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COMPANIES HOUSE

OUR COMPANY

**Shepherd Neame is a family controlled brewer and pub operator.**

We believe that characteristics central to our success include

- An integrated brewing and pub business
- A commitment to quality and integrity
- The passionate interest of the many people who have dedicated themselves to Shepherd Neame
- A commitment to Faversham and the wider community of Kent
- A long-term view of the business

We are extremely proud to be Britain's Oldest Brewer

CONTENTS

# FINANCIAL HIGHLIGHTS



TURNOVER

2013[1]

£134.9m

2012[2]

£133.0m

OPERATING PROFIT BEFORE EXCEPTIONALS

2013

£12.7m

2012

£12.7m

STATUTORY PROFIT BEFORE TAX

2013

£7.1m

2012

£9.1m

BASIC EARNINGS PER £1 SHARE BEFORE EXCEPTIONALS[3]

2013

48.1p

2012

49.8p

DIVIDEND PER £1 SHARE

2013

25.15p

2012

24.50p

NET ASSETS PER £1 SHARE[4]

2013

£9.81

2012

£9.61

1 2013 is a 52 week year to 29 June 2013

2 2012 is a 53 week year to 30 June 2012

3 Earnings attributable to shareholders before exceptional items divided by the weighted average number of shares in issue during the year The number of shares in issue during the year excludes those held by the company and not allocated to employees under the Share Incentive Plan which are treated as cancelled For the purposes of this calculation 50 B shares are treated as equivalent to one A share

4 Net assets at the year end divided by the number of shares in issue For the purposes of this calculation 50 B shares are treated as equivalent to one A share

VOLUME GROWTH BY BRAND (%)

| SPITFIRE | BISHOPS FINGER | ASAHI |
| --- | --- | --- |
| +2.7% | +1.0% | +9.4% |

PUBS

| 304 | 46 | 350 |
| --- | --- | --- |
| Tenanted or leased pubs | Managed pubs and hotels | Total number of pubs |

FOOD (MANAGED PUBS)

**+5.0%**

Same outlet like-for-like sales growth (LFL)

**£11.23**

Food spend per head

ACCOMMODATION (MANAGED PUBS)

**+7.9%**

Same outlet like-for-like sales growth (LFL)

**£48**

Revenue per available room (RevPAR)

**73.2%**

Room occupancy

LETTING ROOMS

**501**

Total rooms

**270**

Managed pubs and hotel rooms

**231**

Tenanted and leased pub rooms

TOTAL CORE CAPITAL EXPENDITURE

**£10.1m**

ACQUISITION CAPITAL EXPENDITURE

**£3.6m**

## This year is notable for major strategy development and positive new initiatives in our beer business

**M H Templeman** | Chairman

I am pleased to report a solid performance in difficult market conditions for the 52 weeks to 29 June 2013 and a strong start to our new financial year

The year is also notable for major strategy development and positive new initiatives in our beer business

Turnover increased by +1 4% to £134 9m (2012 £133 0m) A key feature of our financial results is that they are for the 52 weeks to 29 June 2013 compared with 53 weeks for the previous year Operating profit before exceptionals was level at £12 7m (2012 £12 7m)

On 25 July 2013 post the year end, the company entered into a new logistics agreement and carried out a Board and Business reorganisation As a consequence the company will incur an exceptional charge estimated in the region of £1 7m over the two financial years ending 28 June 2014 of which £1 2m is being recognised in the year ended 29 June 2013

Profit before tax and exceptionals is £8 0m (2012 £8 4m) due to higher interest charges Statutory profit before tax, after recognising the exceptional items in the year and lower property profits is £7 1m (2012 £9 1m) Basic earnings per £1 share are 43 0p (2012 54 6p) and basic earnings per £1 share before exceptional items are 48 1p (2012 49 8p)

During the year the company has generated £19 6m (2012 £19 8m) of earnings before exceptional items interest tax depreciation amortisation loss on sale of fixed assets (excluding property) and free trade loan discounts (EBITDA)

**Strategy development**

During the year the Board has carried out a review to consider how we can streamline activities in our beer business, combine our pub operations and so drive higher returns for the company

As a consequence over the next 12 months we will reorganise the business around two trading divisions, Brewing and Brands and Retail and Tenanted Pubs We have focussed our beer business around core brands, increased our investment in brand advertising and entered a 10 year logistics agreement with Kuehne and Nagel Drinkflow Logistics Ltd (KNDL)

We have also taken an important step to expand our exports with a recent distribution agreement into North America and will be making a phased exit from contract brewing

Investing to build our retail business, in particular around food and accommodation, and improving the quality and profile of our tenanted estate remain key to our plans These initiatives are set out in more detail in the Chief Executive s report

**Board of Directors**

As a result of the logistics agreement with KNDL the company will reorganise the Board around two trading divisions

- Graeme Craig, currently Sales and Marketing Director will become Director of Brewing and Brands with effect from January 2014
- Nigel Bunting currently Retail Director will become Director of Retail and Tenanted Operations with effect from July 2014
- George Barnes currently Tenanted and Property Director will become Property and Services Director with responsibility for all property matters technical services and other commercial issues with effect from July 2014
- Tom Falcon currently Production and Distribution Director, will leave the company at the end of December 2013

This reorganisation is a significant change for the business and was decided upon after very careful consideration of our options Tom is an exceptional individual who has made an outstanding contribution to the company since joining in 2008 and will no doubt make a great success of his next role

As announced with the interim results Bill Brett (48) has joined the Board in September 2013 following the retirement of Randall Nicol Bill is Executive Chairman of the Brett Group, the Kent-based construction and building materials business Randall joined the Board in 2003 and has been of great service to the company during that time He has demonstrated a great passion and understanding for the business

Finally I would also like to note that Frances Lester our Company Secretary retires after this year s AGM after 9 years Robin Duncan (57) who has been with the company since 1975 in a variety of roles and is currently Head of HR will succeed her and combine this with his current duties

I would like to thank all three of them for their invaluable contribution to the business

**Share liquidity**
At the same time as this business and Board reorganisation, the Board has been looking at options to improve the liquidity of our shares following the demise of PLUSMarkets last year and the establishment of ICAP Securities and Derivatives Growth Market (ISDX)

The Board welcomes the fact that our A shares now qualify for ISA investment as of 5 August 2013 and that stamp duty on transfers of our shares is planned to be abolished from 2014 On 9 September 2013 the company s A shares were admitted to the CREST trading platform and the Board has passed a resolution to remove the minimum A shareholding qualification

The Board is committed to continuing as a family business but is undertaking a review to assess the impact of the Company s share capital structure on share liquidity This review is ongoing and the Board intends to update shareholders on progress with our interim results At this AGM the Board is seeking general powers to make market purchases of up to 10% of our A shares in any one year

**Dividend**
A final dividend of 20 15p (2012 19 60p) per £1 A Ordinary Share and 0 403p (2012 0 392p) per 2p B Ordinary Share has been proposed by the Board giving total dividends for the year of 25 15p (2012 24 50p) per £1 A Ordinary Share and 0 503p (2012 0 49p) per 2p B Ordinary Share This gives a total increase in dividend for the year of 2 7%

The final dividend will be paid on 18 October 2013 to shareholders on the register at the close of business on 11 October 2013

**Government and regulation**
After many years of lobbying we were delighted that the Government has finally recognised that the industry is beset by excessive levels of taxation In his 2013 Budget the Chancellor announced that he would scrap the so-called beer duty escalator , first introduced in 2008 and cut the excise duty by 1p per pint in March This is the first cut in beer duty since 1959 and was passed on to our customers immediately

In January 2013 the Department of Business Innovation and Skills announced that it plans to put the Industry Code of Practice for the letting of tied pubs on a statutory basis and appoint an Independent Adjudicator to address unfair practices in the industry These proposals have been put out to consultation and the decision is expected to be announced in the autumn of 2013 This regime is intended to apply only to large companies with more than 500 pubs and is not anticipated to apply directly to Shepherd Neame

**Summary**
This has been a year of significant change for the business, with the Board taking decisive and positive steps to improve returns from the business for the future The challenge over the next 12 months will be to implement these changes successfully

We are encouraged by the investments we have made in our brands and pub portfolio and believe that the Company s assets give us exposure to areas of the market where there is growth potential

We are also pleased to note signs of economic recovery and increased consumer confidence over the summer as has been reflected in the strong start we have made to our new financial year We believe the business is well positioned should this recovery be sustained

**M H Templeman**
Chairman

## BREWING AND BRANDS

We have carried out a comprehensive review of our beer portfolio Our aim is to focus our capacity on our own and licensed brands In the Heritage range we have revived several old recipes under retro packaging

**SPITFIRE CAMPAIGN |** We have increased our investment in Spitfire following an agreement to engage comedy duo Armstrong and Miller for their well-known "Spitfire Pilot" characters and run a multi-media campaign in July 2013

**BISHOPS FINGER |** We have developed new packaging for Bishops Finger which will be introduced into the market in autumn 2013

**THE WHITSTABLE BAY COLLECTION |** We have re-launched and extended the Whitstable Bay brand with new livery for a Pale Ale and Blonde lager to complement the already successful Organic Ale

"We have grown revenue, achieved strong like-for-like retail sales and good volume growth in our core brands

**Jonathan Neame | Chief Executive**

I am pleased to report a satisfactory performance for the 52 weeks to 29 June 2013 in the face of very challenging market conditions and cost pressures

The beer and pubs market was difficult in a number of respects for the 12 months to June 2013 with UK beer volume down -4 8% (2012 -1 2%)* Factors that influenced this were

- A wet and dull summer in 2012 followed by a cold spring in 2013
- Disappointing trade in August 2012 as the much-anticipated tourism from the London 2012 Olympics did not materialise
- Increased caution from the consumer as the economy during the last year continued to falter

These conditions particularly impacted On Trade beer volumes as many pub gardens remained empty and footfall was reduced It was only at the very end of our financial year that trading conditions started to improve However recent trading in the summer of 2013 has demonstrated that demand for visiting the pub as a great family and leisure experience remains as high as ever when conditions suit

Against this background we have grown revenue achieved strong like-for-like retail sales achieved good volume growth in our core brands and maintained operating profit before exceptionals level with 2012 in a shorter trading period (52 weeks in 2013 versus 53 weeks in 2012)

Our retail business goes from strength to strength our tenanted performance has been robust in the context of declining On Trade beer volumes and national sales and export businesses continue to enjoy good growth as we expand our customer base and develop our beer portfolio

**Brewing and Brands**

Overview

For the sixth year in a row our beer volume outperformed the market Total beer volume on a comparable 52 weeks to 29 June was down -1 3% but underlying own beer volume adjusted to exclude contract brewing was up 0 9% Own beer volume for the 52 weeks to 29 June 2013 was 246 000 BBs (2012 53 weeks 252 000 BBs)

Our core brands have again been the main drivers for growth with Spitfire +2 7% on a comparable 52 week basis Bishops Finger +1 0% and Asahi Super Dry +9 4% Samuel Adams grew very strongly but off a smaller base

This volume growth has been delivered in the context of increased cost pressures following the sudden collapse of a major wholesale customer and a tenfold spike in the cost of glass recycling which impacts the cost of our bottle production

As noted in last year s annual report the company has delivered a substantial project building a new water recovery plant for the brewery The total project cost over three financial years is £3 6m of which £3 1m fell in 2013 This investment is required now as we near the end of a long-term agreement with our local water company and will result in ongoing charges increasing by £0 7m

Portfolio Review

During the year we have carried out a comprehensive review of our beer portfolio Our aim is to focus our capacity on our own beers and licensed brands Consequently we have categorised our own and licensed brands into three categories (see below)

In the Heritage range we have developed new packaging for 1698 and Bishops Finger the latter of which will be introduced into the market in the autumn of 2013 We have also revived several old recipes such as Double Stout IPA and Brilliant Ale under retro packaging

In the Mainstream range we increased our investment in Spitfire following an agreement to engage the comedy duo Armstrong and Miller for their well-known Spitfire Pilot characters to promote our beers We have carried out a multi-media advertising campaign with TV coverage and strong trade support during July 2013 and have received an excellent consumer reaction This high-profile campaign will lead to an incremental cost of £0 4m in 2014

| | Heritage | Mainstream | Discovery/Craft |
|---|---|---|---|
| **Style** | Connoisseur beers for special occasions | Regular beers | Premium world craft beers |
| **Core Brands** | Bishops Finger<br>1698<br>Classic Collection | Spitfire,<br>Master Brew<br>Oranjeboom | Asahi Super Dry<br>Samuel Adams<br>Whitstable Bay Collection |

* Source The British Beer & Pub Association

**EXPORTS** We have concluded a partnership with Moosehead Breweries for them to act as distributors in Canada and the US

**THE SPITFIRE GROUND, ST LAWRENCE,** home of Kent Country Cricket Club

We have complemented this investment with brand partnership and sponsorship activity and have entered into a new agreement with Kent County Cricket for the naming rights of their ground now to be called The Spitfire Ground St Lawrence We are now sponsors of the Varsity rugby match at Twickenham and supply beer at Oxford and Cambridge University sporting fixtures We have continued with our very successful partnerships with the RAF and the Movember Charity

In the Discovery range we have re-launched and extended the Whitstable Bay brand at the year end with a new livery for the range and a Pale Ale and Blonde Lager to complement the already successful Organic Ale We plan further range extensions during the coming year

We support arts music entertainment and prestige sporting events and have retained the excellent profile for our target market for Asahi Super Dry, supporting such activities as the Masters Tennis at The Royal Albert Hall and events at major London venues such as The Serpentine Gallery

We believe that this portfolio provides our customers with a comprehensive and exciting range of products to meet the different needs of today s consumers and see volume potential arising in a number of areas

### Growth Opportunities

In order to grow our own beers and brands we have explored opportunities in new markets and since the year end we have concluded a new partnership with Moosehead Breweries Limited in Canada for them to act as importers and distributors in Canada and the US We believe they are an excellent partner and are optimistic about these markets

We have experienced good growth in Sweden following the appointment of a new distributor and have strong interest from other markets

For more than 23 years we have produced Kingfisher Beer under a brewing and distribution contract The brand represented 18 6% of own produced beer volume at the year end But as previously announced we will make a phased exit from this business, with bottle production ceasing in October 2013 and keg production in December 2014

We are confident that the discontinued contract volume will be covered by the volume arising from our new brands and sales initiatives and will result in better use of our plant capacity

### Business reorganisation

Following this portfolio review the company has carried out a reorganisation of the beer business to create a single Brewing and Brands division under Graeme Craig This has involved two phases

- In March 2013 15 positions became redundant and roles in production and sales and marketing were consolidated
- In July 2013 the company entered into a ten year logistics agreement with Kuehne and Nagel Drinkflow Logistics Limited (KNDL), a wholly owned subsidiary of Kuehne and Nagel Ltd for them to provide distribution and warehousing services to the company

Good as it is, our logistics operation is subscale and restricts Shepherd Neame s ability to grow outside its heartland Under the agreement KNDL and Shepherd Neame will combine their existing operations which currently both operate out of the Shepherd Neame Distribution Centre (SNDC) Faversham This will maintain the warehousing and distribution operations in Faversham as a key hub in the KNDL network

The deal will see KNDL take over responsibility for local and national drinks distribution including to Shepherd Neame s 350 pubs and hotels Shepherd Neame will retain ownership of the warehouse site and manage customer services

The agreement will enhance the nationwide distribution of the brewery s brands and allow the company to pursue trading and business development opportunities beyond its Kent heartland

