-	0.9
	3.9	(3.0)	-	0.9
<b>Debt due within one year</b>				
Bank loans	(6.3)	6.3	(7.5)	(7.5)
Loan notes	(1.8)	0.5	-	(1.3)
	(8.1)	6.8	(7.5)	(8.8)
<b>Debt due after one year</b>				
Bank loans	(62.7)	(2.5)	7.5	(57.7)
Debenture stock	(27.0)	-	-	(27.0)
Preference shares	(1.6)	-	-	(1.6)
	(91.3)	(2.5)	7.5	(86.3)
<b>Net debt</b>	<b>(95.5)</b>	<b>1.3</b>	<b>-</b>	<b>(94.2)</b>

### 30. Guarantees and Future Commitments

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Capital commitments – authorised, contracted but not provided for	0.6	3.5	0.6	3.5

The Company has accepted various duty deferment bonds in connection with Customs and Excise. The total outstanding commitment at 27 March 2010 was £370,000 (2009: £220,000). This total applies to both Group and Company.

#### Cross guarantee

The Company is party to a cross guarantee arrangement in order to guarantee certain of its borrowings and certain borrowings of its subsidiary company, George Gale & Co. Limited.



## Notes to the Financial Statements

continued

### 31. Operating Lease Commitments

#### Operating Leases Where the Group is the Lessee

Future minimum rentals payable under non-cancellable operating leases are due as follows:

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Within one year	5.8	6.0	5.8	6.0
Between one year and five years	22.5	22.8	22.5	22.8
After five years	43.4	49.1	43.4	49.1
	71.7	77.9	71.7	77.9

Commercial operating leases are typically for 20 to 25 years, although certain leases have lease periods extending up to 40 years.

#### Operating Leases Where the Group is the Lessor

The Group earns rental income from two sources. Licenced property included within property, plant and equipment is rented under agreements where lessees must also purchase goods from the Group. Additionally there are a smaller number of agreements in respect of investment properties where there is no requirement for the lessee to purchase goods.

Investment properties are let to third parties on leases that have remaining terms of between one and 21 years.

At 27 March 2010 future minimum rentals receivable by the Group are as follows:

Group and Company	Investment properties		Property, plant and equipment	
	2010 £m	2009 £m	2010 £m	2009 £m
Within one year	0.2	0.1	6.6	6.2
Between one year and five years	0.6	0.3	15.0	15.2
After five years	0.5	0.3	7.0	9.3
	1.3	0.7	28.6	30.7

The Group's commercial leases on property are principally for licensed outlets. The terms of the leases are normally for either three, five or ten years. The rent is adjusted annually in line with the Retail Price Index and full rental reviews occur on renewal of the lease, or every five years for a ten year lease.

At 27 March 2010 future minimum rentals receivable under non-cancellable sub-leases included in the figures above were £5.0 million (2009: £5.5 million).

### 32. Related Party Transactions

#### Group and Company

Until July 2008, when the contract was terminated, the Company managed five pubs on behalf of Premier Pubs Estate Limited. For these services the Company charged £nil (2009: £44,135) for administrative fees and £nil (2009: £8,816) management fees in the year. Costs of £7,266 were incurred by the Company in relation to the ending of the arrangement during the 52 weeks ended 28 March 2009. Nigel Atkinson is the Chairman of Premier Pubs Estate Limited. All transactions were on a commercial basis.

There were no amounts outstanding at 27 March 2010 in relation to the above transactions (2009: £nil).

During the current and prior years the Company provided various administrative services to the Fuller, Smith & Turner Pension Plan free of charge. In addition, the Company settled costs totalling £140,000 (2009: £158,000) relating to the provision of actuarial, consulting and administrative services by third parties to the Fuller, Smith & Turner Pension Plan.



## Notes to the Financial Statements

continued

### 32. Related Party Transactions continued

	2010	2009
	£m	£m
<b>Compensation of Key Management Personnel (including Directors)</b>		
Short-term employee benefits	3.7	3.0
Post-employment benefits	0.3	0.3
Share-based payments	1.6	0.8
	<b>5.6</b>	<b>4.1</b>

### Company Only

During the year the Company entered into the following related party transactions:

	Sales to related parties £m	Purchases from related parties £m	Net interest due to related parties £m	Amounts owed to related parties £m
<b>52 weeks ended 27 March 2010</b>				
Subsidiaries	–	30.7	3.1	(91.1)

	Sales to related parties £m	Purchases from related parties £m	Net interest due to related parties £m	Amounts owed to related parties £m
<b>52 weeks ended 28 March 2009</b>				
Subsidiaries	–	27.9	5.6	(89.1)

Interest is payable on the majority of the amounts due to subsidiaries at 3% above the Bank of England base rate.

