SHEPHERD NEAME LIMITED ANNUAL REPORT 2015

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SHEPHERD NEAME IS AN INDEPENDENT FAMILY BUSINESS AND BRITAIN'S OLDEST BREWER

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 our dedicated people
- A commitment to Faversham, Kent and the communities our pubs serve
- A long-term view of the business

STRATEGIC OBJECTIVES

STRATEGIC OBJECTIVE ONE

Driving footfall to **our pubs**

STRATEGIC OBJECTIVE TWO

Creating demand and building awareness for **our brands**

STRATEGIC OBJECTIVE THREE

Providing a distinctive range of **complementary products**

STRATEGIC OBJECTIVE FOUR

Attracting retaining and developing the **best people**

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FINANCIAL HIGHLIGHTS

TURNOVER	OPERATING PROFIT BEFORE EXCEPTIONALS[1]	STATUTORY PROFIT BEFORE TAX
2015	2015	2015
£138.3m	£14.1m	£9.4m
2014	2014	2014
£138.7m	£13.4m	£7.7m

BASIC EARNINGS PER SHARE BEFORE EXCEPTIONALS[2]	DIVIDEND PER SHARE	NET ASSETS PER SHARE[3]
2015	2015	2015
50.3p	26.70p	£8.89
2014	2014	2014
48.5p	25.90p	£8.67

1 Exceptional items are disclosed in note 3 of the accounts

2 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 through the year excludes those held by the Company and not allocated to employees under the Share Incentive Plan which are treated as cancelled (See note 7)

3 Net assets at the year end divided by the number of shares in issue at 27 June 2015 being 14 857 500 50p shares

4 Net assets per share has been restated for 2011 2012 and 2013 following the share capital reorganisation which took place in June 2014

OUR STRATEGY

We aim to drive investor returns from four key strategic objectives

PROGRESS

- We have invested £6 5m improving the look and feel of our pubs and £2 1m in repairs and decorations
- We have acquired two new pubs and the freehold of one existing pub We have disposed of 11 pubs that did not fit our long-term strategy
- We have completed the current phase of development of our hotels with the refurbishment of the Royal Wells in Tunbridge Wells

Performance against our KPIs was strong with
- Like-for-like (LFL) sales in managed pubs up +6 1%
- LFL EBITDAR* in our tenanted pubs up +2 4%
- Average EBITDAR per tenanted pub up +4 1% and per managed pub up +7 1%

PROGRESS

- This year we completed the exit of contract brewing Kingfisher Lager and will focus our capacity on our own and licensed brands
- We made new additions to the portfolio including Spitfire Gold and Angry Orchard Hard Cider
- Master Brew has been rebranded
- Samuel Adams Boston Lager won Gold at the International Brewing Awards and grew by +23 8%
- We have had a strong performance from our Whitstable Bay range and Classic Collection since launch in 2014
- Our KPI of own core beer volumes excluding contract brewing were up +0 1% versus a market down -2 4%**

DRIVING FOOTFALL TO **OUR PUBS**

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CREATING DEMAND AND BUILDING AWARENESS FOR **OUR BRANDS**

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OUR STRATEGIC OBJECTIVES

PROVIDING A DISTINCTIVE RANGE OF **COMPLEMENTARY PRODUCTS**

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ATTRACTING, RETAINING AND DEVELOPING THE **BEST PEOPLE**

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PROGRESS

- We have introduced a new range of premium minerals and craft spirits
- During the year we refurbished 68 bedrooms across the estate
- We have invested in a new room reservation system

Performance against our KPIs was strong
- Food LFL sales in managed houses has grown by +7 0%
- Accommodation LFL sales has grown by +13 8%
- Occupancy is 78% and RevPAR*** £58

PROGRESS

- We have rolled out a custom-built e-learning programme for pub staff and an enhanced induction programme for new tenanted licensees
- We have recruited additional Business Development Managers Surveyors Field Trainers and Trade Quality Advisers to help support the customer offer
- Licensee retention levels up
- Licensee satisfaction levels remain high

* Like for like (LFL) earnings before interest tax depreciation amortisation and rent payable
** Source The British Beer and Pub Association
* Revenue Per Available Room

AT A GLANCE

£2 4m has been invested in the year on the refurbishment of the **Royal Wells Hotel** in Tunbridge Wells

Our licensed portfolio performed well with strong growth from **Samuel Adams Boston Lager**

We have continued to carry out major refurbishments in our Tenanted estate including the **The Abbey Hotel** Battle

The **Whitstable Bay** range has been a huge success with volumes up +39 6%

Our premium spirits offer has been enhanced to exploit the increasing popularity of English gin and other **craft spirits**

Master Brew has been relaunched with an attractive new brand identity

We continue to increase our use of **social media** to connect with our customers

We have developed an **e-learning** site that covers all pub staff training manuals

We continue to **invest in technology** and digital marketing including making our pub websites mobile friendly

FOOD LFL SALES

7.0%

NEW PUBS ACQUIRED

2 pubs

PROCEEDS FROM DISPOSAL OF 11 PUBS THAT NO LONGER FIT OUR STRATEGY

£3.2m

ACCOMMODATION LFL SALES

13.8%

TOTAL INVESTMENT IN EXISTING ESTATE

£8.6m

FREEHOLD PROPORTION OF ESTATE

87%

TENANTED OR LEASED

286

MANAGED PUBS AND HOTELS

52

TOTAL NUMBER OF PUBS

338

CHAIRMAN'S STATEMENT

We have continued the positive evolution of our strategy whilst also achieving record operating profit "
MILES TEMPLEMAN | CHAIRMAN

Overview
I am pleased to report another successful year for the Company for the 52 weeks to 27 June 2015 We have continued the positive evolution of our strategy whilst also achieving record operating profit strong cash flow generation and further debt reduction

During the period the economy has grown consumer confidence spread and employment increased We have also seen further momentum in the regeneration of East Kent and its Coastal Towns and renewed confidence in the local property market

The momentum that we have built in our managed and tenanted pub businesses has been maintained as we continue to invest build our support services and focus on improving and raising the standards of our offer to customers

During the year we have completed the current phase of investment in developing our hotels with the redevelopment of the Royal Wells Hotel Tunbridge Wells We are pleased with the progress of all these sites which have contributed to our strong growth in food and accommodation sales

Growth has been harder to achieve in our Brewing and Brands Business as we concluded the phased exit from the Kingfisher lager contract Overall volume and turnover in this area fell but we have achieved modest growth in own and licensed beer volumes adjusted to exclude contract volume in a difficult market

Turnover was £138 3m (2014 £138 7m) down -0 3% Operating profit before exceptionals grew by +5 1% to £14 1m (2014 £13 4m) and operating margin before exceptionals was up +0 5% to 10 2% (2014 9 7%)

In 2014 the Company incurred an exceptional charge of £1 2m for the costs associated with a business and board reorganisation and share capital reorganisation as communicated in last year s results No further costs were incurred on these items in 2015

We have recognised a net exceptional charge of £0 2m (2014 credit of £0 1m) in relation to property items

Profit before tax and exceptionals is £9 6m (2014 £8 8m) up 9 4% Statutory profit before tax after recognising exceptional items is £9 4m (2014 £7 7m) up 22 1%

Basic earnings per 50p ordinary share (EPS) is 49 1p (2014 41 9p) up 17 2% and basic earnings per 50p ordinary share before exceptional items is 50 3p (2014 48 5p) up 3 7%

Dividend
In line with the Board s stated dividend policy post the share capital reorganisation in 2014 we intend to grow the dividend rate payable to all shareholders with a view to target dividend cover in the region of two times basic EPS pre-exceptional items The Board is proposing a final dividend of 21 40p (2014 20 75p) making the total dividend for the year 26 70p (2014 25 90p) an increase of 3 1% This represents a dividend cover pre-exceptional items of 1 9 times (2014 1 9 times) The final dividend will be paid on 16 October 2015 to shareholders on the register at the close of business on 9 October 2015

Advisors
Charles Stanley Securities which provided corporate advisory and stockbroking services to the Company and the Board has been acquired by Panmure Gordon (UK) Limited which has now taken on this role and will provide investor research on the Company