The company has worked hard to ensure that as many jobs as possible have been retained in Faversham within the new operation and that SNDC becomes an integral part of the KNDL network A very limited number of redundancies is anticipated

The process of transferring operations is targeted to complete during October 2013 Annualised savings in the region of £2 0m are expected to arise from this Business and Board reorganisation

## PUBS AND HOTELS

We operate 350 pubs and hotels, of which 306 are freehold Of these 46 are managed and 304 are tenanted or leased

**THE MARINE HOTEL** | The largest single development project was the complete refurbishment of The Marine Hotel, Tankerton with a spend in the year of £1 4m

**THE ROYAL HOTEL** | The major investment focus during the year was to upgrade letting rooms across the retail estate including The Royal Hotel Deal

**THE SHAKESPEARE, CANTERBURY**
In our pub investments, we provide a turnkey service to develop the pub design the interior provide all fixtures and fittings as well as pre- and post opening training and support

**FOOD** In the last year we have provided a catering advisory and menu design service for our tenanted pubs

**Retail and tenanted pub operations**

**Overview**

At the year end we operated 350 (2012 354) pubs and hotels of which 306 are freehold Of these 46 (2012 44) are managed and 304 (2012 310) are tenanted or leased

Our strategy is to grow our mix of retail business improve the quality of our pub estate, own and operate the best outlets within our heartland increase our exposure to food and accommodation and reduce our exposure to small wet-led outlets

Since 2007 we have made significant progress against this strategy

- Revenue in our retail business is 30% higher than 2008
- Food sales represent 29 5% and accommodation 10 1% of total managed turnover
- We own many of the best tenanted pubs in our geographic heartland They are well invested and we actively support our partners to build their businesses
- At the year end we operated pubs and hotels with 501 letting rooms (2012 476) of which 270 are in the managed estate (2012 246) and 231 in our tenanted estate (2012 230)
- Since 2007, we have acquired 31 pubs and hotels and disposed of 58 predominantly small community tenanted pubs

We have targeted our acquisition and investment strategy on outlets with a broad range of facilities of individual character and in high profile or unique destinations In 2013 we have acquired a further two prestigious outlets The Royal Wells Hotel in Tunbridge Wells and adjacent pub The Beau Nash which are both operated under management

Total investment in our estate was £9 9m (2012 £20 6m) of which £3 6m (2012 £15 4m) was invested in acquisitions £4 6m (2012 £3 7m) on development and maintenance capex and £1 7m (2012 £1 5m) on repairs We continue to dispose of small community tenanted pubs that no longer fit the long-term profile of the estate and have realised proceeds of £2 7m (2012 £3 5m) from the disposal of six (2012 12) pubs and one unlicensed property (2012 two small parcels of land)

**Managed pubs and hotels**

Our retail business has again been a strong performer Same outlet like-for-like sales on a 52 week basis were up 3 3% (2012 +7 6%) with liquor +2 0% (2012 +6 2%), food +5 0% (2012 +10 9%) and accommodation +7 9% (2012 +7 0%) Average earnings before interest tax depreciation and rent payable (EBITDAR) per managed pub is up 4 0% (2012 +10 9%) This shows sustained and good growth over a two year period

We have seen excellent performances from many of our sites in London, in particular the Spanish Galleon in Greenwich and Jamaica Wine House A few individual sites benefited from trade from the London 2012 Olympics notably the Westminster Arms and Crown, Blackheath, but overall the impact was neutral

The major investment focus during the year was to upgrade letting rooms across the retail estate namely at the Sun, Faversham The Royal Hotel Deal and the Dog and Bear Hotel in Lenham But the largest single project was the complete re-development of The Marine Hotel Tankerton with a spend in the year of £1 4m which has performed above expectation since reopening

We are very pleased with the results of these projects and have subsequently committed major upgrades and redevelopment of The Fayreness Hotel Kingsgate and The Bell Hotel Sandwich for a total capital expenditure in the region of £1 7m We are working on plans for a similar scale development at the newly acquired Royal Wells Hotel Tunbridge Wells in 2015

This investment in accommodation is proving very successful with revenue per available room (RevPAR) growing significantly over two years to £48 (2012 £43) and occupancy similarly taking a step up this year to 73% (2012 66%) We receive positive comments and feedback from our customers and from online reviews about the quality of rooms and level of service

Throughout the year we have continued to develop our expertise in food service with regular training and support for our chefs and managers Food spend per head has remained level at £11 23 (2012 £11 23) but we have seen an increase in food turnover on the back of increased customer numbers

The all-round performance of our retail team with strong and sustained operational and financial results was recognised in the annual Publican Awards where we won Best Managed Pub Company (2-50 sites)

**Tenanted and leased pubs**

Tenanted estate revenues were down -1 1% (2012 +2 2%) for the 52 week period Like-for-like EBITDAR declined by -1 0% or by -0 5% adjusted to exclude six pubs closed for disposal This is a creditable performance given the pressure on On Trade beer volume during this period where the market has declined at 4 9%

We continue to improve the quality of our estate through selective investment At the end of 2012 we acquired five tenanted or leased pubs and in 2013 we have sold six smaller outlets Average EBITDAR per tenanted pub has consequently continued

**ZETLAND ARMS** We have made several successful developments in the year including The Zetland Arms Kingsdown

**PUB AWARDS** We won Best Managed Pub Company (2-50 sites) at the annual Publican Awards

to grow and is up by 3 0% (2012 +2 7%) The new acquisitions are all performing in line with expectation

We continue to increase the investment in our estate with total expenditure of £3 1m (2012 £2 6m) In the majority of our investments we now provide a turnkey service to develop the pub design the interior and provide all fixtures and fittings as well as pre- and post opening training and support In others we will provide matched funding to support entrepreneurial licensees in realising their own vision We have made several successful developments in the year notably The Zetland Arms Kingsdown The Orange Tree Wilmington The Nailbox Shorncliffe and The Tudor Rose, Upnor

To meet the changing needs of our licensees and their customers we have continued to evolve our tenanted support to provide additional services at no extra charge New services of particular note in the last year are

- Dedicated catering advisory and menu design services
- Bespoke coffee supply package
- Enhanced range of national lagers
- Enhanced guest beer portfolio
- Improved procurement packages
- Enhanced digital marketing support
- Improved property help desk
- Enhanced induction programme for new licensees
- Enhanced online training for tenants

The outcome of these initiatives has led to longer retention rates of our licensees and high satisfaction scores in independent surveys We continue to see an upward trend in the quality and quantity of applicants for our pubs with the lowest number of pubs available to let at the year end since before the recession

Furthermore we now attract nearly twice as many applicants per annum for our tenanted pubs than we did five years ago

The tenanted and leased model continues to evolve to match the changing nature of the pub Consumers now demand a wider choice of products higher service levels and a high quality environment We are rapidly adapting our model to suit these needs

**Current trading**

We have made substantial investments to our pubs and brand portfolio in recent years of economic downturn and it is encouraging to see that as both weather and economic conditions have improved we have experienced a good growth in sales

In the 10 weeks to 7 September 2013 like-for-like managed house sales are up by 10 2% like-for-like EBITDAR in the tenanted estate (to 31 August 2013) is up 1 7% Total beer volume is up 9 3% with own beer volume up 11 9% Core brands have performed well especially Spitfire

We do not expect this exceptional rate of growth to be sustained during the winter months but are clearly encouraged by the demand for our products, pubs and services as the sun shines This also gives us momentum as we enter a period of implementing the strategic change around the logistics outsource and Board and Business reorganisation

**Summary**

This has been a challenging year for trading particularly in the On Trade but we have achieved a creditable performance

We have taken decisive action in a number of areas to strengthen the business, in particular the enhancements to our beer portfolio the logistics agreement with KNDL and consequential beer business reorganisation, as well as the investment in accommodation and improvement in our tenanted package

We continue to seek opportunities to make selective acquisitions and disposals should the right opportunities arise to drive up the quality of our estate

We will be in transition over the next 12 months as we implement the logistics agreement and the change in responsibilities at Board level I would like to thank our staff and licensees for their hard work commitment and adaptability to change

**J B Neame**
Chief Executive

FINANCIAL REVIEW

| Summary profit and loss account | 2013[1] £ 000 | 2012[2] £ 000 | Change |
|---|---|---|---|
| Turnover | 134 906 | 133 025 | 1 4% |
| Operating profit before exceptional items | 12 708 | 12 704 | 0 0% |
| Operating margin before exceptional items | 9 4% | 9 6% | (0 2%) |
| Operating exceptional Items | (1 243) | - | (100%) |
| Net finance costs | (4 675) | (4 292) | (8 9%) |
| Exceptional property profits | 317 | 649 | (51 2%) |
| Profit before tax | 7 107 | 9 061 | (21 6%) |
| Profit before tax and exceptional items | 8 033 | 8 412 | (4 5%) |
| Taxation | (1 637) | (2 112) | 22 5% |
| Profit after tax | 5 470 | 6 949 | (21 3%) |
| Basic earnings per share | 43 0p | 54 6p | (21 2%) |
| Basic earnings per share before exceptional items | 48 1p | 49 8p | (3 4%) |

**Results** Turnover for the 52 weeks ended 29 June 2013 increased by 1 4% (2012 +9 6%) to £134 9m (2012 £133 0m) and operating profit before exceptional items was flat (2012 +3 7%) at £12 7m (2012 £12 7m) Turnover growth was driven by performance in the Off Trade Export and Managed Houses offset by 2012 including an additional trading week On a comparable 52 week basis turnover was up 3 5%

Operating profit benefited from the growth in turnover but was impacted by a bad debt write off following the unexpected administration of a key wholesale customer and further cost pressures resulting from the inflation on glass recycling

In addition to these impacts operating margins reflected the continued mix movement of the business with growth rates in Off Trade Export and Managed House channels ahead of Tenanted trade Operating margin fell 20 basis points from 9 6% to 9 4% and operating margin excluding the impact of duty on turnover was 12 4% (2012 12 5%)

The results and business operations are discussed in more detail in the Chairman s statement and Chief Executive s review

**Exceptional items** The total charge for exceptional items is £0 9m (2012 gain of £0 6m) This comprised three elements

- The business reorganisation charge of £1 2m reflects redundancy costs associated with the reorganisation and accelerated depreciation on assets that will not be used under the new agreement with KNDL The total exceptional charge for this reorganisation is estimated at £1 7m over 2013 and 2014 Moving forward annual benefits in the region of £2 0m are expected to arise of which a half year benefit is expected in 2014
- Property profits of £0 3m (2012 £0 6m) on the sale of six pubs (2012 12 pubs) and one unlicensed property (2012 two pieces of land) were recognised as the business continues to dispose of predominantly small community wet led pubs and unlicensed assets that no longer fit with the Group s long-term strategy At the year end six properties were pending disposal
- A full impairment review was carried out in the year which resulted in the write back of £0 5m of previous impairment charges in relation to five pubs A charge of £0 5m was recognised in relation to the impairment of eight pubs and properties taking the net property impairment charge to £nil In 2012 no charge was incurred

The tax charge on exceptional items of £(0 3)m (2012 £0 04m) related to a tax credit on the business reorganisation charges and a tax charge of £0 02m on the sale of the unlicensed property No tax was payable on the remaining property profits as a result of rollover relief

**Finance costs** Average borrowings increased in the year following the Group s acquisition activity in 2012 where acquisitions were made in respect of two hotels and five pubs for £15 6m A further acquisition of the Royal Wells hotel was made for £3 6m in 2013 meaning that a greater level of drawings were made on the Company s medium term loan and revolving credit facility during the year As a result net interest charges increased by 8 9% to £4 7m (2012 £4 3m)

Interest cover before exceptional items was 2 7 times (2012 3 0 times)

**Taxation** The tax charge after exceptional items was £1 6m (2012 £2 1m) an effective rate of 23 0% (2012 23 3%) The charge was reduced by the tax on rolled over gains on disposal of properties of £0 1m (2012 £0 1m) and the effect of the reduction in the corporation taxation rate on the deferred tax provisions of £0 2m (2012 £0 4m)

Moving to 2014 the company expects the effective tax rate to decrease further with the reduction in the statutory rate The water recovery plant expenditure will attract 100% capital allowances in 2014

**Earnings per share** Basic earnings per £1 share before exceptional items decreased by 3 4% (2012 +7 8%) to 48 1p (2012 49 8p) This reflects operating profits flat with 2012 and lower overall tax rate offset by the higher interest charges incurred to fund acquisitions

| Summary rates of taxation | 2013 Profit £ 000 | Tax £ 000 | Rate % | 2012 Profit £ 000 | Tax £ 000 | Rate % |
|---|---|---|---|---|---|---|
| Profit before tax and tax thereon | 7,107 | 1,637 | 23 0 | 9 061 | 2 112 | 23 3 |
| Business reorganisation and outsourcing | 1,243 | 291 | - | - | - | - |
| Property profits | (317) | (15) | - | (649) | (44) | - |
| Profit before tax and exceptional items and tax thereon | 8,033 | 1,913 | 23 8 | 8 412 | 2 068 | 24 6 |

1 2013 is a 52 week year to 29 June 2013 2 2012 is a 53 week year to 30 June 2012

Basic earnings per £1 share decreased by 21 2% to 43 0p (2012 54 6p) as a result of the exceptional charges associated with the business reorganisation and lower property profits in 2013 following the lower number of disposed properties

**Dividends** Dividends per share paid and proposed in respect of the year increased by 2 7% to 25 15p per A ordinary share (2012 24 5p) and 0 503p per B ordinary share (2012 0 490p) to give total dividends of £3 2m (2012 £3 1m) Dividend cover has decreased to 1 7 times (2012 2 2 times) due to the impact of exceptional items in the year Dividend cover before exceptional items decreased marginally to 1 9 times (2012 2 0 times) following the higher interest charges in the year

**Cash flow and net debt**

| Summary cash flow statement | 2013 £ 000 | 2012 £ 000 |
|---|---|---|
| EBITDA | 19 614 | 19 844 |
| Exceptional items | (507) | - |
| Working capital and other operating cashflows | (84) | 58 |
| **Cash flow from operations** | **19,023** | **19,902** |
| Interest | (4 528) | (5 037) |
| Tax | (2 333) | (2 684) |
| Dividends | (3 140) | (3 058) |
| Purchase of own shares | - | (510) |
| Disposal of fixed assets | 2 742 | 3 457 |
| **Cash flow pre capital investment** | **11,764** | **12,070** |
| Core capital expenditure | (10 123) | (7 680) |
| Net loans to customers | (5) | (24) |
| **Cash flow pre acquisitions** | **1,636** | **4,366** |
| Acquisition of pubs and hotels | (3,648) | (15 578) |
| **Net cash outflow for the year** | **(2,012)** | **(11,212)** |
| Movement in loan issue costs | (619) | 348 |
| **Closing net debt** | **(78,413)** | **(75,782)** |

EBITDA declined by 1 2% to £19 6m (2012 £19 8m) despite operating profit being level with 2012 due to the impact of the 53rd trading week in 2012 which was partly offset by the accelerated depreciation taken on short life assets On a 52 week comparable basis EBITDA was up £0 5m (2 4%) There was a net cash outflow from short-term working capital movements of £0 1m mainly due to an increase in debtors in relation to the timing of marketing payments As a result of these two factors the net cash inflow from operating activities decreased by 4 4% to £19 0m (2012 £19 9m)