All amounts outstanding are unsecured and repayable on demand.

### 33. Post Balance Sheet Event

#### New Bank Facility

In May 2010 Fuller, Smith & Turner P.L.C. entered into a new unsecured £100 million bank facility to replace its existing facilities which are due to expire in November this year. The facility has a five year term expiring in May 2015, has no amortisation requirements and provides £18 million of additional funding above the amount currently available under the existing facility. The new facility may be drawn down and the existing facility repaid at any time from the date of the agreement, on 12 May 2010, up until the expiry of the existing facilities in November 2010.



## Directors and Advisers as at 11 June 2010

### Directors

Michael Turner, FCA, *Chairman*

John Roberts

Simon Emeny

James Douglas, ACA

Richard Fuller<sup>1</sup>

Anthony Fuller, CBE, *President*\*

Nick MacAndrew, FCA\*

Nigel Atkinson\*

John Dunsmore\*

Sir James Fuller<sup>2</sup>

\* *Non Executive.*

<sup>1</sup> *Appointed to the Board on 8 December 2009.*

<sup>2</sup> *Appointed to the Board on 1 June 2010.*

### Secretary and Registered Office

Marie Gracie, FCIS

Griffin Brewery

Chiswick Lane South

Chiswick

London W4 2QB

Tel: 020 8996 2105

Registered Number 241882

### Auditors

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### Stockbrokers

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10 Paternoster Square

London EC4M 7LT

### Registrars

Computershare Investor Services PLC

The Pavilions

Bridgwater Road

Bristol BS99 6ZZ

Tel: 0870 889 4096

*Please note you can now advise Computershare of changes to your address or set up a dividend mandate online at [www.computershare.com/investor/uk](http://www.computershare.com/investor/uk)*





## Shareholders' Information

### 2010 Diary

#### Friday, 2 July

Record Date

#### Thursday, 1 July

Preference dividends paid

#### 11 a.m. Friday, 23 July

Annual General Meeting

Hock Cellar, Griffin Brewery

#### Wednesday, 28 July

Final dividend paid

#### Friday, 19 November

Half year results announcement

### 2011 Diary

#### January

Preference dividends paid

Interim dividend paid

#### June

Preliminary results announcement

### Shareholder Privileges

Shareholders owning more than 250 'A' or 'C' shares or 2,500 'B' shares can buy beer, wine and spirits from the Brewery Store in Chiswick at preferential prices. For details contact Company Secretariat on 020 8996 2105. These shareholders are also offered a discount card entitling them to certain discounts in Fuller's Hotels.

### Redesignation of 'C' Shares

'C' ordinary shares can be redesignated as 'A' ordinary shares within 30 days of the preliminary and half year announcements by sending in your certificates and a written instruction to redesignate prior or during the period to the Company's Registrars, whose address can be found on page 97.

### Sharegift

The Orr Mackintosh Foundation operates a charity share donation scheme for shareholders with small parcels of shares whose value makes it uneconomic to sell them. If you have a small number of shares and would like to donate them to charity, details of the scheme can be found on the Sharegift website [www.sharegift.org](http://www.sharegift.org), or by contacting the Company Secretariat on 020 8996 2105.



## Glossary

- **Accommodation sales as a % of Managed Pubs and Hotels revenue** – this is the proportion of revenue from Managed Pubs and Hotels that arises from the letting of bedrooms.
- **Adjusted earnings per share** – this is earnings per share, adjusted for exceptional items. The Directors believe that this measure provides useful information for shareholders as to the internal measures of the performance of the Group.
- **Adjusted profits** – this is profit before tax, adjusted for exceptional items.
- **Beer volumes** – this is the volume of beer sold, in number of barrels; a brewing term representing 288 pints.
- **EBITDA** – this is the earnings before interest, tax, depreciation, loss on disposal of plant and equipment and amortisation, adjusted for exceptional items.
- **Food sales as a % of Managed Pubs and Hotels revenue** – this is the proportion of revenue from Managed Pubs and Hotels that arises from sales of food, with the revenue figure adjusted so as to exclude sites where the food operations are franchised out.
- **Foreign Beer** – this is sales made by the Company of beer produced by other brewers, the majority of which is lager.
- **Invested Managed Pubs and Hotels like for like sales growth** – this is the sales growth calculated to exclude from both years those pubs which have not been trading throughout the two years. The principal exclusions from this measure are: pubs purchased or sold in the last twelve months; sites which are closed; and pubs which are transferred to tenancy.
- **LTIP** – Long Term Incentive Plan.
- **Market capitalisation** – only the Company's 40p 'A' ordinary shares are listed. The Company calculates its market capitalisation as the sum total of all classes of ordinary shares; i.e. listed 40p 'A' ordinary shares, unlisted 4p 'B' ordinary shares and unlisted 40p 'C' ordinary shares plus all potentially awardable share options and LTIP awards less any shares held in treasury. For the purposes of the calculation of market capitalisation a 4p 'B' ordinary share is treated as having 10% of the market value of a quoted 40p 'A' ordinary share and a 40p 'C' ordinary share is treated as having an equivalent value to a 40p 'A' ordinary share.
- **Net debt** – this comprises cash, bank loans, loan notes, debenture stock and preference shares.
- **Own Beer** – this is sales of own brand beer brewed by the Company in Chiswick.
- **SIP** – Share Incentive Plan.
- **Tenanted like for like profit growth** – this is the profits growth of Tenanted Inns calculated to exclude from both years those pubs which have not been trading throughout the two years. The principal exclusions from this measure are: pubs purchased or sold; pubs which have closed; and pubs transferred to or from our Managed business. Bad debt expense is included but head office costs are excluded.
- **Total annual dividend** – the total annual dividend for a financial year comprises interim dividends paid during the financial year and the final dividend proposed for approval by shareholders at the Annual General Meeting after the completion of the financial year.