Accounting standards
This year will be the last that the Company prepares the Financial Statements under current UK GAAP accounting rules A new framework in the UK became effective on

1 January 2015 and the Interim Results will be reported under the accounting standard FRS 102 in March 2016 There will be a number of substantive changes arising from this and we will explain the impacts in conjunction with those results

Refinancing

Since the year end we have taken advantage of the improved rates available in the market to refinance our medium-term loan facilities and in line with our strong cash flow and lower debt levels have created a more flexible debt structure going forward

The five year term loan and revolving credit facility due to expire in May 2017 have been replaced with a £20m revolving credit facility through to September 2020 with the option to extend by a further £10m during that time should the need arise

The existing £60m term loan remains unchanged and matures in 2026 Excluding the overdraft the Company now has total medium and long-term committed credit facilities of £80m

Land at Queen Court, Ospringe

The Company owns 54 acres of land and buildings on the edge of Faversham as the remaining part of the Company s farming business During the year planning permission for residential dwellings on 10 acres of land on Brogdale Road was achieved and this land is currently being marketed for disposal

Government and regulation

In his final Budget of the last Parliament the Chancellor again delighted the industry with a 1p per pint cut in excise duty for an historic third year in a row This has begun to restore confidence in the sector increase investment and encourage job creation all helping to undo the damage caused by the so-called beer duty escalator introduced in 2008 However beer production in the UK remains heavily taxed compared to other EU countries

In the first Budget of the new Parliament the Chancellor announced an increase in the threshold for businesses to pay National Insurance as well as a review of business rates which we hope will be beneficial to small pubs

In addition he announced the introduction of the National Living Wage This will be introduced in April 2016 and increase through to 2020 We do not expect the impact in 2016 to be material

During the year the Small Business Enterprise and Employment Bill completed its passage through Parliament This long-running debate on the letting and operation of tied pubs is now drawing to a close although there is still secondary legislation to be agreed As anticipated, Shepherd Neame is exempt from this legislation as we operate fewer than 500 tenanted or leased pubs We will continue to support the voluntary code of practice to ensure the transparency and openness of our tied agreements

Summary

This has been a strong year for the Company We have maintained our good trading momentum and developed and refined our strategy so that we have clear aims and objectives that are communicated across the business

We remain naturally cautious of economic and legislative factors which may impact the business and our sector and so reduce consumption levels or pub footfall The introduction of the National Living Wage will provide a cost challenge in due course

However we believe we have the skills to manage these risks the ambition to seek new opportunities and a strong pipeline of investment potential within the existing asset base to grow the Company

Miles Templeman
Chairman

STRATEGIC OBJECTIVE ONE

DRIVING FOOTFALL TO **OUR PUBS**

We aim to offer our customers a great and memorable experience every time they visit one of our pubs and hotels

INN ON THE POND | This year we acquired two new pubs including one of the oldest pubs in England reportedly built in 1106, the Ostrich at Colnbrook and the Inn on the Pond in Nutfield (above)

TENANTED DEVELOPMENTS | In the tenanted estate we have carried out major redevelopments at the Railway Telegraph Forest Hill The Six Bells Cliffe and the Abbey Hotel Battle (above)

ROYAL WELLS, TUNBRIDGE WELLS | Major redevelopments this year included the Royal Wells Hotel, Tunbridge Wells The investment of £2 4m in 2015 has created a superb and stylish venue Given the increasing amount of function and wedding business we provide, we have launched a new website to market our wedding venues across the estate

CHIEF EXECUTIVE'S REVIEW

We are confident that we have a robust strategic, geographic and financial base from which to continue to grow

JONATHAN NEAME | CHIEF EXECUTIVE

Overview

I am pleased to report an excellent year for the Company with strong financial performance combined with good progress against our strategic objectives

The changes we have made in the business in recent years have now been fully embedded and this has enabled us to focus on operational excellence and driving higher returns from existing assets

Three key trends are influencing our strategy development Firstly the popularity of eating out and overnight trips in recent years has continued The consumer has more spending power but remains conscious of value for money and demands a great experience every time they visit an outlet Pubs casual dining in restaurants and coffee bars are all competing for spend from the same customers who have time pressure and increasing choice of outlets to meet their needs

Secondly the beer market has continued to struggle for volume growth and declined by -2 4%* for the year to June 2015 (2014 +3 8%) Within this the on trade experienced marginally steeper decline than the off trade and is now less than half the market Recent consumer trends towards beers with greater taste and flavour or local beers with authenticity and provenance have continued

The third dynamic influencing the Company strategy is that, at last, economic recovery is being felt outside London and we are now seeing ever-increasing signs of regeneration in our heartland in particular in North Kent and the East Kent coastal towns There is increasing momentum behind the major development zones in our region and over the medium term this could bring greater economic prosperity and new opportunities for us to grow

Tenanted and Managed Pub Operations

Overview

At the year end we operated 338 pubs and hotels (2014 347) of which 295 are freehold (2014 302) Of these 52 (2014 48) were managed at year end and 286 (2014 299) were tenanted or leased

We have pursued a consistent strategy to drive footfall to our pubs and attract and retain the best licensees through improving the quality of our pub estate and growing the mix of our retail business We continue to maintain strong liquor businesses and to increase our investment in food and accommodation

Thanks to active property management we have in the last 5 years acquired 14 pubs and disposed of 41 This has reduced the number of small wet-led community pubs and transformed the profile location quality and sustainability of our asset base Over this period the average EBITDAR per tenanted pub has increased by +17 5% and per managed pub +58 5%

Our primary acquisition focus is to seek economic single-site opportunities within our heartland if they improve the overall business or reach new markets but we increasingly review opportunities outside our historic trading area We are looking to acquire sites with unique character in landmark or high footfall locations and with the potential for further development

During the year we acquired two new pubs the Ostrich at Colnbrook near Heathrow one of the oldest pubs in England, reportedly built in 1106 and the Inn on the Pond in Nutfield Surrey Both of these are being operated as managed pubs We plan redevelopment of The Ostrich to add letting accommodation We have also acquired the freehold of an existing pub the Lock and Barrel, Frinton-on-Sea which was leasehold and operates as a tenanted pub

Since the year end we have acquired two further outlets to be operated as managed pubs The Minnis Bay Bar and Restaurant and the Anchor Hampstead Lock Yalding are both in exceptional locations overlooking the sea or river respectively and take the managed estate to 54

In 2015 we have raised gross proceeds of £3 2m (2014 £2 2m) from the disposal of 11 pubs (2014 four pubs) and one unlicensed property (2014 three unlicensed properties) and other assets This realised a profit of £0 2m (2014 £0 2m) We have also transferred three tenanted pubs (2014 one) to our managed estate and one pub from managed to tenanted

* Source The British Beer & Pub Association

Driving footfall to our pubs
We have continued to look to drive footfall and the quality of customer experience through improving the internal and external appearance of our pubs and as a result have increased investment levels excluding acquisitions year on year for five years

We have invested £12 0m (2014 £7 4m) in developing the pub estate of which £3 4m (2014 £0 3m) was on new acquisitions £6 5m (2014 £5 1m) on development and maintenance capex and a further £2 1m (2014 £2 0m) on repairs and decorations

In order to facilitate the acceleration in investment levels we are recruiting two new surveyors and have enhanced our planned maintenance strategy

Major redevelopments this year included our largest ever project at the Royal Wells Hotel Tunbridge Wells which provides 27 bedrooms two function rooms bar and dining facilities The investment of £2 4m in 2015 has created a superb and stylish venue This builds on the success of the redevelopments at the Botany Bay Hotel and the Marine Hotel in recent years

In the tenanted estate we have carried out major redevelopments at the Railway Telegraph, Forest Hill the Abbey Hotel Battle and the Six Bells Cliffe as well as many smaller projects and matched investment schemes with our licensees

In order to enhance the customer experience and profile of our outlets we continue to invest in technology and digital marketing Specifically we have rolled out new till systems and room reservations systems both of which drive speed of service faster check-in and improved customer engagement We are currently undertaking major improvements to our pub websites to enhance the photographic quality and make them mobile responsive Furthermore given the increasing amount of function and wedding business we provide we have launched a new website to market the wedding venues across our estate We have expanded our mystery visitor programme to all tenanted and managed pubs