The total cash cost of interest tax and dividends decreased by £0 8m to £10 0m (2012 £10 8m) Due to 2012 being a 53 week financial year, the Group made five quarterly interest payments on its debt facilities versus four in 2013 and will make three in 2014 A further £0 3m decrease in corporation tax payments resulted from the reduction in the statutory tax rate

No shares were purchased during 2013 During 2012 a purchase of 71 241 shares for £0 5m was made to service the Group s obligations under employee incentive plans

Cash spend on capital expenditure was £13 8m down from £23 3m in 2012 This was driven by a reduction in acquisition capital expenditure where in 2013 one hotel and adjoining pub were purchased for £3 6m in contrast to 2012 where acquisition expenditure of £15 6m was made in relation to two hotels and five pubs Core capital expenditure was £10 2m (2012 £7 7m) reflecting the investment in the water recovery plant of £3 1m and the major refurbishment of The Marine Hotel of £1 4m Proceeds of £2 7m (2012 £3 5m) were realised from the sale of six pubs (2012 12 pubs) and one unlicensed property (2012 two pieces of land)

**Financing and loan facilities** Following the refinancing of the Company s medium-term facilities in 2012 a further £6 0m was drawn on the five year term loan taking total drawings on this facility to £18 0m (2012 £12 0m) The remaining £2 0m of the facility has lapsed At the year end no drawings (2012 £5 0m) were made on the £10 0m revolving credit facility also maturing in 2017

The medium-term facilities provide certainty of funding until 2017 The 20 year term loan maturing in 2026 remains unchanged meaning total committed facilities of £88 0m are in place together with a £5 0m overdraft facility which is renewable in June 2014

Interest on the 20 year term loan was fixed by swap contracts to give an effective rate of interest of 5 94% Interest on the £18 0m loan and the revolving credit facility is based on LIBOR plus a margin of between 3 00% and 5 25% This has not been fixed by a swap contract

**Balance sheet**

Overall there was a £4 0m increase in tangible fixed assets (2012 increase of £13 2m) This reflected core capital expenditure of £10 1m (2012 £7 4m) the acquisition of a hotel and adjoining pub (2012 two hotels and five pubs) for £3 6m (2012 £15 4m) offset by the disposal of six pubs (2012 12 pubs) and depreciation of £7 1m (2012 £6 4m)

As a result of the acquisition expenditure in the year net debt has increased by £2 6m to £78 4m (2012 £75 8m)

Shareholders funds at 29 June 2013 were £125 8m (2012 £123 2m) meaning that net assets per £1 share showed an increase of 2 1% at £9 81 (2012 £9 61) This reflects the ongoing underlying profitability and asset quality of the business

Balance sheet gearing at the year end was 62% (2012 62%) following the acquisitions completed in the year The ratio of net debt to EBITDA at the year end was 4 0 times (2012 3 8 times) If no acquisitions had been made in the year the revised ratio of net debt to EBITDA would have been 3 8 times

**Treasury policy and financial risk management** The policy for managing treasury and financial risk is as set out in note 26

**Accounting standards** The Group has not adopted any new Financial Reporting Standards during the year

## OUR COMMUNITY

**MOVEMBER** is a global charity raising awareness of men s health issues, supported by Spitfire Ale We have raised £63 420 for the charity during the year

CORPORATE SOCIAL RESPONSIBILITY

**LICENSEE AWARDS** Shepherd Neame Licensee Award winners 2013

**ASAHI MUSIC** Lusty Glaze Music Festival Cornwall 2013

## Responsible retailing

Shepherd Neame is committed to operating pubs and hotels of high quality which take their responsibility to their customers and communities seriously We believe the pub is a community asset that should provide a friendly safe environment for its customers

- We support the Government s Drinkaware Trust campaign
- We support the Challenge 21 initiative
- We are active participants in initiatives such as the Kent Community Alcohol Partnership, that have brought together councils, the police and the health service with alcohol producers and retailers at the local level
- Shepherd Neame executives are active in a number of public debates relevant to the beer industry Chief Executive Jonathan Neame is Chairman of the British Beer and Pub Association and formerly Chairman of the Future Beer Group Tenanted Trade Director George Barnes is South East Regional Chair of the Institute of Licensing Retail Director Nigel Bunting is Chairman of the Independent Family Brewers of Britain Operations Group Production Director Tom Falcon is Chairman of the BRI (Brewing Research International) Supervisory Committee
- We have been accredited by the British Institute of Innkeeping Benchmarking and Accreditation Service (BIIBAS) for our Code of Practice for Tenancies and are active participants in the debate to improve transparency and disclosure between landlords and tenants
- Our Tenanted Business Development Managers were some of the first to qualify for the new BII Professional Certificate in Multiple Retail Management

## Environment

Shepherd Neame is very proud of the standards it achieves for environmental management in activities such as raw materials handling water supply transport pollution control, waste management and recycling

- We were the first UK brewery to attain full accreditation for ISO 14001
- We have completed the installation of a water recovery plant that will enable the recovery and re-use of our waste water and reduce our water-to-beer ratio to an industry-leading 3 1 This will significantly reduce the amount of water we extract from our artesian well
- We have responded to the expanding off-trade market while adhering to our company values The brewery s new bottling hall was opened in June 2010 It has enabled us to reduce our energy and water consumption particularly by switching from tunnel pasteurisation to flash pasteurisation
- Over the past decade we have reduced our energy consumption in the bottling hall by 27% The brewery has switched to the exclusive use of lightweight glass for its bottled beers resulting in a saving of 20% in glass usage
- We have installed ammonia charged brewery refrigeration plant to replace the existing R22 refrigerant gas-based plant
- As manufacturers we rely heavily on air compressors We have invested in an intelligent online monitoring system to control consumption and will improve energy efficiency by up to 10%
- We work well within the Government s Energy Efficient Quotient
- We run Euro V Volvo trucks equipped with a new generation of diesel engines with lower fuel consumption and extremely low emissions We are taking active steps to reduce $CO_2$ emissions of company car users
- Our PDX wort boiling system uses direct steam injection to heat the wort in-line and this has reduced our energy consumption during this stage of the process by 50%
- We were the first UK brewery to be awarded a Feed Materials Assurance Scheme certificate guaranteeing the quality and traceability of the brewery s spent malt and yeast for agricultural feed We recycle 97% of the grain and hops used in the brewing process All spent produce is used as animal feed
- We audit environmental policies and procedures of all major suppliers to the brewery

## Employees

We are justifiably proud of our dedicated staff many of whom have very long service and are the fourth and fifth generations of local families working for us

- 222 employees have at least 10 years service
- 62 employees have at least 20 years service
- 19 employees have at least 30 years service
- 6 employees have at least 40 years service

**VARSITY** We are sponsors of the Varsity rugby match at Twickenham

**VISITOR CENTRE AWARD**
Our Visitor Centre won a Gold Award for Green Tourism for implementing and promoting sustainable practices

There is regular communication on company strategy and developments feedback and ideas are encouraged

- We run an active Sports and Social Club that takes part in a number of matches and events We also host a children s Christmas party a family summer outing shopping trips and visits to sporting events
- We encourage all staff to develop their personal and business skills and to be aware of their responsibilities to the customer and to the law
- We give achievement awards to those who have made a special effort to improve their skills and qualifications
- We achieved a Grade 1 Outstanding rating for training provision in the 2013 annual monitoring visit by the BII
- We offer BII apprenticeships within our managed estate in conjunction with LeSoCo as part of our supervisor training programme
- We actively endorse Government initiatives to give young jobseekers skills work experience and apprenticeships and have worked with Jobcentre Plus and The Skills People in this regard
- Our staff support a variety of charities including Wear it Pink, Race for Life Jeans for Genes Arthritis UK and the Macmillan World s Biggest Coffee Morning and have participated in many other fundraising events including marathons bicycle rides and outdoor pursuits
- We have a well-attended Pensioners Club that meets once a week to play dominoes and cribbage The pensioners have a summer outing Christmas lunch and other activities throughout the year

**Community**
Shepherd Neame has supported the community it serves for many years

- We launched Spitfire Premium Kentish Ale in 1990 to raise money to help RAF veterans To date fundraising efforts for RAF veterans charities have netted more than £350 000 In 2013 we were presented with a special award from the RAF Benevolent Fund to recognise our long-standing commitment and contribution to the charity
- We invest around £500,000 annually on sports sponsorship usually linked to the supply of drinks from grassroots to county level In 2013 we entered into a 10 year naming rights agreement with Kent County Cricket Club to rename their Canterbury headquarters The Spitfire Ground St Lawrence The Company also sponsors local leagues and provides equipment for community sides We support a variety of sports including cricket, rugby football and traditional pub games such as bat and trap We also support a number of summer events music festivals regattas airshows and the Kent County Show
- We take great pride in supporting the town of Faversham and the county of Kent through events such as the Faversham Hop Festival Faversham Transport Travel Through Time Weekend and local food and drink weekends We sponsor the Faversham Christmas Lights the town s Food Trails Walking Project and the Kent Messenger Group s countywide Big Quiz
- We support local tourism through our membership of Visit Kent and our £1 6 million development of the Marine Hotel was seen as a major investment in East Kent tourism
- Our Visitor Centre is a multi-award winner small visitor attraction and plays a vital role in the Kent tourism offer Most recently it received a gold award from the Green Tourism Business Scheme for its continuing work implementing and promoting sustainable practices
- We have continued our support of the armed services by the publication of an e-book of pub walks launched in aid of the charity Combat Stress We support Help for Heroes
- Land at Queen Court Farm has been set aside to house part of the National Hop Collection of historic varieties of hops which are used for research and development to benefit this vital British industry
- We invite local farmers hop growers, food suppliers, people from other associated industries and civic guests to our annual Hop Blessing in a local church
- Our pubs are the centres of the communities they serve and they raise considerable sums for charities We actively encourage and support the charitable events they organise with donations and advice We provide numerous prizes and auction lots in kind for charitable events to help raise money for a wide variety of causes ranging from local schools to national charities
- We believe that we own more listed buildings in Kent than any other organisation Our investment in their upkeep helps preserve time-honoured crafts, including thatching signwriting stonemasonry, traditional carpentry and glass-etching

## BOARD OF DIRECTORS

**M H TEMPLEMAN (65)**
CHAIRMAN CHAIRMAN OF THE NOMINATIONS COMMITTEE
Appointed to the Board in March 2002 and became Chairman in October 2005 He stepped down as Director General of the Institute of Directors in September 2012 and was formerly Group Marketing Director of Whitbread and Managing Director of the Whitbread Beer Company where he was responsible for developing Stella Artois into the leading premium lager in the UK In 2001 he took up a variety of directorships and consultancy roles He is currently a Non-Executive Director of the Rugby Football Union Melrose plc Aspria Holdings BV and Fairgrove Partners Limited

**J B NEAME DL (49)**
CHIEF EXECUTIVE
PENSION TRUSTEE
Joined the Company in 1991 Was Company Secretary until July 1994 and Tied Trade Director until 1999 when he was appointed Managing Director he was appointed Chief Executive in 2003 He is a Barrister-at-law and was a Management Consultant with the COBA Group from 1987 to 1991 He is a Non-Executive Director of the St Austell Brewery Company Ltd and a Trustee of the Leeds Castle Foundation He is Chairman of the British Beer and Pub Association

**M J RIDER (37)**
FINANCE AND IT DIRECTOR
Appointed to the Board in February 2012 He joined the Company from J Sainsbury plc where he was head of Finance Food since 2008 He joined Sainsbury s in 2001 and held a number of senior finance roles including Head of Financial Planning and Corporate Finance and Group Financial Controller Prior to joining Sainsbury s he qualified as a Chartered Accountant with PricewaterhouseCoopers (UK) He is a Fellow of the Institute of Chartered Accountants

**O W A BARNES (62)**
NON-EXECUTIVE DIRECTOR
CHAIRMAN OF THE REMUNERATION COMMITTEE
Appointed to the Board in October 2005 He was a partner and consultant to City solicitors Travers Smith for over 30 years until his retirement in 2012 and sat on the Company Law Committee of the Law Society for over 12 years

**J H LEIGH-PEMBERTON CVO (56)**
NON-EXECUTIVE DIRECTOR
CHAIRMAN OF THE AUDIT COMMITTEE
Appointed to the Board in September 2004 He is Chief Executive of Credit Suisse UK He is also a Non-Executive Director of RIT Capital Partners plc

**R L NICOL (66)**
NON-EXECUTIVE DIRECTOR
PENSION TRUSTEE
Appointed to the Board in November 2003 He is a retired Scottish qualified solicitor and previously served in the Scots Guards He has other business interests in agriculture forestry insurance and leisure He retires from the Board on 12 September 2013

**W J BRETT (48)**
NON-EXECUTIVE DIRECTOR
Appointed to the Board on 12 September 2013 on the retirement of Mr R L Nicol He is Executive Chairman of Robert Brett & Sons Ltd and Chairman of the Mineral Products Association

**G H A BARNES (59)**
PROPERTY AND TENANTED TRADE DIRECTOR
Joined the Company in 1978 He is a chartered surveyor and was appointed to the Board in January 2001 He is also a Director of the Institute of Licensing and Director of the Pub Regulatory Board Will become Property and Services Director with responsibility for all property matters technical services and other commercial issues with effect from July 2014

**N J BUNTING (46)**
RETAIL DIRECTOR
Joined the Company in 1993 He has held various management positions including responsibility for the Free On Trade and National Sales He was operations manager for Tenanted pubs from 2001 to 2003 as well as retail pubs operations manager from 2003 He was appointed to the Board in August 2005 He is a Non-Executive Director of Davy & Co Ltd Chairman of the Independent Family Brewers of Britain Operations Group and a Director of Visit Kent Will become Director of Retail and Tenanted Operations with effect from July 2014

**G R CRAIG (42)**
SALES AND MARKETING DIRECTOR
Joined the Company in May 2006 and was appointed to the Board in July 2006 He was previously at PepsiCo for 12 years latterly as Convenience Director responsible for Walkers Quaker and Tropicana products Will become Director of Brewing and Brands with effect from January 2014

**T W FALCON (44)**
PRODUCTION AND DISTRIBUTION DIRECTOR
Appointed to the Board in July 2008 he worked for Maersk Company Ltd part of the A P Moller-Maersk group the world leader in transportation where he was Director of Strategy and Process Excellence Prior to Maersk he spent three years with A T Kearney management consultants He is a member of the British Beer and Pub Association s Future Beer Group and Vice-Chairman of Campden BRI Will leave the company at the end of December 2013

**R H B NEAME CBE DCL DL (79)**
PRESIDENT CHAIRMAN OF THE PENSION TRUSTEES
Joined the Company in 1956 and was appointed to the Board in 1957 Was appointed Executive Chairman in 1971 and served in this role until October 2005 He retired from the Board in June 2006 He is the Company s first President and is Chairman of the trustees of the Shepherd Neame Company Retirement Account In July 2008 he received an Honorary Doctorate in Civil Law at the University of Kent and in 2010 he was appointed an Honorary Alderman by Kent County Council in recognition of his service to the County Council and the people of Kent

**F J LESTER (65)**
COMPANY SECRETARY
Joined the Company as Company Secretary in September 2004 She qualified as a Chartered Secretary in South Africa where she worked in the manufacturing sector On return to the UK in 1986 she initially worked in the same sector and then in the leisure industry as Company Secretary for the Tussauds Group Will retire after this year s AGM and is succeeded by Robin Duncan (57) who is currently head of HR