## Five Years' Progress

	2010	2009	Restated <sup>1</sup>	Restated <sup>1</sup>	Restated <sup>1</sup>
	£m	£m	2008	2007	2006
			£m	£m	£m
<b>Income Statement</b>					
<b>Revenue<sup>1</sup></b>	<b>227.7</b>	210.0	203.1	199.2	163.2
Operating profit before exceptional items	32.0	29.0	29.4	29.8	22.4
Net finance costs	(5.4)	(6.2)	(6.4)	(7.7)	(4.5)
<b>Adjusted profit</b>	<b>26.6</b>	22.8	23.0	22.1	17.9
Exceptional items	0.2	(8.4)	0.8	20.1	(2.6)
<b>Profit before tax</b>	<b>26.8</b>	14.4	23.8	42.2	15.3
Taxation	(7.6)	(5.5)	(4.7)	(13.1)	(4.9)
<b>Profit attributable to equity shareholders of the Parent Company</b>	<b>19.2</b>	8.9	19.1	29.1	10.4
<b>EBITDA</b>	<b>43.6</b>	40.2	40.5	40.7	32.1
<b>Assets employed</b>					
Non-current assets	387.9	356.9	350.6	345.9	357.4
Inventories	7.6	6.1	5.8	5.4	5.4
Trade and other receivables	15.6	16.0	15.7	15.0	14.7
Assets classified as held for sale	0.6	–	1.8	6.5	–
Cash and short term deposits	1.1	0.9	3.9	8.9	1.4
	<b>412.8</b>	379.9	377.8	381.7	378.9
Current borrowings	(81.4)	(8.8)	(8.1)	(7.8)	(2.8)
Other current liabilities	(44.5)	(37.9)	(34.3)	(36.6)	(36.1)
	<b>286.9</b>	333.2	335.4	337.3	340.0
Non-current borrowings	(27.4)	(86.3)	(91.3)	(97.6)	(128.6)
Other non-current liabilities	(52.3)	(49.9)	(46.4)	(57.0)	(55.7)
<b>Net assets</b>	<b>207.2</b>	197.0	197.7	182.7	155.7
	2010	2009	2008	2007	2006
<b>Per 40p 'A' ordinary share</b>					
Adjusted earnings	34.19p	29.12p	29.15p	27.58p	21.87p
Basic earnings	34.37p	16.00p	34.33p	52.14p	18.56p
Dividends (interim and proposed final)	11.00p	9.85p	9.70p	9.09p	7.90p
Net assets	£3.68	£3.54	£3.55	£3.32	£2.79
<b>Net debt (£ million)</b>	<b>(107.7)</b>	(94.2)	(95.5)	(96.5)	(130.0)
<b>Net debt/EBITDA</b>	<b>2.5</b>	2.3	2.4	2.4	4.0
<b>Gross capital expenditure (£ million)</b>	<b>44.1</b>	24.2	18.5	21.7	21.6
<b>Average number of employees</b>	<b>3,263</b>	2,923	3,067	3,097	2,478

<sup>1</sup> Revenue for the 52 weeks ended 29 March 2008 and all prior years above has been restated to include all excise Duty in revenue and costs as a result of the change in accounting policy for the 52 weeks ended 28 March 2009.

Per share measures for periods prior to 2008 have been restated for the effects of the five for two share split as if the share split had occurred on the first day of these periods.

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