Providing a distinctive range of complementary products
Accommodation in our managed business has been the fastest area of growth in recent years as we carry out major redevelopments of our hotels We continue to add or refurbish our rooms on a regular basis to a very high specification and with stylish design During the year we refurbished 68 bedrooms which takes total rooms in the managed estate to 279 (2014 271) Occupancy during the year was again strong at 78% (2014 76%) and RevPAR up +11 5% to £58 (2014 £52) We have a good pipeline of opportunities to add further rooms across the business over the next two years and we are working with Visit England to develop letting rooms for accessible tourism

Our food offer continues to provide strong growth In the managed estate footfall from diners has increased by +9 6% (2014 +8 3%) and spend per head by +0 3% (2014 +2 2%) to £11 51 (2014 £11 48) We have entered new long-term agreements with our core food suppliers which will help further menu development and control of costs We have launched a new scheme for personal and skills development for Head and Second Chefs and demand is growing strongly from our tenanted licensees for training courses and menu advice from our food development team

Every year we look to expand our complementary customer offer Last year we focused on driving an enhanced coffee offer across our pubs In 2015 our mineral range has been improved with premium flavoured carbonates from local producer Kingsdown Water In addition our wine range has grown with a new relationship with an Australian family producer Yalumba, who also produce our private label Boonaburra Finally our premium spirits offer has been enhanced to exploit the increasing popularity of English gin and other craft spirits

Attracting, retaining and developing the best people
Attracting the best people to work in the brewery and our pubs is fundamental to our business In the last year we have reviewed and developed our licensee recruitment process and introduced a comprehensive new induction process We have recruited additional Business Development Managers in the tenanted and managed estates to enable these teams to have greater focus on a smaller number of pubs

STRATEGIC OBJECTIVE TWO

CREATING DEMAND AND BUILDING AWARENESS FOR **OUR BRANDS**

We look to develop our beer portfolio with continuous innovation and great marketing, underpinned with a passion for quality

SAMUEL ADAMS | Boston lager has gained some excellent high-profile distribution in the on trade We are also importing Rebel IPA, a strong hopped US Craft Beer, and Angry Orchard, America s No 1 Hard Cider

MASTER BREW | During the year Master Brew has been re-launched with an attractive new brand identity that emphasises its tradition as a classic dry hoppy beer from the Home of the Hop

SPITFIRE GOLD | This year marks the 75th anniversary of the Battle of Britain To recognise this event we are launching a brand extension Spitfire Gold a light golden ale at 4 1% ABV

To enhance customer service levels we have developed a mobile responsive e-learning system that covers all staff induction manuals and provides the platform to develop further skills areas for our pub staff We have recruited additional trade quality advisors and are also recruiting more field trainers to ensure the highest standards of quality of beer dispense Across the business we have engaged in a programme to improve communication and awareness of the Company s strategy aims and objectives

The above initiatives help to support personal development and provide more focus on service levels to the customer Satisfaction levels and retention rates from our licensees remain high

We like to reward achievement at the brewery and pubs for long service and conspicuous effort I would like to congratulate all of the year s winners but in particular Sarah and Graham Firth of the Three Lions Farncombe for their efforts in creating a superb welcome and great experience for their customers Also of special note is the continued excellence of Phil and Steve Harris, licensees at the Sportsman at Seasalter now voted the No 1 Gastro Pub in the UK*

Trading performance
As a consequence of these initiatives investment and long-term commitment to continuous improvement trading in our pub estate continues to grow year on year

Tenanted estate revenues grew by +0 6% (2014 +2 2%) for the 52 weeks to 27 June 2015 Like-for-like EBITDAR per tenanted pub grew by +2 4% (2014 +4 4%) Average EBITDAR per tenanted pub grew by +4 1% (2014 +5 9%)

Managed estate revenues grew by +9 4% (2014 +10 8%) Same outlet like-for-like sales were up +6 1% (2014 +8 9%) with liquor +4 3% (2014 +8 0%) food + 7 0% (2014 +10 4%) and accommodation +13 8% (2014 +9 7%) Average EBITDAR per managed pub is up +7 1% (2014 +13 9%)

Brewing and Brands

Overview

This has been another transitional year for the Brewing and Brands business with good portfolio development and excellent performance from our newer brands offset by the continuing impact of the exit from the contract for brewing Kingfisher lager

Total own brewed beer sold was -8 4% (2014 -0 3%) at 224,000 brewers barrels (2014 245 000 brewers barrels) This decline on the prior year is accounted for by reduced Kingfisher volume We have been making a phased exit from this substantial contract since 2013 and the production of kegged Kingfisher beer ceased in December 2014 Total Kingfisher volume in this financial year represented 6 1% (2014 13 5%) of own produced beer volume Core own and licensed beer volume adjusted to exclude contract volume increased by +0 1% (2014 +6 1%) with growth ahead of the market against the backdrop of ever-increasing competition from new micro and craft brewers

Our strategic objectives remain to create demand and build awareness for our portfolio of premium brands, instil a passion for quality and drive continuous innovation and great marketing

Creating demand and building awareness for our brands

In response to the fast-changing nature of the UK Beer Market, we launched in 2014 and 2015 a number of new initiatives to strengthen our beer portfolio

The Whitstable Bay range under the Faversham Steam Brewery banner has been a huge success and significantly outperformed our expectations Pale Ale and Blonde Lager in particular have become key products in our own pubs and have a growing presence in national markets The portfolio was enhanced during the year with Whitstable Bay Oyster Stout which has had an excellent start Total growth in the Whitstable Bay range was +39 6%

Our heritage beers including Classic Collection beers such as Brilliant Ale Double Stout and IPA as well as the more widely distributed Bishops Finger have also performed well with growth of +4 1%

During the year Master Brew has been re-launched with an attractive new brand identity that emphasises its tradition as a classic dry hoppy beer from The Home of the Hop

This year marks the 75th Anniversary of the Battle of Britain To recognise this event we are supporting a number of activities and events as well as launching Spitfire Gold a light golden ale at 4 1% ABV to take advantage of the trend towards lighter, paler and more aromatic ales Spitfire has had a challenging year and volumes declined by -15 5% partly through reducing our participation in promotional activity in the supermarkets as the grocers face significant competitive pressures

*Budweiser Budvar Top 50 Gastropubs Awards

In spite of these market pressures both Spitfire and Bishops Finger remain Top 10 performers in the Premium Bottled Ale category It is also pleasing to note that our Spitfire TV adverts in 2014 have won a Beer Marketing Award for the Best Broadcast Advertising Campaign

Our licensed portfolio has continued to perform well with good momentum for Asahi Super Dry and strong growth of +23 8% from Samuel Adams Boston Lager which has gained some excellent high-profile distribution in the on trade To complement Boston Lager we are now importing further products from the Samuel Adams range including Rebel IPA a strong hopped US Craft Beer and Angry Orchard, America s No 1 Hard Cider

This emerging new portfolio is providing some exciting opportunities for the Company and enables us to offer a compelling range to pubs, bars and restaurant groups

Expanded Customer Reach
Following the decision to transfer warehousing and distribution to Kuehne & Nagel Drinks Logistics (KNDL) in October 2013 we have reorganised our sales team to provide wider geographic coverage and greater density Early indications from this approach are encouraging

Simultaneously we are extending our reach internationally and have opened up new markets in Hong Kong Australia and Poland We have enjoyed good growth in France Italy and Ireland However our ambitions in North America with Moosehead have failed to meet expectations and this agreement terminates in October 2015 We are seeking new distributors for these markets

To support the consolidation of sales and marketing and production into one business unit we have reorganised our office facilities and transferred customer services back to the central brewery site In the coming year we have embarked on a project to roll out a customer relationship management system across the business

Operations
In April 2015 the 40 year agreement to discharge our trade effluent to a local facility came to an end (see note 18) The water treatment plant is now fully operational with cleansed water being discharged to the Faversham Creek under consent from the Environment Agency Costs this year have been in line with expectations