The Board has put in place a framework for corporate governance which it believes is appropriate to the Company

The Company is a private company and its A shares are quoted on the ISDX Growth Market which enjoys certain personal tax advantages for our shareholders compared to a full stock market listing The Company s B shares are owned by direct descendants of Percy Beale Neame and their spouses These shares can only be transferred to direct relatives of the holder or other B shareholders The B shares account for 86% of the voting rights of the company which is a close company for taxation purposes

As an ISDX market company Shepherd Neame is not required to comply with all aspects of The Combined Code on Corporate Governance However the Board is committed to maintaining the highest standards within the Company

**The Board**

The Board currently comprises the Non-Executive Chairman the Chief Executive three Non-Executive and five Executive Directors The biographical details on pages 20 and 21 show the broad range of experience and skills the Directors bring to the Board

One third of the Directors are subject to re-election by rotation at the Annual General Meeting each year All newly appointed Directors stand for election at the Annual General Meeting following their appointment

The Board meets regularly throughout the year Its responsibilities include approving the Company s strategy and annual budget authorising major investments acquisitions and capital expenditure and monitoring the performance of the business

**Committees of the Board**

Executive

The Executive Committee of the Board comprises the Executive Directors and is chaired by the Chief Executive It meets monthly to review operating performance and has delegated authority from the Board to deal with operational matters

Nomination

The Nominations Committee is chaired by Miles Templeman and comprises the Non-Executive Directors The committee is responsible for identifying and proposing prospective candidates for Directors for consideration and appointment by the Board as a whole

Audit

The Audit Committee is chaired by James Leigh-Pemberton and comprises the Non-Executive Directors The Chief Executive Finance Director and external auditor attend its meetings by invitation The Committee has defined terms of reference reviews the audit appointment periodically discusses the audit plan with the auditor and recommends approval of the financial statements to the Board

Remuneration

The Remuneration Committee is chaired by Oliver Barnes and comprises the Non-Executive Directors It meets regularly and determines on behalf of the Board the remuneration package of the Executive Directors The remuneration of the Non-Executive Directors is decided by the Board as a whole The Remuneration Committee is also responsible for approving the bonus targets and payments for the Company s Directors and Senior Managers

In coming to these decisions the Remuneration Committee considers the overall performance of the Company and of the individual Directors and Senior Managers and the performance of our national and regional competitors External consultants are used periodically to help with these decisions

The Company aims to ensure that remuneration packages for Executive Directors are competitive and comparable with companies of a similar size complexity and activity and are designed to attract retain and motivate Executive Directors with appropriate skills and capabilities Remuneration comprises fixed remuneration (salary and other benefits) and performance-related remuneration (primary and secondary share options in accordance with the rules of the 2005 scheme and cash bonuses) designed to motivate maximum performance Details of remuneration and share options are in the notes to the financial statements

**Internal control**

The Board acknowledges its ultimate responsibility for the system of internal control within the Company and for its effectiveness The system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss

The Board has carried out an assessment of the key operational and financial risks for the Company the control exercised at Board level the controls relied upon by the Board and the exceptions for consideration by the Board This review is updated on a regular basis

The responsibility for the implementation and day-to-day operation of the systems of internal control within the business is delegated to the Chief Executive and Executive Directors and through them to members of management and staff Key features of the system of internal control include a detailed review of performance against budgets and forecasts which are subject to scrutiny and approval reports to the Board from each operating area, a requirement for authorisation of capital expenditure following formal investment appraisals and a close involvement of the Executive Directors in the operation of the business

The Company does not have an internal audit function and the Board does not consider that one is required for a business of our size Ongoing quality visits and counts by independent stocktakers provide assurance over activities in the managed pub estate Within the brewery the quality control procedures ISO 9001 certification and internal reviews by management provide similar assurance

**Investor relations**

The Board believes in an open and regular dialogue with its shareholders Information is provided to shareholders in the interim and annual financial statements The Chairman Chief Executive and Finance Director make an annual presentation of the Company s results to City investors and analysts This presentation is simultaneously posted on the Company s website The Board offers to hold individual briefings with its major shareholders twice a year if required All shareholders are encouraged to attend the Annual General Meeting

In 2011 we appointed Charles Stanley who have a large private client portfolio, to act as co-broker alongside Cazenove

In September 2013 the Company s A shares were admitted as a participating security on the CREST clearing system

All formal Company announcements are posted on the ISDX market website (www isdx com)

**Employees and pensioners**

The health and wellbeing of our employees is paramount We strive to improve their safety at work by undertaking regular risk assessments and training We believe in open and transparent communication with our employees and hold regular briefings on relevant matters such as the performance of the business forthcoming events initiatives and targets

We encourage employees to participate in activities beyond their daily jobs and to contribute to the Company s community involvement We are supportive of their participation in local government as Justices of the Peace and in other voluntary services and we support various sporting and social activities for employees We place an emphasis on longevity of service and loyalty and reward it

We believe strongly in supporting our former employees In addition to funding a pension the Company maintains an active social programme for pensioners which enables them to maintain contact with former colleagues

The Directors have pleasure in presenting their ninety-ninth Annual Report and Accounts for the 52 weeks ended 29 June 2013

**Activities and review of business**
The principal activities of the Company are the brewing and packaging of beer the wholesaling and retailing of beer cider wines spirits and minerals, property ownership and public house and hotel management This report should be read in conjunction with the Chairman s Statement Chief Executive s Review and Financial Review which provide further details of the Company s activities for the 52 weeks ended 29 June 2013 including comments on sales revenues sales volumes and profitability

**Risks and uncertainties**
The principal risks and uncertainties in the business (other than the key financial risks which are set out in note 26c) are noted below and are discussed further in the Chairman s Statement and the Chief Executive s Review

- Economic and market conditions
  The success of the Company s operations is partly reliant upon the strength of the UK economy and although we would expect to outperform the market performance could be adversely affected by reduced consumer spending as a result of a weakening in the economy rising unemployment or increases in personal taxation
- Regulation and taxation of the sales of alcohol
  The drinks industry is heavily regulated and heavily taxed through excise duty We welcome the decision this year to freeze the duty increase on beer in 2013 but there is a risk that future increases, or other changes in taxation or regulation to address health issues or binge drinking could affect the market our sales and sales margins
- Operation of tied tenanted and leased pubs
  The operation of tied tenanted and leased pubs was previously reviewed by the Business Innovation and Skills Committee which concluded in a recommendation for a self-regulatory framework as set out in the industry code of practice Subsequent to this in April 2013 the Secretary of State for Business Innovation and Skills announced a consultation around a statutory Code of Practice combined with an independent adjudicator The intention for this code is for it to apply to companies with more than 500 pubs and hence the risk of applying to Shepherd Neame is considered low A further announcement in this context is expected in February 2014
- Licensed brewing contracts
  The Company is engaged in various contracts to brew, sell and market brands under licence from third party brewers Such contracts carry different obligations and responsibilities on both parties The agreements are all long term but subject to renewal from time to time
- Brand and reputation
  The Company has a range of strong brands and an excellent reputation in the market There is a risk that unexpected events or incidents could damage our brands or our reputation This risk is mitigated by staff training, adherence to high quality standards throughout the business management review and internal control
- Raw material and other input costs
  In recent years the Company has suffered from significant increases in the cost of inputs such as utilities, malt, glass recycling and food for resale There is a risk that input costs could increase significantly again in the future which would impact margins To mitigate this risk the company is always seeking productivity and cost saving initiatives
- Information technology
  The Company places significant reliance on information systems A significant or prolonged failure of these systems would affect all aspects of our business To minimise the risk the IT function has in place back-up systems, a disaster recovery plan and external support agreements for hardware and software and these will ensure that in the event of any problem normal trading would be restored quickly
- Site dependency
  The Company s operations are managed from its sole brewery site in Faversham A disaster at this site would seriously disrupt operations However we have developed a disaster recovery plan to mitigate the impact, including arrangements to use alternative facilities
- Water recovery
  The Company is in the process of completing a project to build and operate a new water recovery plant to clean waste water from the brewery site If this plant were to experience a sustained failure it could lead to periods of ceased production To mitigate this risk the company has undertaken business continuity planning with alternative procedures for the disposal of waste albeit at higher cost

**Dividends**
The Company paid an interim dividend of 5 00% (2012 4 90%) on the A and B ordinary shares and the Directors now recommend a final dividend of 20 15% (2012 19 60%) on both classes of shares This makes a total of dividend for the year of 25 15% (2012 24 50%)

The total proposed final dividend on ordinary shares will be £2 576 000 (2012 £2 500 000) which together with the 2013 interim dividend paid of £639,000 (2012 £627,000) will make total dividends of £3 215 000 (2012 £3 127 000)

### Directors

The names of the Directors at 29 June 2013 are set out on pages 20 and 21 Particulars of the Directors interests in the Company s shares are set out in note 24 to the accounts

In addition Mr R L Nicol served as a non-Executive Director until 12 September 2013 when he retired He was replaced by Mr W J Brett who was appointed to the Board on this date

Mr G H A Barnes Mr J H Leigh-Pemberton and Mr J B Neame retire from the Board by rotation and will be offering themselves for re-election

### Fixed assets

The freehold licensed properties of the Company were valued individually at open market value on an existing use basis as at 28 June 1997 by the Company s own professionally qualified staff These figures were incorporated into the accounts as at 28 June 1997 and subsequent additions have been included at cost

During the year ended 25 June 2011 the Company carried out a valuation of these assets on the same basis This showed a surplus of £68 million over the book value which has not been recorded in the accounts

The brewery premises and other fixed assets remain in the accounts at historical cost The Directors have considered the value of all fixed assets of the Company and believe that their aggregate value is significantly more than the amount in the balance sheet

### CREST Board Resolution

In accordance with the relevant regulations the Board has passed a resolution so that any provisions of the company s Articles of Association which are inconsistent with the holding or transfer of shares through CREST (or with the regulations referred to above) shall not apply to any of the company s shares held and traded in CREST As a result when the A shares begin trading in CREST the requirement to hold A shares with a nominal value of at least £100 in order to be a registered holder shall no longer apply

### Purchase of own shares

No shares were purchased during the year In 2012 71 241 £1 A ordinary shares representing 0 62% of that class of share were purchased at a cost of £510 064 The shares were acquired in connection with the Company s obligations under the 2005 Restricted Share Scheme and Share Incentive Plan The maximum number of shares held in the year was 214,085 representing 1 87% of the £1 A ordinary shares in issue at a cost of £2 002 000 (2012 289 173 shares being 2 52% of the £1 A ordinary shares in issue at a cost of £2 493 000)

### Directors responsibilities for the financial statements

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing those financial statements the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The Directors are responsible for keeping adequate accounting records which disclose, with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The maintenance and integrity of the information on the Shepherd Neame website is the responsibility of the Directors Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

### Going concern

The Directors have reviewed the financial projections together with the Company s bank facilities as discussed in the Cash Flow and Financing sections of the Financial Review on pages 14 and 15 and in accordance with the capital and risk management process set out in note 26, and on the basis of reasonable expectation have concluded that the Company has adequate financial resources to continue in operation as a going concern for the foreseeable future and accordingly consider that it is appropriate to prepare the accounts on a going concern basis

### Directors statement as to disclosure of information to the auditor

The Directors who were members of the Board at the time of approving the Directors Report are listed on pages 20 and 21 Having made enquiries of fellow Directors 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 auditor is 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 auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

**Use of financial instruments**
A statement in relation to the use of financial instruments by the Company is given in the Financial Review and also in note 26 to the accounts on pages 44 to 46

**Employees**
It is the Company s policy to give full consideration to suitable applications for employment by disabled persons Opportunities also exist for employees who become disabled to continue in their employment or to be trained for other positions in the Company s employment

The Company provides employees with a summary of its financial position and is continually aiming to provide them with information on matters of concern to them as employees

Employees continue to participate directly in the success of the business through the Share Incentive Plan

**Third party indemnity provisions**
The company has in place a Directors and Officers Liability Insurance Policy which indemnifies the Directors and Officers from any claim or claims on them in the course of their business activities to the extent that they do not relate to acts of fraud or dishonesty The total cover under the policy is £5 million

**Charitable donations**
In the year the Company donated £14 000 (2012 £26 000) for charitable purposes principally to local charities in the communities in which the company operates

**Auditor**
A resolution to reappoint Deloitte LLP as the Company s auditor will be put to the forthcoming Annual General Meeting

**By order of the Board**
F J Lester
Company Secretary
17 Court Street
Faversham Kent
12 September 2013

We have audited the financial statements of Shepherd Neame Limited for the 52 weeks ended 29 June 2013 which comprise the Consolidated Profit and Loss Account the Consolidated Statement of Total Recognised Gains and Losses, the Note of Consolidated Historical Cost Profit and Losses the Consolidated and Parent Company Balance Sheets the Consolidated Cash Flow Statement the Notes to the Cash Flow Statement the Accounting Policies and the related notes 1 to 27 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company s members, as a body, in accordance with Chapter 3 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 auditors 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 auditor**
As explained more fully in the Directors Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board s Ethical Standards for Auditors

**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 circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates made by the Directors and the overall presentation of the financial statements In addition we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

**Opinion on financial statements**
In our opinion the financial statements

- give a true and fair view of the state of the Group and Company s affairs as at 29 June 2013 and of its consolidated profit for the 52 weeks then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and
- have been prepared in accordance with the requirements of the Companies Act 2006

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

- the information given in the Directors Report for the financial year for which the financial statements are prepared is consistent with the financial statements

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

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

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us or
- the financial statements 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

Tim Steel (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and
Statutory Auditor

London, United Kingdom
12 September 2013

## CONSOLIDATED PROFIT AND LOSS ACCOUNT 52 WEEKS ENDED 29 JUNE 2013

| | | 52 weeks to 29 June 2013 | | | 53 weeks to 30 June 2012 | | |
|---|---|---|---|---|---|---|---|
| | note | Before exceptional items £ 000 | Exceptional items £ 000 | Total £ 000 | Before exceptional items £ 000 | Exceptional items £ 000 | Total £ 000 |
| **Turnover** | 1 | 134,906 | - | 134,906 | 133 025 | - | 133 025 |
| Operating charges | 2 3 | (122,198) | (1,243) | (123,441) | (120 321) | - | (120 321) |
| **Operating Profit** | | 12,708 | (1,243) | 11 465 | 12 704 | - | 12 704 |
| Profit on sale of property | 3 | - | 317 | 317 | - | 649 | 649 |
| **Profit on ordinary activities before interest** | | 12,708 | (926) | 11,782 | 12 704 | 649 | 13 353 |
| Interest receivable and similar income | | 10 | - | 10 | 81 | - | 81 |
| Interest payable and similar charges | 4 | (4,685) | - | (4,685) | (4 373) | - | (4 373) |
| **Profit on ordinary activities before taxation** | | 8,033 | (926) | 7,107 | 8 412 | 649 | 9 061 |
| Taxation | 5 | (1,913) | 276 | (1,637) | (2 068) | (44) | (2 112) |
| **Profit after taxation** | | 6,120 | (650) | 5,470 | 6 344 | 605 | 6 949 |
| **Earnings per £1 nominal share value** | | | | | | | |
| Basic | 7 | | | 43 0p | | | 54 6p |
| Basic before exceptional items | 7 | | | 48 1p | | | 49 8p |
| Diluted | 7 | | | 42 8p | | | 54 3p |

Movements in reserves are set out in notes 21 and 22

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the profit attributable to the shareholders of the Company of £5 470 000 for the 52 weeks ended 29 June 2013 (53 weeks ended 30 June 2012 £6 949 000)

## NOTE OF CONSOLIDATED HISTORICAL COST PROFITS AND LOSSES

| | 52 weeks ended 29 June 2013 £ 000 | 53 weeks ended 30 June 2012 £ 000 |
|---|---|---|
| Profit on ordinary activities before taxation | 7,107 | 9 061 |
| Realisation of property valuation (see note 21) | (77) | 895 |
| Difference between an historic cost depreciation charge and the actual depreciation charge for the year | 29 | 30 |
| Historical cost profit on ordinary activities before taxation | 7,059 | 9 986 |
| Historical cost profit for the year retained after taxation | 5,422 | 7 874 |

## CONSOLIDATED AND PARENT COMPANY BALANCE SHEETS AS AT 29 JUNE 2013

| | note | Group 29 June 2013 £ 000 | Group 30 June 2012 £ 000 | Company 29 June 2013 £ 000 | Company 30 June 2012 £ 000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible fixed assets | 10 | **201,312** | 197 267 | **201,312** | 197 267 |
| Investments and loans | 11 | **1,092** | 1 343 | **1,193** | 3,071 |
| | | **202,404** | 198 610 | **202,505** | 200 338 |
| **Current assets** | | | | | |
| Stock | 12 | **5,790** | 5 671 | **5,790** | 5 671 |
| Debtors | 13 | **18,768** | 17 935 | **18,768** | 17 935 |
| Cash | | **85** | 376 | **85** | 376 |
| | | **24,643** | 23 982 | **24,643** | 23 982 |
| **Creditors amounts falling due within one year** | | | | | |
| Bank overdrafts | | **(1,196)** | - | **(1,196)** | - |
| Creditors | 14 | **(18,603)** | (19 325) | **(18,704)** | (21 053) |
| | | **(19,799)** | (19 325) | **(19,900)** | (21 053) |
| **Net current assets** | | **4,844** | 4 657 | **4,743** | 2 929 |
| **Total assets less current liabilities** | | **207,248** | 203 267 | **207,248** | 203 267 |
| **Creditors amounts falling due after more than one year** | | | | | |
| Bank loans | 15 | **(77,302)** | (76 158) | **(77,302)** | (76 158) |
| Provision for liabilities – deferred tax | 19 | **(4 144)** | (3 939) | **(4,144)** | (3 939) |
| **Net assets** | | **125,802** | 123 170 | **125,802** | 123 170 |
| **Capital and reserves** | | | | | |
| Called up share capital | 20 | **12,818** | 12 818 | **12,818** | 12,818 |
| Share premium account | 21 | **1,439** | 1 439 | **1,439** | 1 439 |
| Revaluation reserve | 21 | **13,228** | 13 151 | **13,228** | 13 151 |
| Reserve for own shares held | 21 | **(798)** | (885) | **(798)** | (885) |
| Profit and loss account | 21 | **99,115** | 96 647 | **99,115** | 96 647 |
| **Equity shareholders funds** | 22 | **125,802** | 123 170 | **125,802** | 123 170 |

These accounts were approved by the Board of Directors on 12 September 2013 and were signed on its behalf by

**M H Templeman**
**J B Neame**
Directors

## CONSOLIDATED CASH FLOW STATEMENT 52 WEEKS ENDED 29 JUNE 2013

| | | 52 weeks ended 29 June 2013 | | 53 weeks ended 30 June 2012 |
|---|---|---|---|---|
| | £ 000 | £ 000 | £ 000 | £ 000 |
| **Net cash inflow from operating activities (see note a)** | | 19,023 | | 19 902 |
| **Returns on investment and servicing of finance** | | | | |
| Interest paid | (4,538) | | (5 124) | |
| Interest received | 10 | | 87 | |
| | | (4,528) | | (5 037) |
| **Taxation paid** | | (2,333) | | (2 684) |
| **Capital expenditure and financial investment** | | | | |
| Purchase of tangible fixed assets | (13,771) | | (23 258) | |
| Proceeds of sales of tangible fixed assets | 2,742 | | 3 457 | |
| Additional loans to customers | (275) | | (399) | |
| Customer loan redemptions | 270 | | 375 | |
| | | (11,034) | | (19 825) |
| **Equity dividends paid** | | (3,140) | | (3 058) |
| **Net cash outflow before financing** | | (2,012) | | (10 702) |
| **Financing** | | | | |
| Purchase of own shares | | - | | (510) |
| New long-term loans | | 6,000 | | 7 000 |
| Issue costs of long-term loans | | (475) | | - |
| Repayment of long-term loan | | (5,000) | | - |
| **Movement in cash during the period** | | (1,487) | | (4 212) |

The consolidated and parent company cashflows are identical

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT 52 WEEKS ENDED 29 JUNE 2013

### a Reconciliation of operating profit to net cash inflow from operating activities

| | 52 weeks ended 29 June 2013 Before Exceptional items £ 000 | Exceptional items £ 000 | Total £ 000 | 53 weeks ended 30 June 2012 £ 000 |
|---|---|---|---|---|
| **Operating profit** | 12,708 | (1,243) | 11 465 | 12 704 |
| Depreciation and amortisation (see note 2) | 6,561 | 537 | 7,098 | 6,450 |
| Charge for share-based payments credited to reserves | 288 | 14 | 302 | 245 |
| Increase in stocks | (119) | - | (119) | (828) |
| (Increase)/decrease in debtors and prepayments | (807) | - | (807) | 345 |
| Increase in creditors and accruals | 554 | 185 | 739 | 296 |
| Free trade loan discounts | 210 | - | 210 | 280 |
| Loss on sale of assets (excluding property) (see note 2) | 135 | - | 135 | 410 |
| | 6,822 | 736 | 7,558 | 7 198 |
| **Net cash inflow from operating activities** | 19,530 | (507) | 19,023 | 19 902 |

### b Reconciliation of cash flows to movement in net debt

| | 52 weeks ended 29 June 2013 £ 000 | 53 weeks ended 30 June 2012 £ 000 |
|---|---|---|
| Opening cash and overdraft | 376 | 4 588 |
| Closing cash and overdraft | (1,111) | 376 |
| Decrease in cash during the period | (1,487) | (4 212) |
| New long-term loans | (6,000) | (7 000) |
| Issue costs capitalised | - | 475 |
| Repayment of long-term loan | 5,000 | - |
| Amortisation of loan issue costs | (144) | (127) |
| Movement in net debt during the period | (2,631) | (10 864) |
| Net debt at beginning of the period | (75 782) | (64 918) |
| **Net debt at end of the period** | (78,413) | (75 782) |

### c Analysis of changes in net debt

| | 2012 £ 000 | Cash flow £ 000 | New loans £ 000 | Repayment of long-term loan £ 000 | Amortisation of issue costs £ 000 | 2013 £ 000 |
|---|---|---|---|---|---|---|
| Cash | 376 | (291) | - | - | - | 85 |
| Bank overdrafts | - | (1 196) | - | - | - | (1 196) |
| | 376 | (1 487) | - | - | - | (1,111) |
| Debt due after more than one year | (76 158) | - | (6 000) | 5 000 | (144) | (77,302) |
| **Total** | (75 782) | (1 487) | (6 000) | 5 000 | (144) | (78,413) |

The principal accounting policies are summarised below and have been consistently applied throughout the year and the preceding year

**a Basis of preparation**
The accounts are prepared on a going concern basis as set out in the Report of the Directors (page 25) under the historical cost convention modified by the revaluation of freehold licensed and associated properties and are prepared in accordance with UK applicable accounting standards (UK GAAP)

**b Basis of consolidation**
The Group financial statements consolidate the financial statements of Shepherd Neame Limited and all of its subsidiaries 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 The financial statements of subsidiaries are prepared using consistent accounting policies to those of the parent company All intercompany balances and transactions including unrealised profits arising from them, are eliminated

**c Intangible assets**
Intangible assets acquired separately from a business are capitalised at cost and are amortised on a straight line basis over their estimated useful lives as follows

| | |
|---|---|
| • Licences and Trade marks | 10 to 20 years |

The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable

**d Tangible fixed assets and depreciation**
Tangible fixed assets are included at cost less accumulated depreciation except in the case of certain licensed freehold properties which were revalued before the adoption of FRS 15 In accordance with the transitional provisions set out in FRS 15 the Company has carried forward the book value of these properties adjusted for subsequent disposals

Assets under construction are not depreciated until they are brought into use All other tangible assets are depreciated at varying rates calculated to write off their carrying value less estimated residual value evenly over their expected useful lives as follows

| | |
|---|---|
| • Freehold brewery buildings | 25 years |
| • Other freehold and long leasehold buildings | 50 years |
| • Short leaseholds | over the lease term |
| • Other plant equipment, fixtures and vehicles | 3 to 20 years |
| • Computer hardware and software | 3 to 10 years |

The carrying value of tangible fixed assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable

**e Fixed asset investments**
Fixed asset investments are stated at historic cost The carrying values of the fixed asset investments are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable

**f Stocks**
Stocks are valued on a consistent basis at the lower of cost and net realisable value Cost of own beers produced includes materials and directly attributable fixed and variable production overheads

**g Accounting for leases**
(i) As Lessor
Rentals receivable under operating leases are included in turnover on an accruals basis

(ii) As Lessee
Rentals payable under operating leases are charged to income on a straight line basis over the term of the lease allowing for inflation

**h Taxation**
(i) Current tax
Corporation tax payable is provided on the taxable profit at the average statutory rate for the year

(ii) Deferred tax
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more or a right to pay less or to receive more tax with the following exceptions

- provision is not made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets and gains on disposal of fixed assets that have been rolled over into replacement assets unless there is a binding agreement to dispose of the assets concerned at the balance sheet date Provision is not made if it is probable that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold
- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse based on the tax rate and laws that have been enacted or substantively enacted at the balance sheet date

**i Turnover**

Turnover is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods, or on provision of service Turnover comprises the invoice value of goods inclusive of excise duty and services, net of VAT and discounts Rental income received from the tied estate properties is recognised in the period in which it arises on an accruals basis

**j Pensions**

The Company operates defined contribution pension schemes Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme

**k Dividends**

In accordance with FRS 21 dividends payable are shown as a movement in reserves when declared (interim dividend) or approved (final dividend)

**l Loans**

The amortisation of loan issue costs including any loan premium, recognised in the profit and loss account is calculated at a constant rate on the carrying amount so as to spread the net cost evenly over the period to repayment

**m Derivative instruments**

The Company uses interest rate swaps to adjust interest rate exposures The Company s criteria for interest rate swaps are

- the instrument must be related to an asset or a liability, and
- it must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa

Gains and losses arising on these instruments are recognised in the profit and loss account at the same time as the charge arising from the related asset or liability

**n Share-based payment**

All options are equity settled 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) The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to market-based conditions not achieving the threshold for vesting

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 The movement in cumulative expense since the previous balance sheet is recognised in the profit and loss account with a corresponding entry in equity

### 1 Turnover

Turnover comprises sales net of discounts rents receivable and services rendered from continuing trading activities excluding value added tax
The Directors consider that the business carried on by the Group is that of a fully integrated regional brewer operating in the UK and that this constitutes one class of business The export sales during the year were £2 730 000 (2012 £1 874 000)

### 2 Operating charges

| | Before exceptional items 52 weeks ended 29 June 2013 £ 000 | exceptional items 52 weeks ended 29 June 2013 £ 000 | Total 52 weeks ended 29 June 2013 £ 000 | 53 weeks ended 30 June 2012 £ 000 |
|---|---|---|---|---|
| Production costs and cost of goods used in retailing | **65,101** | **-** | **65,101** | 65 470 |
| Change in stocks of finished goods and work in progress | **(119)** | **-** | **(119)** | (828) |
| Staff costs | | | | |
| Wages and salaries | **21,878** | **427** | **22,305** | 21 406 |
| Social security costs | **2,005** | **18** | **2,023** | 1 996 |
| Other pension costs | **1,002** | **-** | **1,002** | 1 000 |
| Depreciation amortisation and impairment | **6,561** | **537** | **7,098** | 6 450 |
| Loss on sale of fixed assets (excluding properties) | **135** | **-** | **135** | 410 |
| Property repairs | **1,830** | **-** | **1,830** | 1 730 |
| Operating lease rentals – land buildings vehicles & equipment | **3,266** | **-** | **3,266** | 3 171 |
| Other operating charges | **20,539** | **261** | **20,800** | 19 516 |
| **Total operating charges** | **122,198** | **1,243** | **123,441** | 120 321 |

The analysis of auditors remuneration is as follows

| | 52 weeks ended 29 June 2013 £ 000 | 53 weeks ended 30 June 2012 £ 000 |
|---|---|---|
| Total fees payable to Deloitte LLP for the audit of the Group s annual accounts | **84** | 85 |
| Other services pursuant to legislation | | |
| Tax services | **25** | 36 |
| Corporate services | **-** | 88 |
| Other services | **-** | 7 |
| Total non-audit fees | **25** | 131 |
| Fees payable to the Company s auditor for the audit of associated pension schemes | **7** | 6 |
| Total fees payable to Deloitte LLP | **116** | 222 |

The corporate service fees incurred in 2012 were for due diligence reporting and have been capitalised as part of the cost of acquisition of The Place Sandwich VCT Limited in that year

### 3 Exceptional items

| | 52 weeks ended 29 June 2013 £ 000 | 53 weeks ended 30 June 2012 £ 000 |
|---|---|---|
| **Operating items** | | |
| Re-organisation costs – principally in respect of redundancy other staff costs and impairment of fixed assets | **(1,243)** | - |
| **Non-operating items** | | |
| Profit on sale of property | **317** | 649 |
| **Total exceptional items before tax** | **(926)** | 649 |
| Taxation (see note 5) | **276** | (44) |
| **Total exceptional items after tax** | **(650)** | 605 |

### 4 Interest payable and similar charges

Interest payable in both the current and prior year related solely to charges in respect of bank loans and overdrafts

**5 Taxation**

**a Tax on profit on ordinary activities**

| | 52 weeks ended 29 June 2013 £ 000 | 53 weeks ended 30 June 2012 £ 000 |
|---|---|---|
| **Current tax** | | |
| UK Corporation tax at 23 75% (2012 25 5%) | 1,489 | 2 601 |
| Prior year over provision | (57) | (54) |
| **Total current tax** | 1,432 | 2 547 |
| **Deferred tax** | | |
| Origination and reversal of timing differences | 378 | (106) |
| Effect of reduction in the rate of corporation tax | (176) | (351) |
| Prior year over provision | 3 | 22 |
| **Total deferred tax** | 205 | (435) |
| **Total tax charge** | 1,637 | 2 112 |

**b Factors affecting the current tax charge**

The tax assessed on the profit on ordinary activities before taxation for the year is lower than the standard average statutory rate of corporation tax in the UK of 23 75% (2012 25 5%) for the same period The differences are reconciled below

| | 52 weeks ended 29 June 2013 £ 000 | 53 weeks ended 30 June 2012 £ 000 |
|---|---|---|
| Profit on ordinary activities before tax | 7,107 | 9 061 |
| UK Corporation tax at average statutory rate 23 75% (2012 25 5%) | 1,688 | 2 310 |
| Expenses not deductible for tax purposes and non-taxable income | 239 | 307 |
| Capital allowances (greater)/less than depreciation | (298) | 147 |
| Short-term timing differences | 6 | 5 |
| Utilisation of tax losses | (86) | (46) |
| Rolled over gains on asset disposals | (60) | (122) |
| Prior year over provision | (57) | (54) |
| | 1,432 | 2 547 |