Our investment focus in the coming year is to upgrade the Brewhouse and modernise quality systems and procedures It was pleasing to note that Samuel Adams Boston Lager brewed by us won Gold at the International Brewing Awards

Current trading
We have made a good start to the new financial year and our new or refurbished outlets have performed well

For the 10 weeks to 5 September 2015 like-for-like managed sales are up +6 5% (2014 +4 1%) Like-for-like EBITDAR in the tenanted estate to 29 August 2015 is up +1 8% (2014 +2 6%) Total beer volume is down -3 8% (2014 -13 5%) with own beer volume excluding contract up +8 6%

Summary
This has been a positive year for the Company with strong financial performance and exciting new additions to our beer and pub portfolio

We focus on delivering a great and memorable experience for our customers every time they drink our beer or visit one of our unique and distinctive pubs and hotels and as a result the Company continues to enjoy a strong reputation

We have built a high-quality asset base over a long period of time and we are now getting improved returns from developments and good operating performance

Whilst the industry remains very competitive at all levels we are confident that we have a robust strategic geographic and financial base from which to continue to grow

Jonathan Neame
Chief Executive

STRATEGIC OBJECTIVE THREE

PROVIDING A DISTINCTIVE RANGE OF **COMPLEMENTARY PRODUCTS**

We look to give our customers great fresh food and a wide choice of great quality products to enhance our overall offer

SUN INN BEDROOMS | Accommodation in our managed business has been the fastest area of growth in recent years as we continue to carry out major refurbishments of our hotels During the year we refurbished 68 rooms including four rooms at the Sun Inn Faversham

SPIRITS | Our premium spirits offer has been enhanced to take advantage of the increasing popularity of English gin and other craft spirits

OUR FOOD OFFER | continues to provide strong growth and we have seen a consistent increase in footfall from diners

FINANCIAL REVIEW

Summary profit and loss account	2015 £ 000	2014 £ 000	Change
Turnover	138 267	138 679	(0 3%)
Operating profit before exceptional items	14 090	13 401	5 1%
Operating margin before exceptional items	10 2%	9 7%	+0 5%
Operating exceptional items	(375)	(1 279)	70 7%
Net finance costs	(4 488)	(4 622)	2 9%
Exceptional property profits	201	224	(10 3%)
Profit before tax	9 428	7 724	22 1%
Profit before tax and exceptional items	9 602	8 779	9 4%
Taxation	(2 171)	(1 546)	(40 4%)
Profit after tax	7 257	6 178	17 5%
Basic earnings per share	49 1p	41 9p	17 2%
Basic earnings per share before exceptional items	50 3p	48 5p	3 7%

This year s results and operating profit growth reflect the continued investment and development of our managed pub estate where two pubs have been acquired and LFL growth has been strong at +6 1% (2014 +8 9%) We have continued to focus our brewing capacity on our own and licensed brands and the exit from the contract to produce Kingfisher lager has resulted in lower overall turnover than the prior year

The increase in spend in developing the estate combined with two new managed pubs has meant that we have increased our level of capital expenditure We have felt confident in doing so on the back of strong cash flow generation from the business and an increase in disposal proceeds as we continue to dispose of properties that do not fit our long-term strategy As a result it is pleasing that we have continued to invest in growing the business but at the same time reduce our level of net debt gearing and leverage

Results Turnover for the 52 weeks ended 27 June 2015 decreased by -0 3% (2014 +2 8%) to £138 3m (2014 £138 7m) and operating profit before exceptional items was up 5 1% (2014 +5 5%) at £14 1m (2014 £13 4m) The decline in turnover reflects the phased exit from the Kingfisher lager contract which ended in December 2014 and meant that overall Beer and Brands turnover declined by -7 0% (2014 -1 0%) The first half for the 2016 financial year will be the last period where turnover comparatives are impacted by the exit of Kingfisher Within the pub estate tenanted pub turnover rose +0 6% (2014 +2 2%) and managed pub turnover was up +9 4% (2014 +10 8%)

Operating profit reflects the growth in managed pubs with a resulting increase in operating margin of +0 5% from 9 7% to 10 2%

Within the results the business and board reorganisation announced in 2013 generated a further £0 5m of benefit in this financial year This is slightly lower than our expectation as some of the benefit was reinvested in customer service This takes the total benefit of the business and board reorganisation to £1 7m across 2014 and 2015

We continued to use the benefit of this reorganisation to invest in our pub estate, with an increase in pub repairs and decorations of £0 1m and to offset inflation from the water recovery plant where costs increased by the anticipated £0 4m

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

Exceptional items Total exceptional items were a charge of £0 2m (2014 charge of £1 1m) This year s charge comprised two property-related elements

- The annual impairment review exercise was carried out in the year which resulted in a write back of £0 2m of previous impairment charges (2014 write back of £0 6m) in relation to three pubs and properties (2014 two pubs) A charge of £0 6m (2014 £0 7m) was recognised in relation to the impairment of 11 pubs (2014 10 pubs and properties) taking the net property impairment charge to £0 4m (2014 £0 05m)
- Property profits of £0 2m (2014 £0 2m) on the sale of 11 pubs (2014 four pubs) and one unlicensed property (2014 three unlicensed properties and one piece 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 Company s long-term strategy

The prior year exceptional items also included a business and board reorganisation charge of £0 5m relating to the transition of warehousing and logistics services to KNDL and a one-off charge of £0 7m relating to legal and professional fees and other costs in respect of the share capital reorganisation As communicated last year no further charges were incurred on these reorganisations in the 2015 financial year

There was no net tax charge on exceptional items due to the availability of rollover relief on property profits In 2014 there was a net tax credit of £0 1m on exceptional items which related to a tax credit on the business reorganisation charges and a tax charge of £0 03m on the sale of unlicensed property

Finance costs Net finance costs decreased by 2 9% to £4 5m (2014 £4 6m) following the reduction in net debt seen across the 2014 and 2015 financial years from strong operating cash flow generation

Interest cover before exceptional items increased to 3 1 times (2014 2 9 times)

* The ratio of net debt to earnings before exceptional items interest tax depreciation amortisation loss on sale of fixed assets (excluding property) and free trade loan discounts (EBITDA pre exceptionals)

Summary of taxation	2015 Profit £ 000	Tax £ 000	Rate %	2014 Profit £ 000	Tax £ 000	Rate %
Profit before tax and tax thereon	9 428	2 171	23 0	7 724	1 546	20 0
Business and Board reorganisation	-	-	-	526	104	-
Share capital reorganisation	-	-	-	708	-	-
Impairment	375	-	-	45	-	-
Property profits	(201)	-	-	(224)	(28)	-
Profit before tax and exceptional items and tax thereon	9,602	2,171	22 6	8 779	1 622	18 5
Effect of reduction in corporation tax rate on deferred tax provision	-	-	-	-	535	6 1
Underlying tax rate	9,602	2,171	22 6	8 779	2 157	24 6

Taxation The total tax charge for the year was £2 2m (2014 £1 5m) an effective rate of 23 0% (2014 20 0%) The average statutory rate of corporation tax in the UK for the period was 20 75% (2014 22 50%) As previously announced the prior year tax charge was reduced by £0 5m due to the reduction in the corporation taxation rate to 20% on the Company s deferred tax provisions

Earnings per share Basic earnings per ordinary share before exceptional items increased by 3 7% to 50 3p (2014 48 5p) This reflects higher operating profits and lower finance costs which have been partially offset by the anticipated higher overall tax rate

Basic earnings per ordinary share increased by 17 2% to 49 1p (2014 41 9p) due to higher operating profits and lower exceptional costs

Dividends Dividend per share in respect of the year increased by 3 1% to 26 70p per ordinary share (2014 25 90p per ordinary share) to give total dividends of £4 0m (2014 £3 7m) Dividend cover has increased to 1 8 times (2014 1 6 times) Dividend cover before exceptional items remained at 1 9 times

Cash flow and net debt

Summary cash flow statement	2015 £ 000	2014 £ 000
EBITDA pre-exceptional items	21,036	20,459
Operating exceptional items	(597)	(796)
Working capital and other operating cash flows	3 220	2 774
Cash flow from operations	23,659	22,437
Interest	(4 378)	(3 559)
Tax	(2 297)	(1 458)
Dividends	(3 861)	(3 236)
Purchase of own shares	(465)	(432)
Share option proceeds	43	-
Disposal of fixed assets	3 155	2 217
Cash flow pre capital investment	15,856	15,969
Core capital expenditure	(9 748)	(8 559)
Movement in net loans to customers	121	(58)
Cash flow pre acquisitions	6 229	7,352
Acquisition of pubs	(3 417)	(260)
Net cash inflow for the year	2,812	7,092
Movement in loan issue costs	(153)	(148)
Closing net debt	(68,810)	(71 469)

EBITDA pre exceptional items increased by 2 8% to £21 0m (2014 £20 5m) reflecting the increase in operating profit There was a net cash inflow from working capital movements of £3 2m (2014 £2 8m) mainly due to a decrease in debtors following the phased exit of contract brewing and a movement in turnover mix towards managed pubs As a result of these two factors the net cash inflow from operating activities increased by £1 3m to £23 7m (2014 £22 4m)

The exceptional outflow in the year of £0 6m relates to the completion of the share capital reorganisation in 2014 and settlement of legal and professional fees and other costs as previously announced

The total cash cost of interest tax and dividends increased by £2 2m to £10 5m (2014 £8 3m) As indicated last year the usual four quarterly interest payments were made in 2015 versus three in 2014 Tax payments in 2014 were lower mainly due to the £0 6m one-off accelerated capital allowances benefit associated with the capital expenditure on the water recovery plant Dividend cash flows in 2015 reflect the new share structure and an increased number of shares which has resulted in the expected higher total dividend payment

In order to service the Company s obligations under employee incentive plans 41 891 shares were purchased (2014 37 000) at an average market price of £11 09 (2014 £11 67) leading to a cash outflow of £0 5m (2014 £0 4m)

Cash spend on capital expenditure was £13 2m up from £8 8m in 2014 This was driven by the acquisition of two freehold properties The Inn On The Pond Nutfield and The Ostrich Inn Colnbrook and the acquisition of the freehold of the Lock and Barrel Frinton-on-Sea Core capital expenditure was £9 7m (2014 £8 6m) reflecting the increase in development expenditure across the pub estate

Proceeds of £3 2m (2014 £2 2m) were realised from the sale of 11 pubs (2014 four pubs) and one unlicensed property (2014 three unlicensed properties and one piece of land)

Financing and loan facilities
A £2m contractual repayment was made in May 2015 in respect of the five year term loan taking year end drawings to £16m (2014 £18m) At the year end nil drawings (2014 £nil) were made on the £10m revolving credit facility

Following a review of our banking arrangements, subsequent to the year end the five year loan of £16m and the revolving credit facility of £10m due to expire in May 2017 were refinanced to provide a

STRATEGIC OBJECTIVE FOUR

ATTRACTING, RETAINING AND DEVELOPING THE **BEST PEOPLE**

We have a commitment to developing our licensees and employees to ensure our customers benefit from people that have a passion for quality and service

TRAINING OUR TEAMS | We have launched a new scheme for personal and skills development for Head and Second chefs and demand is growing strongly from our tenanted licensees for training courses and menu advice from our food development team

BREWING | We have launched in 2014 and 2015 a number of exciting new initiatives to strengthen our beer portfolio developed by our passionate and skilled team of brewers

E-LEARNING | To enhance customer service levels we have developed a mobile responsive e-learning system that covers all staff induction manuals and provides the platform to develop further skills areas for our pub staff new £20m revolving credit facility with an expiry of September 2020 This agreement provides the flexibility to support our growth plans with an uncommitted option to extend the facility by £10m and reduced costs through lower margins above floating LIBOR of between 130 and 240 basis points

The 20 year term loan maturing in 2026 remains unchanged meaning total committed facilities of £80m (2014 £88m) are in place together with a £5m overdraft facility which is renewable in June 2016

The floating element of interest on the 20 year term loan was fixed by swap contracts to give an effective rate of interest including bank margins of 5 78%

Following the review of banking arrangements £37 5m of swap contracts were novated from RBS to Santander UK in June 2015 increasing our banking partnerships to three institutions A further £12 5m of swaps were novated from RBS to Lloyds Bank since the year end The policy for managing treasury and financial risk is as set out in note 25

Balance sheet

Overall there was a £2 9m increase in tangible fixed assets (2014 increase of £0 3m) reflecting the acquisitions and core capital expenditure made in the year The strong operating cash flows mean net debt has decreased by £2 7m to £68 8m (2014 £71 5m)

As a result of the net debt reduction balance sheet gearing at the year end was 52% (2014 56%) and the leverage ratio of net debt to EBITDA at the year end was 3 3 times (2014 3 5 times)

Shareholders funds at 27 June 2015 were £132 2m (2014 £128 8m) meaning net assets per share showed an increase of 2 5% at £8 89 (2014 £8 67)

Accounting standards

The Company has not adopted any new Financial Reporting Standards during the year but this is the last set of results that will be presented under UK GAAP prior to the new financial reporting framework in the UK which is effective for accounting periods beginning on or after 1 January 2015 The interim accounts for the 26 weeks ended 26 December 2015 and full year accounts for the 52 weeks ended 25 June 2016 will be prepared under the new accounting standard FRS 102 The comparative prior year periods in these accounts will also be restated under FRS 102 A full explanation of the impacts of the new accounting standards will be provided with the accounts for these periods

PRINCIPAL RISKS AND UNCERTAINTIES

PRINCIPAL RISKS	MITIGATION AND MONITORING
ECONOMIC	
Strength of the economy The success of the Company s operations is partly reliant upon the strength of the UK and regional 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	We monitor and respond to changes in the economy by reviewing the investment levels in our key brands and pubs by developing our portfolio and through active property management in order to continue encouraging a variety of customers to our products and pubs
REGULATORY	
Regulation and taxation of the sale of alcohol The drinks industry is heavily regulated and heavily taxed through excise duty 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, and our profitability	Legislative developments are monitored and we aim to grow income streams derived from food accommodation and non-alcoholic beverages as well as alcohol We are committed to acting responsibly and promote safe drinking The Company has membership of the BBPA and directors are members of key industry bodies where regulatory matters are discussed
Health and safety Health and safety legislation including fire safety and food legislation is paramount in all operations Any non-compliance could have serious consequences for our employees tenants and customers	Health and safety procedures and policies are in place to ensure compliance We provide regular training risk assessments are performed and all incidents are investigated
Operation of tied pubs The Government is implementing a statutory code of practice and adjudicator for landlords and tenants The majority of provisions will cause additional cost and administration At present there is a threshold that exempts companies with less than 500 tenanted or leased pubs such as Shepherd Neame but this could change in the future	We work hard to ensure that our tenants are treated fairly and have viable commercial propositions with flexible appealing agreements We follow the existing industry voluntary code of practice to ensure the transparency and openness of our tied agreements and fair dealings with our licensees New code requirements will be incorporated as necessary
OPERATIONAL	
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	There is regular inspection of quality and service levels by brewing partners with the aim of providing reassurance and satisfaction for all parties helping good relations to continue We hold regular reviews of brand performance with our partners
Brands 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	Staff training adherence to high quality standards throughout the business management review and internal controls reduce the operational risk of brand damage Our communications team monitors all external reviews manages our reputation and liaises with the media
Supply chain failure Prolonged disruption to our supply chain could affect the quality and availability of our product	We work with established and reliable suppliers wherever possible and maintain good relationships with them to assist with monitoring their positions
Information technology failure The company places significant reliance on information systems A significant or prolonged failure of these systems would affect all aspects of our business	The IT function has back-up systems virus protection a business continuity plan a disaster recovery plan and external support agreements for hardware and software which 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 and the profitability of the Company	We have developed a disaster recovery plan to mitigate disruption including arrangements to use alternative facilities The move to transition warehousing to KNDL means our product is now de-centralised and held in a number of warehouse locations
Water recovery The Company operates 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 under such failure There is also the risk of breach of our consent with statutory bodies	The company has undertaken business continuity planning with alternative procedures for the disposal of waste albeit at higher cost to mitigate this risk We regularly review procedures to ensure the highest standards of compliance