The exceptional profit on the disposal of properties of £317 000 (2012 £649 000) gives rise to a tax charge of £15 000 (2012 £44 000) after the effect of rollover relief The exceptional operating charge of £1 243 000 (2012 nil) gives rise to a tax credit of £291 000 (2012 nil) of which £128 000 is a deferred tax release

**c Factors that may affect future tax charges**

No provision is made for the taxation liability which would arise on the disposal of properties at their revalued amounts or on gains rolled over into replacement assets Such tax would become payable only if the property were sold without it being possible to claim rollover relief The total amount unprovided is estimated at £4 1m (2012 £4 4m) based on a corporation tax rate of 23% (2012 24%) At present it is not envisaged that any such tax will become payable in the foreseeable future

The changes in the rate of corporation tax substantively enacted since the year-end and to be effected next year and thereafter will impact future tax charges These include reductions in the statutory rate of corporation tax from 23% to 20% over two years The effect of these changes has not been calculated

**6 Dividends**

| | 52 weeks ended 29 June 2013 £ 000 | 53 weeks ended 30 June 2012 £ 000 |
|---|---|---|
| **Declared and paid during the year** | | |
| £1 A ordinary shares | | |
| Final dividend for 2012 19 60p (2011 19 00p) | 2,234 | 2,173 |
| Interim dividend for 2013 5 00p (2012 4 90p) | 571 | 560 |
| | 2,805 | 2 733 |
| 2p B ordinary shares | | |
| Final dividend for 2012 0 392p (2011 0 380p) | 267 | 258 |
| Interim dividend for 2013 0 100p (2012 0 098p) | 68 | 67 |
| | 335 | 325 |
| Dividends paid | 3,140 | 3 058 |

**6 Dividends** continued

| | 52 weeks ended 29 June 2013 £ 000 | 53 weeks ended 30 June 2012 £ 000 |
|---|---|---|
| **Proposed for approval at the 2013 AGM** | | |
| Final dividend for 2013 on £1 A ordinary shares 20 15p (2012 19 60p) | 2 302 | 2 234 |
| Final dividend for 2013 on 2p B ordinary shares 0 403p (2012 0 392p) | 274 | 266 |
| | 2,576 | 2 500 |

Shares held by the Company (and not allocated to employees under the Share Incentive Plan) are treated as cancelled when calculating dividends and earnings per share

**7 Earnings per share**

| Based on £1 nominal share value | 52 weeks ended 29 June 2013 £ 000 | 53 weeks ended 30 June 2012 £ 000 |
|---|---|---|
| Profit attributable to equity shareholders | 5,470 | 6 949 |
| Weighted average number of shares in issue | 12,711 | 12 735 |
| Dilutive outstanding options | 68 | 52 |
| Adjusted weighted average share capital | 12,779 | 12 787 |
| Basic | 43 0p | 54 6p |
| Basic before exceptional items | 48 1p | 49 8p |
| Diluted | 42 8p | 54 3p |

The earnings per share before exceptional items are calculated on profit after tax and before exceptional items of £6 120 000 (2012 £6 344 000)

**8 Directors remuneration**

| | 52 weeks ended 29 June 2013 £ 000 | 53 weeks ended 30 June 2012 £ 000 |
|---|---|---|
| Aggregate amount | | |
| Directors emoluments | 1 457 | 1 369 |
| Compensation for loss of office | 139 | - |
| Pension contributions | 158 | 193 |
| | 1,754 | 1 562 |

| | 52 weeks ended 29 June 2013 Number | 53 weeks ended 30 June 2012 Number |
|---|---|---|
| The number of Directors who | | |
| Had pensions benefit accruing under money purchase schemes | 6 | 6 |
| Exercised options over shares in the Company | 1 | - |
| Had awards receivable in the form of shares under a long-term incentive plan | 6 | 6 |

Details of Directors share options are shown in note 24

| | 52 weeks ended 29 June 2013 £ 000 | 53 weeks ended 30 June 2012 £ 000 |
|---|---|---|
| Highest paid Director | | |
| Emoluments | 327 | 273 |
| Pension contributions | - | 33 |
| | 327 | 306 |

The highest paid Director emoluments include a bonus of £18 000 (2012 £17 000) Due to changes in legislation the highest paid Director left the Company pension scheme during the year ended June 2012 He received payments in lieu of pension in the year ended 29 June 2013 which total £48 000 and are included within emoluments (2012 £12 000 plus pension contributions of £33 000) In 2013 the highest paid Director was granted secondary option rights over 7 817 A ordinary shares under the long-term incentive plan (2012 7 663 shares) and exercised options over 1,127 A ordinary shares (2012 nil shares)

The aggregate taxable gain not included above made by the highest paid Director on the exercise of share options was £7 600 (2012 nil)

## 9 Employees

The average number of persons with contracts of employment including Directors during the year was as follows

| | 52 weeks ended 29 June 2013 Number of employees | 53 weeks ended 30 June 2012 Number of employees |
|---|---|---|
| Brewery | **342** | 340 |
| Retailing | **869** | 838 |
| | **1,211** | 1 178 |

## 10 Tangible fixed assets

| Group and Company | Freehold properties £ 000 | Leasehold properties over 50 years £ 000 | Leasehold properties under 50 years £ 000 | Plant vehicles and containers £ 000 | Fixtures and fittings £ 000 | Assets under construction £ 000 | Total £ 000 |
|---|---|---|---|---|---|---|---|
| **Valuation or cost** | | | | | | | |
| At 30 June 2012 | 166 394 | 942 | 6 363 | 30 816 | 41 934 | 1 649 | 248 098 |
| Additions | 4 135 | – | 172 | 902 | 5 357 | 3 138 | 13 704 |
| Disposals | (1 811) | – | (138) | (573) | (1 867) | – | (4 389) |
| Transfers | 17 | – | – | 471 | 202 | (690) | – |
| **At 29 June 2013** | **168,735** | **942** | **6,397** | **31 616** | **45,626** | **4,097** | **257,413** |
| **Accumulated depreciation** | | | | | | | |
| At 30 June 2012 | 5 838 | 64 | 2 744 | 21 390 | 20 445 | 350 | 50 831 |
| Charge for year | 391 | 17 | 265 | 2 013 | 3 875 | – | 6 561 |
| Impairment | 326 | – | 66 | – | 537 | 137 | 1 066 |
| Reversal of past impairment | (438) | – | (91) | – | – | – | (529) |
| On disposals | (80) | – | (5) | (561) | (1 182) | – | (1 828) |
| **At 29 June 2013** | **6,037** | **81** | **2,979** | **22,842** | **23,675** | **487** | **56,101** |
| **Net book values** | | | | | | | |
| **At 29 June 2013** | **162,698** | **861** | **3,418** | **8,774** | **21,951** | **3,610** | **201,312** |
| At 30 June 2012 | 160 556 | 878 | 3 619 | 9 426 | 21 489 | 1 299 | 197 267 |

Included in additions is £87 000 (2012 £97 000) of own labour capitalised

Disposals includes an amount of £1 237 000 (2012 £1 435 000) in respect of fully depreciated items

The freehold licensed properties were revalued individually at open market value on an existing use basis as at 28 June 1997 by the Company s own professionally qualified staff In accordance with the transitional provisions set out in FRS 15 the revalued amounts adjusted for subsequent disposals have been retained Valuations of £53 194 000 are included in the valuation or cost of the freehold properties at 29 June 2013 (2012 £54 109 000)

If they had not been revalued freehold properties would have been carried in the balance sheet at 29 June 2013 at

| | 2013 £ 000 | 2012 £ 000 |
|---|---|---|
| Cost | **146,129** | 143 865 |
| Accumulated depreciation | **(5,385)** | (5 106) |
| Net book amount | **140,744** | 138 759 |

The Company has entered into certain operating leases as lessor The gross cost of assets held for use under these leases amounted to £21 277 000 (2012 £21 470,000) and the related accumulated depreciation charges amounted to £589 000 (2012 £491 000) and the aggregate rentals receivable amounted to £1 008,000 (2012 £847 000)

A net impairment loss of £537 000 was recognised in the year (2012 Nil) This comprised a £537 000 write down of fixed assets that will no longer be utilised following the agreement to outsource distribution and warehousing services in 2014 An impairment loss of £529 000 was recognised in respect of eight licensed properties to write them down to their recoverable amount Prior year impairment losses of £529 000 were reversed in respect of five licensed properties to write them back to their recoverable amount Impairment was assessed at the income generating unit level considered to be on the basis of each individual pub Whether an asset was impaired on not was determined by comparing the carrying value against its estimated recoverable amount The recoverable amount was taken as the higher of either the net realisable value or its value in use The value in use was determined by conducting a net present value review of all relevant cash flows from the asset The pre-tax discount rate used in this review was 8 26% (2012 8 17%)

### 11 Investments and loans

| | Group 2013 £ 000 | Group 2012 £ 000 | Company 2013 £ 000 | Company 2012 £ 000 |
|---|---|---|---|---|
| Investment in subsidiaries | - | - | 101 | 1 728 |
| Loans to customers | 1,092 | 1 343 | 1,092 | 1 343 |
| | 1,092 | 1 343 | 1,193 | 3 071 |

**a Company investments in subsidiaries**

| Principal subsidiary undertakings | Holding | Proportion Held | Nature of business |
|---|---|---|---|
| The Place Sandwich VCT Limited | £0 01 ordinary shares | 100% | Dormant |
| Royal Albion Hotel (Broadstairs) Limited | £1 ordinary shares | 100% | Dormant |
| Caremill Limited | £1 ordinary shares | 100% | Dormant |

The Place Sandwich VCT Limited Royal Albion Hotel (Broadstairs) Limited and Caremill Limited are all registered companies in England and Wales

**b Group and Company – Loans to customers**

| | 2013 £ 000 | 2012 £ 000 |
|---|---|---|
| At 30 June 2012 | 1,343 | 1 541 |
| Additions | 275 | 399 |
| Redemptions | (316) | (317) |
| Loan Discounts | (210) | (280) |
| **At 29 June 2013** | 1,092 | 1 343 |

**c The maturity profile of the loans is**

| | 2013 £ 000 | 2012 £ 000 |
|---|---|---|
| Recoverable < 1 year | 85 | 35 |
| Recoverable 1-5 years | 580 | 736 |
| Recoverable > 5 years | 427 | 572 |
| | 1,092 | 1 343 |

Of these loans £194 000 is expected to be repaid in cash and £898 000 is expected to be repaid by offset against discounts to be earned by customers (2012 £202 000 and £1 141 000 respectively) The level of discounts awarded and the interest and fees charged depends on the trading performance of each customer against individual targets

### 12 Stock

| Group and Company | 2013 £ 000 | 2012 £ 000 |
|---|---|---|
| Raw materials and consumables | 2,138 | 2 100 |
| Work in progress | 339 | 311 |
| Finished goods including goods for resale | 3,313 | 3 260 |
| | 5,790 | 5 671 |

The replacement cost of stocks approximates to the value at which they are stated in the accounts

### 13 Debtors

| Group and Company | 2013 £ 000 | 2012 £ 000 |
|---|---|---|
| Trade debtors | 15,843 | 15 785 |
| Other debtors | 385 | 393 |
| Prepayments | 2,540 | 1 757 |
| | 18,768 | 17 935 |

**14 Creditors amounts falling due within one year**

| | Group 2013 £ 000 | Group 2012 £ 000 | Company 2013 £ 000 | Company 2012 £ 000 |
|---|---|---|---|---|
| Trade creditors | **6,475** | 5 751 | **6,475** | 5 751 |
| Amounts due to subsidiary undertakings | **-** | - | **101** | 1,728 |
| Corporation tax | **548** | 1 448 | **548** | 1 448 |
| Other tax and social security | **5,721** | 6 546 | **5,721** | 6 546 |
| Accruals and deferred Income | **3,857** | 3 561 | **3,857** | 3 561 |
| Trade deposits | **1,608** | 1 643 | **1,608** | 1 643 |
| Other creditors | **394** | 376 | **394** | 376 |
| | **18,603** | 19 325 | **18,704** | 21 053 |

**15 Bank Loans**

**Amounts falling due after more than one year**

| Group and Company | 2013 £ 000 | 2012 £ 000 |
|---|---|---|
| Bank loans | **78,000** | 77 000 |
| Less loan issue costs | **(698)** | (842) |
| | **77,302** | 76 158 |

The bank loans comprise a 20 year term loan of £60 0m arranged in April 2007 and a five year term loan of £18 0m arranged in June 2012 The 20 year term loan is hedged by interest rate swap contracts which are referred to in note 26 Both loans were provided by the Royal Bank of Scotland plc and Lloyds Banking Group plc

The £60 0m loan is repayable in five instalments of £1 6m payable every year commencing on 31 December 2021 with the outstanding balance being repayable on 31 December 2026 The repayment schedule of the £18 0m loan is a £2 0m repayment each 31 May in 2015 and 2016 with the balance repayable on 31 May 2017 Voluntary prepayments may also be made without penalty

The Company also has a £10 0m five year revolving credit facility that matures in May 2017 and a £5 0m committed overdraft facility that is renewable in June 2014 At the year end there was nil (2012 £5 0m) drawn on the revolving credit facility

The bank loans and overdraft are repayable as follows

| Group and Company | 2013 £ 000 | 2012 £ 000 |
|---|---|---|
| Amounts payable on demand or within one year | **-** | - |
| Amounts payable in 2-5 years | **18,000** | 17 000 |
| Amounts payable in over five years | **60,000** | 60 000 |
| | **78,000** | 77,000 |

The Company s bank loans and overdrafts are secured by a first floating charge over the Company s assets

**16 Capital commitments – Group and Company**

Contracts for capital expenditure not provided for in the accounts amounted to £493 000 (2012 £646 000)

**17 Other financial commitments**

| Group and Company | Land and buildings 2013 £ 000 | Plant and machinery 2013 £ 000 | Land and buildings 2012 £ 000 | Plant and machinery 2012 £ 000 |
|---|---|---|---|---|
| Annual commitments under non-cancellable operating leases which expire | | | | |
| Within 1 year | **133** | **64** | 155 | 10 |
| Within 2-5 years | **333** | **221** | 336 | 297 |
| After 5 years | **2,251** | **-** | 2 026 | - |
| | **2,717** | **285** | 2 517 | 307 |

**18 Contingent liabilities – Group and Company**

The Company has guaranteed a mortgage totalling £47 000 (2012 £48 000) advanced by a building society to a free trade licensee The Company has a charge over the mortgaged property the value of which exceeds the guarantee provided

**19 Provision for liabilities – deferred tax**

| Group and Company | 2013 £ 000 | 2012 £ 000 |
|---|---|---|
| As at 30 June 2012 | **3,939** | 4 616 |
| Acquired in the year | **-** | (242) |
| Charged/(credited) in the year | **205** | (435) |
| **As at 29 June 2013** | **4,144** | 3 939 |

| Analysis of deferred taxation | 2013 £ 000 | 2012 £ 000 |
|---|---|---|
| Accelerated capital allowances | **4,204** | 4 092 |
| Other timing differences | **28** | 35 |
| Unutilised tax losses | **(88)** | (188) |
| | **4,144** | 3 939 |