OUR COMMUNITY

We have a commitment to Faversham, Kent and the communities our pubs serve

BEER DAY BRITAIN | Shepherd Neame joined in the celebrations for the first Beer Day Britain with staff at the brewery in Faversham, gathering for a communal toast

RIDE OF THE LIONS WATERLOO 200 | We supported the Walking With The Wounded charity cycle ride which marked the 200th anniversary of the Battle of Waterloo

BROADSTAIRS FOLK WEEK | We take great pride in supporting the town of Faversham and the county of Kent Broadstairs Folk Week turned 50 this year and a special work of sand art was created to celebrate this landmark

CORPORATE SOCIAL RESPONSIBILITY

Heritage
Shepherd Neame is an independent family business and Britain s oldest brewer based in the market town of Faversham in Kent All our beers are brewed with the finest traditional ingredients including water sourced from our own well deep beneath the brewery We are proud to brew an award-winning range of quintessentially Kentish ales and international lagers

Shepherd Neame pubs and hotels are found across the south-east of England including Kent London Essex Surrey and Sussex and we believe we own more listed buildings than any other commercial organisation in Kent Our investment in their upkeep helps preserve time-honoured crafts including thatching signwriting stonemasonry traditional carpentry and glass etching We are dedicated to safeguarding local and brewing heritage for future generations

We take responsibility for our impact on society being both the community and environment in the following ways

Responsible retailing
Shepherd Neame is committed to operating pubs and hotels of high quality and we encourage our pubs to be active participants in their communities We take our responsibility to customers and communities seriously and believe the pub should provide a friendly safe environment for its customers

We believe that well-run pubs parental guidance individual responsibility and suitable education are important to establish a sensible attitude to drinking

The company is dedicated to discouraging excessive drinking and so-called binge drinking and we support a number of initiatives to help achieve our commitment to do business in a socially responsible manner

We support Drinkaware a charity that provides information on the effects of alcohol and aims to reduce alcohol misuse We use the logo on physical marketing materials and online Challenge 21 and the PASS scheme are proof-of-age schemes, which we operate across our estate using mystery drinkers to monitor it

We are partners with the Department of Health s Responsibility Deal and support pledges for improving public health in England These include alcohol labelling increasing the public s awareness of alcohol units and responsible marketing

We also support Kent Community Alcohol Partnership which brings together councils the police Trading Standards, education providers and the health service with alcohol producers and retailers at the local level

Allergen labelling has been implemented during the year to comply with new regulations We have developed a robust system to identify allergens and communicate this to customers

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 water supply raw materials handling pollution control waste management and recycling The following achievements are testament to our efforts

We have completed the installation of a water recovery plant that has enabled the recovery and re-use of a proportion of our waste water into other processes and materially reduced our water consumption

We were the first UK brewery to attain full accreditation for ISO 14001 an environmental benchmark of international repute We were also the first UK brewery to be awarded a Feed Materials Assurance Scheme certificate which guarantees the quality and traceability of the brewery s spent malt and yeast for agricultural feed

For the brewing process we audit environmental policies and procedures of all major suppliers 99% of our malt is sourced from the UK and more than 95% of hops for our own beer are sourced from Kent All spent produce is used as animal feed and we recycle 97% of the grain and hops used Our packaging materials are 100% recyclable and our waste is separated into recyclable elements All of our waste oil in managed pubs and the brewery is collected and converted back into biofuel

The brewery s bottling hall was opened in June 2009 It has enabled us to reduce our energy and water consumption, particularly by switching from tunnel pasteurisation to flash pasteurisation

We work well within the Government s Energy Efficient Quotient Over the past decade we have reduced our energy consumption in the bottling hall by 27% The brewery uses exclusively lightweight glass for its bottled beers resulting in a saving of 20% in glass usage

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% As part of our capital refurbishment programme we install LED lighting where appropriate and have a rolling programme to retrofit LED into our managed estate We are also continuing to install waterless urinal systems across our managed estate and looking at voltage optimisation opportunities

Employees
We are justifiably proud of our dedicated staff many of whom have very long service and some of whom are the fourth and fifth generations of local families working for us Of the brewery staff, 31% have 10-20 years service and 12% have over 20 years service* We owe much of our success to them and ensure that they are appreciated valued and respected We are committed to providing equal opportunities for all our employees and every employee is treated equally and fairly We run an active sports and social club for employees as well as a pensioners club for retired employees

There is regular communication on company strategy and developments feedback and ideas are encouraged 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 The Skills People in this regard

Community
Shepherd Neame has supported the community it serves for many years Our brewery and pubs are at the heart of their communities raising large sums each year for local and national charities

We launched Spitfire Premium Kentish Ale in 1990 to raise money to help RAF veterans and have since raised a significant amount for RAF veterans charities 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 number of summer events music festivals regattas airshows the Kent County Show and have a long-term partnership with the Royal Albert Hall

We take great pride in supporting the town of Faversham and the county of Kent through events such as the Faversham Hop Festival the Magna Carta Rediscovered exhibition the Historic Vehicle Weekend and local food and drink weekends We sponsor the Faversham Christmas Lights and the Kent Messenger Group s countywide Big Quiz

Our staff support a variety of charity initiatives including Wear it Pink and Jeans for Genes and have participated in many other fundraising events including marathons bicycle rides and outdoor pursuits We actively encourage and support the charitable events they organise with donations and advice A new initiative is the Shepsgiving Committee set up with the aim of improving the facilitation of our charity and community giving 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 support Pubwatch across our estate and support licensees working in partnership with their communities and their peers in an effort to provide a safe environment for socialising Six of our London pubs participate in the Safety Thirst City of London scheme which aims to achieve highest standards of safety and security for customers and to minimise any impact on neighbours

We support local tourism through our membership of Visit Kent We have also supported the accessible tourism initiative launched by Visit England Our visitor centre is a multi-award winner small visitor attraction and plays a vital role in the Kent tourism offer

We have entered into a partnership with the Primary Authority Scheme relating to fire safety measures endorsing our robust approach to fire safety The scheme allows a consistent approach to fire safety policies regardless of the location of individual properties

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

This strategic report was approved by the Board of Directors on 14 September 2015 and was signed on its behalf by

Jonathan Neame
Chief Executive

* The calculation is based on brewery employees as at 27 June 2015 excluding managed pubs and the visitor centre
** Lewisham Southwark College

BOARD OF DIRECTORS

MILES TEMPLEMAN (67)
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 2011 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 He is currently a Non-Executive Director of Fairgrove Partners Limited a Council member of the RNLI and is joining the Board of Governors of Brighton College

JONATHAN NEAME DL (51)
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 until December 2015 and will become Chairman of Visit Kent from January 2016

MARK RIDER (39)
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 from 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

OLIVER BARNES (64)
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

JAMES LEIGH-PEMBERTON CVO (58)
NON-EXECUTIVE DIRECTOR
CHAIRMAN OF THE AUDIT COMMITTEE
Appointed to the Board in September 2004 He is Executive Chairman of UK Financial Investments Ltd He was previously Chief Executive of Credit Suisse UK and a Non-Executive Director of RIT Capital Partners plc

BILL BRETT (50)
NON-EXECUTIVE DIRECTOR
Appointed to the Board in September 2013 He is Executive Chairman of Robert Brett & Sons Ltd and was Chairman of the Mineral Products Association until September 2015

GEORGE BARNES (61)
PROPERTY AND SERVICES DIRECTOR
Joined the Company in 1978 He is a Chartered Surveyor and was appointed to the Board in January 2001 Became Property and Services Director with effect from July 2014 He is also a Director of the Institute of Licensing and a Director of the Pub Governing Body

NIGEL BUNTING (48)
RETAIL AND TENANTED OPERATIONS DIRECTOR
Joined the Company in 1993 He has held various management positions including 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 and became Retail and Tenanted Operations Director with effect from July 2014 He is a Non-Executive Director of Davy & Co Ltd