**20 Share capital**

| Group and Company | 2013 £ 000 | 2012 £ 000 |
|---|---|---|
| a Authorised | | |
| 12 874 400 A ordinary shares of £1 each | **12,874** | 12 874 |
| 68 000 000 B ordinary shares of 2p each | **1,360** | 1 360 |
| | **14,234** | 14 234 |
| b Allotted and fully paid | | |
| 11 457 500 A ordinary shares of £1 each | **11,458** | 11 458 |
| 68 000 000 B ordinary shares of 2p each | **1,360** | 1 360 |
| | **12,818** | 12 818 |

A and B ordinary shares have the same rights except B ordinary shares may only be transferred to a shareholder s immediate family or other existing holders of B ordinary shares

**21 Reserves**

| Group and Company | Share premium £ 000 | Revaluation reserve £ 000 | Own shares held £ 000 | Profit & loss account £ 000 | Total £ 000 |
|---|---|---|---|---|---|
| Balance at 30 June 2012 | 1 439 | 13 151 | (885) | 96 647 | **110,352** |
| Profit for the period | - | - | - | 5 470 | **5,470** |
| Dividends paid | - | - | - | (3 140) | **(3 140)** |
| Transfer of realised revaluation | - | 77 | - | (77) | **-** |
| Accrued share-based payments | - | - | - | 302 | **302** |
| Distribution of own shares | - | - | 87 | (87) | **-** |
| **Balance at 29 June 2013** | **1,439** | **13,228** | **(798)** | **99,115** | **112,984** |

The Group and Company held 102 719 £1 A ordinary shares at 29 June 2013 with a market value of £791 000 (2012 109 715 and £719 000) 73 876 of the own shares held are allocated to employees under the Share Incentive Plan, and a further 80 417 have vested unconditionally and as such are no longer treated as own shares held (2012 52 818 and 98 665 respectively) Of these shares 62 976 of these shares can be distributed to the employees free of tax (2012 59 815)

### 22 Reconciliation of movements in shareholders funds

| Group and Company | 2013 £ 000 | 2012 £ 000 |
|---|---|---|
| Shareholders funds at the beginning of the year as previously reported | **123,170** | 119 544 |
| Profit after taxation | **5,470** | 6 949 |
| Ordinary dividends paid | **(3,140)** | (3 058) |
| Accrued share-based payments | **302** | 245 |
| Purchase of own shares | – | (510) |
| Movement during the year | **2,632** | 3 626 |
| **Shareholders funds at the end of the year** | **125,802** | 123 170 |

### 23 Profit attributable to members of the parent company

A separate company income statement has not been prepared in accordance with section 408 of the Companies Act 2006 Profit attributable to members of the parent company was £5 470 000 (2012 6 949 000)

### 24 Directors interests

The interests of the Directors in the Company s shares at 29 June 2013 (30 June 2012) are as follows

| | | A ordinary shares | | | B ordinary shares | |
|---|---|---|---|---|---|---|
| | | Beneficial | As trustees | Under SIP* | Beneficial | As trustees |
| **G H A Barnes** | **2013** | **16,250** | - | **1,507** | **148,200** | - |
| | 2012 | 16 250 | - | 1 157 | 130 200 | - |
| **O W A Barnes** | **2013** | **55,396** | - | - | **610,150** | - |
| | 2012 | 55 396 | - | - | 610 150 | - |
| **N J Bunting** | **2013** | **7,284** | - | **1,201** | - | - |
| | 2012 | 6 697 | - | 1 468 | - | - |
| **G R Craig** | **2013** | **250** | - | **1,296** | - | - |
| | 2012 | 250 | - | 996 | - | - |
| **T W Falcon** | **2013** | **390** | - | **806** | - | - |
| | 2012 | 390 | - | 516 | - | - |
| **J B Neame** | **2013** | **64 967** | **92,516** | **3,477** | **1,762,300** | **439,682** |
| | 2012 | 63 840 | 140 250 | 3 116 | 1 762 300 | 829 182 |
| **R L Nicol** | **2013** | **117,800** | **143,332** | - | **431,900** | **685,550** |
| | 2012 | 117 800 | 151 332 | - | 431 900 | 928 400 |
| **M Templeman** | **2013** | **8 905** | - | - | - | - |
| | 2012 | 8 905 | - | - | - | - |

The beneficial holdings of A ordinary shares includes shares awarded under the Employee Share Incentive Plan (SIP) that have not been transferred into the Directors names but are held in trust The holdings under the SIP were allocated in January 2003 2004 2005 2006 and November 2006 2007 2008 2010 2011 and 2012 and are held in trust for a qualifying period of three years before ownership vests unconditionally (see note 25a)

*Beneficially held

**24 Directors interests** continued

Options over the Company s A ordinary shares held by Directors at 29 June 2013 (30 June 2012) are as follows

| | At 2012 | Granted | Exercised | Forfeited | At 2013 | | Price at exercise date £ | Exercise price £ | Date from which exercisable | Expiry date |
|---|---|---|---|---|---|---|---|---|---|---|
| **G H A Barnes** | 468 | – | – | – | **468** | * | | 1 00 | 26/10/10 | 26/10/17 |
| | 3 230 | – | – | (2 326) | **904** | ** | | 1 00 | 30/10/12 | 30/10/19 |
| | 4 235 | – | – | – | **4,235** | ** | | 1 00 | 29/10/13 | 29/10/20 |
| | 2 059 | – | – | – | **2,059** | * | | 1 00 | 28/10/14 | 28/10/21 |
| | 5 147 | – | – | – | **5,147** | ** | | 1 00 | 28/10/14 | 28/10/21 |
| | – | 1 671 | – | – | **1,671** | * | | 1 00 | 19/10/15 | 19/10/22 |
| | – | 5 223 | – | – | **5,223** | ** | | 1 00 | 19/10/15 | 19/10/22 |
| | 15 139 | 6 894 | – | (2 326) | **19,707** | | | | | |
| **N J Bunting** | 409 | – | – | – | **409** | * | | 1 00 | 26/10/10 | 26/10/17 |
| | 3 230 | – | – | (2 326) | **904** | ** | | 1 00 | 30/10/12 | 30/10/19 |
| | 4,235 | – | – | – | **4,235** | ** | | 1 00 | 29/10/13 | 29/10/20 |
| | 2 044 | – | – | – | **2,044** | * | | 1 00 | 28/10/14 | 28/10/21 |
| | 5 110 | – | – | – | **5,110** | ** | | 1 00 | 28/10/14 | 28/10/21 |
| | – | 1 648 | – | – | **1,648** | * | | 1 00 | 19/10/15 | 19/10/22 |
| | – | 5 150 | – | – | **5,150** | ** | | 1 00 | 19/10/15 | 19/10/22 |
| | 15,028 | 6 798 | – | (2 326) | **19,500** | | | | | |
| **G R Craig** | 66 | – | – | – | **66** | * | | 1 00 | 27/10/09 | 27/10/16 |
| | 468 | – | – | – | **468** | * | | 1 00 | 26/10/10 | 26/10/17 |
| | 3 230 | – | – | (2 326) | **904** | ** | | 1 00 | 30/10/12 | 30/10/19 |
| | 4 235 | – | – | – | **4,235** | ** | | 1 00 | 29/10/13 | 29/10/20 |
| | 2 044 | – | – | – | **2,044** | * | | 1 00 | 28/10/14 | 28/10/21 |
| | 5 110 | – | – | – | **5,110** | ** | | 1 00 | 28/10/14 | 28/10/21 |
| | – | 1 648 | – | – | **1,648** | * | | 1 00 | 19/10/15 | 19/10/22 |
| | – | 5 150 | – | – | **5,150** | ** | | 1 00 | 19/10/15 | 19/10/22 |
| | 15 153 | 6 798 | – | (2 326) | **19,625** | | | | | |
| **T W Falcon** | 3 230 | – | – | (2 326) | **904** | ** | | 1 00 | 30/10/12 | 30/10/19 |
| | 4 235 | – | – | – | **4,235** | ** | | 1 00 | 29/10/13 | 29/10/20 |
| | 2 059 | – | – | – | **2,059** | * | | 1 00 | 28/10/14 | 28/10/21 |
| | 5 147 | – | – | – | **5,147** | ** | | 1 00 | 28/10/14 | 28/10/21 |
| | – | 1 671 | – | – | **1,671** | * | | 1 00 | 19/10/15 | 19/10/22 |
| | – | 5 223 | – | – | **5,223** | ** | | 1 00 | 19/10/15 | 19/10/22 |
| | 14 671 | 6 894 | – | (2 326) | **19,239** | | | | | |
| **J B Neame** | 1 127 | – | (1 127) | – | – | * | 7 70 | 1 00 | 31/10/11 | 31/10/18 |
| | 5 178 | – | – | (3 728) | **1,450** | ** | | 1 00 | 30/10/12 | 30/10/19 |
| | 6 789 | – | – | – | **6,789** | ** | | 1 00 | 29/10/13 | 29/10/20 |
| | 3 065 | – | – | – | **3,065** | * | | 1 00 | 28/10/14 | 28/10/21 |
| | 7 663 | – | – | – | **7,663** | ** | | 1 00 | 28/10/14 | 28/10/21 |
| | – | 2 501 | – | – | **2,501** | * | | 1 00 | 19/10/15 | 19/10/22 |
| | – | 7 817 | – | – | **7,817** | ** | | 1 00 | 19/10/15 | 19/10/22 |
| | 23,822 | 10 318 | (1 127) | (3 728) | **29,285** | | | | | |
| **M J Rider** | – | 1 150 | – | – | **1,150** | * | | 1 00 | 19/10/15 | 19/10/22 |
| | – | 6 162 | – | – | **6,162** | ** | | 1 00 | 19/10/15 | 19/10/22 |
| | – | 7 312 | – | – | **7,312** | | | | | |
| **Total** | 83 813 | 45 014 | (1 127) | (13 032) | **114,668** | | | | | |

* Primary share option rights under the Shepherd Neame 2005 Restricted Share Scheme (see note 25c)

** Secondary share option rights under the Shepherd Neame 2005 Restricted Share Scheme (see note 25c)

The exercise of the primary share options is conditional upon Directors remaining in employment with the Company for three years from the date of grant of the options The exercise of secondary share options is conditional upon the achievement of certain performance criteria in the financial years ending in the three years following the grant and upon Directors remaining in employment with the Company for three years from the date of grant of the options The market price of the shares at 29 June 2013 was £7 70 (30 June 2012 £6 55) and the range during the year was £6 50 to £8 50 (2012 £6 40 to £9 05)

## 25 Share-based Payment

**a The Shepherd Neame Employee Share Incentive Plan**

The Shepherd Neame Employee Share Incentive Plan (SIP) is open to all employees with 18 months service at the award date A free award of shares based on length of service and salary and subject to a maximum of £3 000 was made to all eligible employees in January 2003 2004, 2005, 2006 and November 2006 2007 2008 2010 2011 and 2012 No award was made in 2009 Participants are entitled to these free shares from three years after the date of the award if they remain in the Company s employment

The Company did not purchased any shares for the Employee Share Incentive Plan in either 2013 or 2012

The following table illustrates the number and movements in shares in the year

| | 2013 Number | 2012 Number |
|---|---|---|
| Outstanding shares at 30 June 2012 | **148 357** | 148 330 |
| Granted during the year | **28,451** | 29 478 |
| Forfeited during the year | **(3,283)** | (3 032) |
| Distributed during the year | **(22,690)** | (26 419) |
| Outstanding shares at 29 June 2013 | **150,835** | 148 357 |
| Distributable at 29 June 2013 | **80,417** | 98 665 |

The employees do not have to make any payment for the award of shares under the Plan As such the weighted average exercise price is nil
The weighted average share price at date of distribution for the shares distributed is £8 112 (2012 £7 360)
The weighted average fair value of the shares granted in November 2012 was £8 30 (November 2011 £7 40) The fair value taking into account the terms and conditions upon which the shares were granted equates to the market price at the date of grant
The expense recognised for share-based payments made under SIP in respect of employee services during the year to 29 June 2013 is £176 000 (2012 £142 000)

**b The Shepherd Neame 1995 Restricted Share Scheme**

The Company has operated a restricted share scheme for Senior Managers and Directors including the highest paid Director and three other Directors Under the scheme primary options were awarded which are exercisable three years after they are awarded The Directors were also granted additional performance options which are exercisable three years after they were awarded if the Company achieves certain performance criteria in relation to growth of profits in excess of RPI

The contractual life of each option granted is seven years There are no cash settlement alternatives

During the year the Company did not purchase any shares for this scheme (2012 nil)

The following table illustrates the number and movements in share options in the year

| | 2013 Number | 2013 Weighted average exercise price | 2012 Number | 2012 Weighted average exercise price |
|---|---|---|---|---|
| Outstanding at 30 June 2012 | - | - | 586 | £0 0001 |
| Exercised | - | - | (586) | £0 0001 |
| Forfeited during the year | - | - | - | - |
| Outstanding options at 29 June 2013 | - | - | - | - |
| Exercisable at 29 June 2013 | - | - | - | - |

No options were outstanding at 29 June 2013
This scheme ceased in October 2005 and no further awards have been made under it since that date
No expense was recognised for share-based payments made under the Shepherd Neame 1995 Restricted Share Scheme in respect of employee services during the year to 29 June 2013 (2012 nil)
No options were exercised in the year to 29 June 2013

**25 Share-based Payment** continued

**c The Shepherd Neame 2005 Restricted Share Scheme**

The Company operates a restricted share scheme for Senior Managers and Directors including the highest paid Director and five other Directors This scheme replaced the 1995 Restricted Share Scheme following its cessation in 2005 The 2005 scheme provides for the grant of primary and secondary share options under similar terms and restricted to the same maximum limits as those that applied to the 1995 scheme It was updated to reflect changes in tax legislation and market practice since the 1995 scheme was adopted During the year the Company did not purchase any shares for this scheme (2012 71 241)

The contractual life of each option granted is 10 years

The following table illustrates the number and movements in share options in the year

| | 2013 Number | 2013 Weighted average exercise price | 2012 Number | 2012 Weighted average exercise price |
|---|---|---|---|---|
| Outstanding at 30 June 2012 | **106,916** | **£1 00** | 84 535 | £1 00 |
| Granted during the year | **55,217** | **£1 00** | 51 695 | £1 00 |
| Exercised | **(2,554)** | **£1 00** | (2 945) | £1 00 |
| Forfeited during the year | **(21,011)** | **£1 00** | (26 369) | £1 00 |
| Outstanding options at 29 June 2013 | **138,568** | **£1 00** | 106 916 | £1 00 |
| Exercisable at 29 June 2013 | **7,927** | **£1 00** | 4 418 | £1 00 |

The weighted average fair value of the options granted during the year was £7 3841 (2012 £7 0841) The exercise price for all options outstanding at the end of the year was £1 00 and the options outstanding at 29 June 2013 had a remaining contractual life of 8 38 years

The fair value of the equity settled share options granted under the scheme is estimated at the date of grant using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted The following table lists the inputs to the model used for the years ended 29 June 2013 and 30 June 2012

| | 2013 | 2012 |
|---|---|---|
| Expected share price volatility | **22%** | 24% |
| Risk-free interest rate | **5 140%** | 5 140% |
| Expected life of option (years) | **6 5** | 6 5 |
| Weighted average share price | **£8 100** | £7 800 |

A charge of £126 000 was recognised for share-based payments made under the Shepherd Neame 2005 Restricted Share Scheme in respect of employee services during the year to 29 June 2013 (2012 £103 000)

**26 Financial instruments**
**Group and Company**

**a Capital management**

The capital structure of the Group consists of bank loans (see note 15) cash and shareholders equity comprising share capital reserves and retained earnings (seen notes 20 21 and 22) In managing its capital the Group s main objectives are to ensure that it is able to continue to operate as a going concern as noted in the Report of the Directors and to maximise its return to its shareholders through a combination of capital growth and distributions The Group seeks to maintain a ratio of debt to equity that balances the risk and returns at an acceptable level and maintains sufficient funds to meet its working capital and investment requirements and comply with bank lending covenants

The Board of Directors review the Group s dividend policy and funding requirements regularly throughout the year

**b Categories of financial assets and liabilities**

The Group s financial assets include loans to customers designated as financial assets (see note 11) cash and trade debtors and other debtors in current assets (see note 13) Its financial liabilities include trade creditors and other payables in current liabilities (see note 14) and short and long-term bank borrowings (see note 15)

**c Financial risks**

The main risks associated with the Group s financial assets and liabilities are interest rate risk liquidity risk credit risk and foreign currency risk as noted below The policies for managing these risks are regularly reviewed and agreed by the Board of Directors

In certain limited circumstances the Group uses derivative instruments to change the economic characteristics of its financial instruments It is Group policy not to enter into or trade in financial instruments for speculative purposes

**Interest rate risk**

Currently it is Group policy to manage the cost of its borrowings by using a mixture of fixed and variable interest rates Debt is represented by a 20 year term loan a five year term loan a five year revolving credit facility and a short-term committed overdraft facility all of which are secured by a first floating charge over the assets of the Group They all bear interest at variable rates based on LIBOR and National Westminster Bank base rate The interest on the total facility of £60 0m available under the 20 year term bank loan is fixed by means of interest rate swap contracts which run for the same period as the loan as disclosed below Interest is not fixed on the five year term loan in order to take advantage of the current low short-term rate of interest and allow early repayment of the loan should the opportunity or need arise without the risk of a charge to profit from early termination of swap contracts Interest on drawings on the revolving credit facility and short-term overdraft facility are not fixed as it is Group policy to have short-term borrowing on a variable rate basis

**Liquidity risk**

The Group manages its liquidity risk by monitoring cash receipts and payments and preparing rolling cash flow forecasts from which to predict short and long-term funding requirements and ensure that borrowing facilities are available if required and that covenants in respect of bank loans are not contravened Capital expenditure is approved by the Board and investment appraisal models used to evaluate proposed expenditure It is currently the Company s policy to finance the majority of its business need by means of long and medium-term bank loans amounting to £78 0m of which £78 0m was drawn at the year end The balance of its requirements is provided by a five year revolving credit loan facility of £10 0m which matures in May 2017 and a committed overdraft facility of £5 0m which matures in June 2014 The size of the facility is regularly reviewed and the overdraft facility is renewed annually At the year end there was no drawing (2012 £5 0m) of the revolving credit loan facility and £1 2m (2012 nil) of the overdraft facility was being utilised

**Credit risk**

The Group trades only with recognised creditworthy third parties It is the Group s policy that all customers who wish to trade on credit terms are subject to credit verification procedures and are subject to credit limits to control debt exposure It has not been possible to maintain credit insurance at appropriate cost in the current market As market conditions improve the Directors will reconsider whether it is appropriate to purchase credit insurance In addition receivable balances are monitored on an ongoing basis The growth of the Group s business with national retailers and as a contract brewer has increased the concentration of credit risk However the Board of Directors consider that the credit risk from these customers is relatively low

With respect to credit risk arising from other financial assets of the Group which comprise cash and cash equivalents the Group s exposure to credit risk arises from the default of a counterparty with a maximum exposure equal to the carrying value amount of these instruments

**Foreign currency risk**

The principle financial instruments are denominated in sterling and the vast majority of the Group s operations are undertaken within the UK Consequently the foreign currency risk is immaterial except for those infrequent occasions when the Group purchases plant and equipment denominated in foreign currency In these circumstances it is the policy of the Group to enter into forward exchange contract to fix future payments as they fall due At the year end the Group had no outstanding contracts to purchase foreign currency

**Interest rate profile**

The interest rate profile of the borrowing is

| | 2013 Notional principal £ 000 | 2013 Weighted average interest rate (%) | 2013 Weighted average period for which rate fixed (years) | 2012 Notional principal £ 000 | 2012 Weighted average interest rate (%) | 2012 Weighted average period for which rate fixed (years) |
|---|---|---|---|---|---|---|
| Bank loan | **60,000** | **5 94** | **13 75** | 60 000 | 5 94 | 14 75 |

Medium-term borrowings outstanding at 29 June 2013 amounted to £18 000 000 (2012 £17 000 000) comprising £18 000 000 (2012 £12 000 000) drawn on a five year term loan and nil (2012 £5 000 000) drawn on the five year revolving credit facility both bearing interest at between 3% and 5 25% above LIBOR Three month LIBOR was 0 510% at 29 June 2013 (30 June 2012 0 895%) The overdraft facility bears interest at 2 5% (2012 2 5%) above National Westminster Bank base rate which was 0 5% at 29 June 2013 (30 June 2012 0 5%)

**26 Financial instruments** continued

**d Fair values of financial assets and liabilities**

The fair value of trade debtors and creditors included in net current assets is equivalent to the balance sheet carrying values Loans to customers (see note 11) are financial assets carried at book value in the balance sheet It is not practicable for the Group to estimate the fair value of the assets with sufficient reliability as the cash flows inherent in them relate to improved sales revenue in future years the timing of which cannot be determined

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

| | Book value 2013 £ 000 | Fair value 2013 £ 000 | Book value 2012 £ 000 | Fair value 2012 £ 000 |
|---|---|---|---|---|
| Primary financial instruments | | | | |
| Variable rate bank loan | **(78,000)** | **(78,000)** | (77 000) | (77 000) |
| Bank Overdraft | **(1,196)** | **(1,196)** | - | - |
| Cash | **85** | **85** | 376 | 376 |
| Derivative financial instruments held to manage the interest rate profile | | | | |
| Interest rate swaps – deferred | **-** | **(16,449)** | - | (20 539) |

The fair values have been calculated with reference to the expected future cash flows at prevailing interest rates

**27 Pension commitments**
**Group and Company**

The Company operates two defined contribution schemes The assets of the schemes are held separately from those of the Company in independently administered funds The charge for pension cost represents contributions payable by the Company to the funds and amounts to £1 002 000 (2012 £1 000 000) Contributions of £124 000 (2012 £127,000) were payable to the scheme at the year end All Executive Directors are members of one of the Company s defined contribution schemes

The Company also meets the pension costs of certain former employees which have not been funded through the pension schemes The amount of this unfunded liability is not significant

## FINANCIAL CALENDAR AND COMPANY ADVISORS

**Financial calendar**

**2013**

| | |
|---|---|
| 29 June | Financial year end |
| 9 October | Shares traded ex-dividend |
| 11 October | Record date for final dividend * |
| 18 October | Annual General Meeting and payment of Final Dividend |
| 28 December | Half year end |
| **2014** | |
| March | Announcement of interim results |
| March | Record date for interim dividend |
| March | Payment of interim dividend |
| 28 June | Financial year end |
| Late September | Preliminary results announcement |
| Mid October | Annual General Meeting |
| 27 December | Half year end |

* Shareholders on the register at this date

**Company advisors**

**Registrars**
Computershare Investor Services plc
PO Box 82
The Pavilions Bridgwater Road
Bristol BS99 6ZY
Tel 0870 702 0000
Dedicated Shareholder Tel 0870 707 1291

**Financial PR**
Kreab Gavin Anderson
Scandinavian House
2-6 Cannon Street
London EC4M 6XJ

**Auditor**
Deloitte LLP
2 New Street Square
London
EC4A 3BZ

**Bankers**
National Westminster Bank plc
13 Market Place
Faversham
Kent ME13 7EF

**Stockbrokers**
JP Morgan Cazenove Limited
25 Bank Street
Canary Wharf
London E14 5JP

Charles Stanley Securities
131 Finsbury Pavement
London EC2A 1NT

James Sharp & Co
The Exchange
5 Bank Street
Bury
Lancashire BL9 0DN

Notice is hereby given that the ninety-ninth Annual General Meeting of the Company will be held at the Parish Church of St Mary of Charity Church Road Faversham on Friday 18 October 2013 at 12 00 noon for the following purposes

**Resolution 1** - To receive the Annual Report and Accounts and the reports of the Directors and Auditors thereon

**Resolution 2** - To declare a Final Dividend upon the A and B ordinary shares

**Resolution 3** - To propose the re-election of Mr J B Neame as a Director

**Resolution 4** - To propose the re-election of Mr J H Leigh-Pemberton as a Director

**Resolution 5** - To propose the re-election of Mr G H A Barnes as a Director

**Resolution 6** - To propose the election of Mr W J Brett as a Director

**Resolution 7** - To reappoint the Auditors and authorise the Directors to fix their remuneration

**Resolution 8** - To authorise the Company to make market purchases of A Ordinary Shares on the following terms

It is proposed that the Company be generally and unconditionally authorised for the purpose of section 701 of the Companies Act 2006 (the " **Act** ) to make market purchases (as defined in section 693 of the Act) of A Ordinary Shares of £1 00 each in the capital of the Company (the " **A ordinary shares** ) provided that

(a) the maximum number of A ordinary shares hereby authorised to be purchased is 1,145,750 being such number of A ordinary shares as is equal to 10 per cent of the existing issued A ordinary share capital in the Company as at 24 September 2013

(b) the minimum price (exclusive of expenses) which may be paid for an A ordinary share is £1 00 per share being the nominal amount thereof

(c) the maximum price (exclusive of expenses) which may be paid for an A ordinary share shall be a sum equal to 105 per cent of the average of the middle market quotations of an A ordinary share of the Company (as derived from the ISDX Markets website) for the five business days immediately preceding the day on which the purchase is made

(d) the authority hereby conferred shall (unless previously renewed or revoked) expire on the earlier of the conclusion of the next annual general meeting of the Company and the date which is 15 months from the date of the passing of this resolution and

(e) the Company may make a contract or contracts to purchase A ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and the Company may make a purchase of A ordinary shares in pursuance of any such contract or contracts notwithstanding such expiry

**Notes**

**Resolution 8 - Authority to make market purchases of "A ordinary shares**

Resolution 8 seeks authority for the Company to make market purchases of its own A ordinary shares If passed the resolution gives authority for the Company to purchase up to 1 145 750 of its A ordinary shares representing 10 per cent of the Company s issued A share capital

Resolution 8 specifies the minimum and maximum prices which may be paid for an A ordinary shares purchased under this authority The authority will expire at the conclusion of the Company s next Annual General Meeting in 2014 or if earlier the date which is 15 months from the date of the passing of the resolution

Any shares purchased under this authority will be cancelled

**By Order of the Board**
F J Lester
Secretary
17 Court Street
Faversham
Kent

24 September 2013

The Voting Record Date is Wednesday 16 October 2013 and shareholders should be registered in the Company s Register of Members by the close of business on that date in order to vote at the Meeting Changes to entries on the Register of Members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting

Members entitled to attend and vote at the Annual General Meeting are entitled to appoint a proxy to exercise all or any of their rights to attend speak and vote on their behalf at the Meeting and that proxy need not also be a member

Members may appoint more than one proxy in relation to a meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member

Forms of Proxy for use at the Annual General Meeting are circulated to Registered Shareholders with the Annual Report and Accounts and in order to be valid should be completed and returned to the Company s Registrars Computershare Investor Services PLC The Pavilions Bridgwater Road Bristol BS99 6ZY as soon as possible and in any event so as to arrive by not later than 12 00 noon on Wednesday 16 October 2013 You should contact the Company s Share Registrars for further Forms of Proxy or photocopy the form as required

The return of the Form of Proxy to the Company s Registrars will not prevent a member from attending and voting in person as the Meeting

In the case of joint holders the vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the relevant joint holdings

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided they do not do so in relation to the same shares To be effective any instruction appointing a corporate representative must be received at the Registered Address of the Company by not later than 48 hours before the meeting or any adjournment thereof

The Notice of the Meeting together with other information for shareholders as regards the Annual General Meeting will be displayed on the Company s web site www shepherdneame co uk

## FIVE YEAR FINANCIAL SUMMARY

| | Group 2013 £ 000 | Group 2012 £ 000 | Company 2011 £ 000 | Company 2010 £ 000 | Group 2009 £ 000 |
|---|---|---|---|---|---|
| **Profit and loss** | | | | | |
| Turnover | **134,906** | 133 025 | 121 346 | 115 356 | 109 468 |
| Operating profit before exceptional items | **12,708** | 12 704 | 12 252 | 11 857 | 9 484 |
| Net finance charges | **(4,675)** | (4 292) | (4 271) | (4 581) | (3 783) |
| Exceptional charges | **(1,243)** | – | (1 915) | (450) | (1 749) |
| Profit on sale of property | **317** | 649 | 419 | 1,887 | 2 989 |
| Profit before taxation | **7,107** | 9 061 | 6 485 | 8 713 | 6 941 |
| Taxation | **(1,637)** | (2 112) | (2 090) | (2 360) | (1 258) |
| Earnings available to shareholders | **5,470** | 6 949 | 4 395 | 6 353 | 5 683 |
| **Dividends** | | | | | |
| Interim and finals for the year | **(3,215)** | (3 127) | (3 045) | (2 953) | (2 875) |
| Percentage on shares | **25 15%** | 24 5% | 23 8% | 23 1% | 22 5% |
| Dividend cover | **1 7** | 2 2 | 1 4 | 2 2 | 2 0 |
| Dividend cover (excluding exceptional items) | **1 9** | 2 0 | 1 9 | 1 7 | 1 4 |
| **Earnings per £1 nominal share value (p) based on** | | | | | |
| Earnings available to shareholders | **43 0p** | 54 6 | 34 4 | 49 9 | 44 7 |
| Earnings (excluding exceptional items) | **48 1p** | 49 8 | 46 2 | 39 5 | 32 6 |
| **Shareholders funds employed** | | | | | |
| Share capital | **12,818** | 12 818 | 12 818 | 12 818 | 12 818 |
| Share premium | **1,439** | 1 439 | 1 439 | 1 439 | 1 439 |
| Revaluation reserve | **13,228** | 13 151 | 14 046 | 14 490 | 14 806 |
| Revenue reserves | **98,317** | 95 762 | 91 241 | 89 213 | 85 442 |
| | **125,802** | 123 170 | 119 544 | 117 960 | 114 505 |
| **Represented by assets** | | | | | |
| Fixed assets | **202,404** | 198 610 | 185 753 | 186 444 | 190 646 |
| Current assets | **24,643** | 23 982 | 27 774 | 29 658 | 21 780 |
| | **227,047** | 222 592 | 213 527 | 216 102 | 212 426 |
| **Liabilities** | | | | | |
| Short-term | **19,799** | 19 325 | 19,861 | 19 829 | 18 987 |
| Long-term | **77,302** | 76 158 | 69 506 | 73 394 | 74 056 |
| Provisions | **4,144** | 3 939 | 4 616 | 4 919 | 4 878 |
| | **101,245** | 99 422 | 93 983 | 98 142 | 97 921 |
| **Net assets** | **125,802** | 123,170 | 119 544 | 117 960 | 114 505 |
| **Net assets per share (£)** | **9 81** | 9 61 | 9 33 | 9 20 | 8 93 |

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