GRAEME CRAIG (44)
BREWING AND BRANDS 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 Became Brewing and Brands Director with effect from January 2014

ROBERT NEAME CBE DL DCL (81)
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

ROBIN DUNCAN (59)
COMPANY SECRETARY
Joined the Company in 1975 and was appointed as Company Secretary in December 2013 in addition to his role as Head of Human Resources He has held various management positions within the Company and is a Fellow of the Chartered Institute of Personnel and Development and a Member of the Institute of Brewing and Distilling

CORPORATE GOVERNANCE

The Company is a private company and its shares are quoted on the ISDX Growth Market which enjoys certain personal tax advantages for our shareholders compared to a full stock market listing

As an ISDX market company Shepherd Neame is not required to comply with all aspects of the UK Corporate Governance Code 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 four Executive Directors The biographical details on pages 28 and 29 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 Non-Executive Directors serving a period beyond nine years are subject to annual re-election All newly appointed Directors stand for election at the Annual General Meeting following their appointment

The Board governs through its executive management and committees Each Board Committee has specific terms of reference and there is a list of Matters Reserved for the Board which distinguishes which types of decision are taken by the Board or delegated to management The terms of reference for each Committee are available on the Company s website The chairmen of each committee report to the Board on proceedings of Committee meetings

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

Attendance at scheduled meetings held during the year is set out on the right

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 such as the approval of minor capital projects and refurbishments the agreement and approval of minor contracts with third parties and employee appointments

Nomination
The Nomination Committee is chaired by Miles Templeman and comprises the Non-Executive Directors The Committee met six times during the year attendance is shown in the table below The Committee is responsible for identifying and proposing prospective candidates for Directors for consideration and appointment by the Board as a whole It reviews the size structure and composition of the Board and makes recommendations to the Board with regard to any adjustments deemed necessary

The Committee is responsible for considering the Company s succession plans for Board members and determining what skills knowledge and experience will be necessary Other matters considered during the year included the re-election of directors and ongoing succession strategy

Before any appointment is made the Board evaluate the balance of skills knowledge and experience on the Board and in the light of this evaluation prepare a description of the role and capabilities required for a particular appointment In identifying suitable candidates the Committee shall

- Consider candidates from a wide range of backgrounds
- Consider candidates on merit and against objective criteria taking care that appointees have enough time available to devote to the position
- Consider the use of external advisers or advertising to facilitate the search if applicable and
- Consider the requirements set out in the Company s Memorandum and Articles of Association

Prior to the appointment of any Director the committee obtains from the proposed appointee details regarding any other business interests which may result in a conflict of interest and to ensure that consideration is given to whether these need to be approved by the Board prior to appointment

Audit
The Audit Committee is chaired by James Leigh-Pemberton and comprises the Non-Executive Directors The Chief Executive, Finance and IT 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 agrees the scope of work and also recommends approval of the financial statements to the Board It is responsible for reviewing internal financial controls and risk management systems The Committee had two meetings during the year and on each occasion the Chief Executive and Finance and IT Director attended

The Audit Committee receives reports from the Finance and IT Director and external auditor on the key accounting issues and areas of significant judgement The key matters for this financial year were the transition to the new accounting standards framework (FRS 102) and the results of the annual impairment exercise The Chairman

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings	9	2	4	6
Executive Directors				
G H A Barnes	9	-	-	-
N J Bunting	9	-	-	-
G R Craig	9	-	-	-
J B Neame	9	*	*	*
M J Rider	9	*	-	-
Non-Executive Directors				
O W A Barnes	8	2	3	5
W J Brett	8	1	3	6
J H Leigh-Pemberton	7	1	3	6
M H Templeman	9	2	4	6

* These Directors are not members of the Committees but are invited to be in attendance at meetings as appropriate

of the Committee is in regular contact with the audit partner to discuss matters relevant to the Company The financial statements and interim results were reviewed in detail prior to their submission to the Board

Deloitte LLP has been the Company s auditor since 2009 Their performance is reviewed by the Committee which considers their effectiveness and independence, and partner rotation which occurred at the end of 2013 The auditor provides taxation advisory services in addition to audit services and from time to time may provide non-audit services to the Company In relation to 2015 Deloitte provided audit services of £89 000 and non-audit services of £31 000

It is the policy of the Board to seek proposals and quotations from a number of suppliers when undertaking significant non-audit work to ensure that the Company benefits from the best combination of quality of work and value for money

Remuneration
The activities of the Remuneration Committee are explained fully in the Remuneration report on pages 32 to 36

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 Shepherd Neame s 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 and IT Director make an annual presentation of the Company s results to professional 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 and makes presentations to the Family Council The Chairman and Chief Executive discuss governance and strategy with major shareholders and the Board receives updates on these meetings which helps develop the Non-Executive Directors understanding of the views of major shareholders The Chairman and Chief Executive update them on the Company s performance and progress

Panmure Gordon (UK) Limited (formerly Charles Stanley Securities) who have a large private client portfolio and JP Morgan Cazenove are both appointed to provide broking and advisory services

The Company s shares were admitted to the CREST trading platform in September 2013

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 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

REMUNERATION REPORT

Overview
The Board has voluntarily included a remuneration report The information discussed in this report is not as extensive as that required for a fully listed entity to disclose

The Remuneration Committee is chaired by Oliver Barnes and comprises the Non-Executive Directors The work of the Committee is set out in its terms of reference which are available on the Company s website 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 Executive 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 when appropriate External consultants are used periodically to help with these decisions The last review was carried out by Deloitte LLP in 2011

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

Director remuneration composition
Executive
Remuneration for Executive Directors comprises fixed remuneration (salary car allowance and other taxable benefits) pension contributions and performance-related remuneration designed to motivate maximum performance over a sustained period Salary levels for Executive Directors are reviewed annually in line with the overall company pay review process

The performance-related pay element of Executive Director remuneration has three components

- A cash bonus scheme providing for annual bonuses dependent on a combination of corporate financial performance and personal bonus targets The targets for these bonuses are set annually and currently provide for bonuses of up to 20% of salary
- Primary options over ordinary shares with a value of up to 20% of salary in accordance with the rules of the 2005 Restricted Share Scheme These options are tied to financial performance targets of the business which are set at the start of the financial year to which the targets relate and evaluated at the end of the financial year In order for these options to then vest the Director has to remain in employment three years after the financial year in which the performance of the Company has been evaluated
- Secondary options over ordinary shares granted annually up to a value of up to 25% of salary in accordance with the rules of the 2005 Restricted Share Scheme Under this scheme options are granted every year but only vest three years after grant by reference to growth in earnings per share and return on capital employed over the three year period

No option may be granted in any year which would result in the aggregate of all share options granted in that year to any grantee exceeding 40% of their salary in that year

The Shepherd Neame Limited 2015 Restricted Share Scheme (the "2015 Scheme) is being introduced as a replacement to the Shepherd Neame Limited 2005 Restricted Share Scheme which expires on 28 October 2015 (the 2005 Scheme) The terms of the 2015 Scheme are similar to the 2005 Scheme except certain terms have been updated to reflect current market practice Like the 2005 Scheme the 2015 Scheme aims to make awards which are closely aligned to Company performance and the interests of shareholders over the long term The 2015 Scheme includes features consistent with prevailing market and best practices including malus and clawback provisions (which may apply at the discretion of the Remuneration Committee to awards made under the 2015 Scheme)

The malus provision allows that both Primary and Secondary Options may be granted on terms that all or a proportion of unvested options may be forfeited back to the Company in exceptional circumstances of fraud financial misstatement and misconduct

In addition and if specified at the time of grant the clawback provision allows that in exceptional circumstances of fraud financial misstatement and misconduct the Company may reclaim and/or be compensated for all or a proportion of the Shares acquired by an employee under their vested options whether Primary or Secondary

In addition to these incentives executives are free to participate in the All Employee Share Incentive Plan (SIP) This scheme is open to all employees with 18 months service at the date of award and provides a free award of shares based on length of service and salary The maximum award available to any employee is £3 600 per annum with effect from November 2015 when the next awards are announced

Non-Executive

Non-Executive Directors receive fees which are reviewed annually by the Board in line with the overall Company pay review process

Directors emoluments

For the highest paid Director the increase in annual salary for the 2015 financial year was 2 75% The figures for annual bonus for the highest paid Director relate to performance in the 2015 and 2014 financial years respectively The bonus for the highest paid Director under the cash bonus scheme will be £27 000 or 11 4% of salary for the 2015 financial year In the 2014 financial year the highest paid Director was awarded a special one-off cash bonus of £20 000 for his work in regard to Company reorganisations which took place in that year

Of the secondary share options granted in 2011 to all Executive Directors 52% vested in 2014 based on performance measured against performance criteria The secondary share options granted in 2010 that were due to vest in 2013 lapsed due to performance conditions not being met in the 2013 financial year 9 212 primary options were granted in 2011 to all Executive Directors and vested in 2014 No primary options were granted in 2010 and as such no primary options vested in 2014

The average salary increase for Executive Directors, including a special increase for one Director in respect of increased responsibilities was 4 7% in the 2015 financial year and the aggregate bonus paid to Executive Directors in the 2015 financial year relating to the 2014 financial year was £179 000 or 16 8% as a percentage of executive salaries including the special one-off bonus to the highest paid Director

Bonuses totalling £108 000 or 11 4% of salary will be paid to Executive Directors in relation to the 2015 financial year

Due to changes in legislation the highest paid Director and one other Executive Director are no longer contributing members of the Company pension scheme The highest paid Director received payments in lieu of pension in the year ended 27 June 2015 which total £53 000 and are included within emoluments (2014 £49 000) The aggregate gain subject to tax not included above made by the highest paid Director on the exercise of share options was £49 000 (2014 nil)

The aggregate number of secondary share options granted to Directors in November 2014 for the reference period 2014 to 2017 was 19 125 (2014 25 685 for the reference period 2013 to 2016) These share options will vest by reference to performance criteria to be measured against 2017 results 10 710 primary options were issued in respect of the 2014 financial year (2013 nil)

Subject to the approval of the accounts the Remuneration Committee will consider secondary option awards for the reference period to 2015 in October 2015

Directors emoluments

The information in this table is subject to audit and as required to be disclosed in note 8

	52 weeks ended 27 June 2015 £ 000	52 weeks ended 28 June 2014 £ 000
Aggregate amount		
Salary	**1,147**	1 181
Salary in lieu of pension contributions	**93**	77
Taxable benefits	**98**	125
Cash payment in lieu of share options	**30**	–
Annual bonus	**108**	179
Primary and Secondary share options vesting in the year	**216**	–
Share Incentive Plan	**14**	19
Directors emoluments	**1,706**	1 581
Pension contributions	**106**	127
	1 812	1 708
The number of Directors who		
Had pensions benefit accruing under money purchase schemes	**5**	6
Exercised options over shares in the Company	**4**	1
Had awards receivable in the form of shares under a long-term incentive plan	**5**	6
Details of Directors share options are shown on page 36		
Highest paid Director		
Salary	**240**	234
Salary in lieu of pension contributions	**53**	49
Taxable benefits	**34**	32
Annual bonus	**27**	54
Primary and Secondary share options vesting in the year	**72**	-
Share Incentive Plan	**3**	4
	429	373

In 2015 the highest paid Director was granted primary options and secondary options over 2 787 and 4 977 ordinary shares respectively under the long-term incentive plan (2014 no primary options and 6 805 secondary options) He exercised options over 4 515 shares (2014 no options were exercised)

The aggregate gain not included above made by the highest paid Director on the exercise of share options was £49 000 (2014 nil)

Options benefit is calculated as the share price at the year end (less the exercise price) multiplied by the number of options vesting in the year Options are considered to have vested if the performance criteria have been met in the financial year in which case the number of vested options is estimated based on performance against performance measures

The benefit arising in the year in respect of primary and secondary shares vesting of £72 000 includes an amount of £31 000 in respect of shares subsequently exercised This amount forms a part of the gain on exercise of share options disclosed above of £49 000

SIP benefit is calculated as the share price at the year end multiplied by the number of shares awarded in the year

Directors interests

The information in this table is subject to audit and as required to be disclosed in note 23

The interests of the Directors in the Company s shares at 27 June 2015 (28 June 2014) are as follows

			Ordinary shares	
		Beneficial	As trustees	Under SIP
George Barnes	**2015**	**29,346**	**-**	**2,048**
	2014	23 339	-	1 803
Oliver Barnes	**2015**	**85,202**	**-**	**-**
	2014	85 202	-	-
Nigel Bunting	**2015**	**10 209**	**-**	**1,718**
	2014	7 284	-	1 473
Bill Brett	**2015**	**15,895**	**-**	**-**
	2014	15 895	-	-
Graeme Craig	**2015**	**3 236**	**-**	**1,789**
	2014	250	-	1 544
Jonathan Neame	**2015**	**153,901**	**102,769**	**1,672**
	2014	154 451	114 497	1 427
Mark Rider	**2015**	**-**	**-**	**525**
	2014	-	-	280
Miles Templeman	**2015**	**8,905**	**-**	**-**
	2014	8 905	-	-

The beneficial holdings of ordinary shares includes shares awarded under the Employee Profit Share Scheme which closed in 2003 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 2012 2013 and 2014 and are held in trust for a qualifying period of three years before ownership vests unconditionally (see note 24a)

The information in this table is subject to audit and as required to be disclosed in note 23

Subject to performance conditions being met options over the Company s Ordinary shares held by Directors at 27 June 2015 (28 June 2014) are as follows

	At 2014	Granted	Exercised	Forfeited	At 2015		Exercise price £	Date from which exercisable	Expiry date
George Barnes	468	–	(468)	–	–	*	1 00	26/10/10	26/10/17
	904	–	(904)	–	–	**	1 00	30/10/12	30/10/19
	2 059	–	(2 059)	–	–	*	1 00	28/10/14	28/10/21
	5 147	–	(2 676)	(2 471)	–	**	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
	4 547	–	–	–	**4,547**	**	1 00	18/10/16	18/10/23
	–	1 862	–	–	**1,862**	*	0 50	17/10/17	17/10/24
	–	3 325	–	–	**3,325**	**	0 50	17/10/17	17/10/24
	20 019	5 187	(6 107)	(2 471)	**16 628**				
Nigel Bunting	409	–	(409)	–	–	*	1 00	26/10/10	26/10/17
	904	–	(904)	–	–	**	1 00	30/10/12	30/10/19
	2 044	–	(2 044)	–	–	*	1 00	28/10/14	28/10/21
	5 110	–	(2 657)	(2 453)	–	**	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
	4 484	–	–	–	**4,484**	**	1 00	18/10/16	18/10/23
	–	1 836	–	–	**1,836**	*	0 50	17/10/17	17/10/24
	–	3 279	–	–	**3,279**	**	0 50	17/10/17	17/10/24
	19 749	5 115	(6 014)	(2 453)	**16 397**				
Graeme Craig	66	–	(66)	–	–	*	1 00	27/10/09	27/10/16
	468	–	(468)	–	–	*	1 00	26/10/10	26/10/17
	904	–	(904)	–	–	**	1 00	30/10/12	30/10/19
	2 044	–	(2 044)	–	–	*	1 00	28/10/14	28/10/21
	5 110	–	(2 657)	(2 453)	–	**	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
	4 484	–	–	–	**4,484**	**	1 00	18/10/16	18/10/23
	–	1 961	–	–	**1,961**	*	0 50	17/10/17	17/10/24
	–	3 501	–	–	**3,501**	**	0 50	17/10/17	17/10/24
	19 874	5 462	(6 139)	(2 453)	**16,744**				
Jonathan Neame	1 450	–	(1 450)	–	–	**	1 00	30/10/12	30/10/19
	3 065	–	(3 065)	–	–	*	1 00	28/10/14	28/10/21
	7 663	–	–	(3 678)	**3,985**	**	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
	6 805	–	–	–	**6,805**	**	1 00	18/10/16	18/10/23
	–	2 787	–	–	**2,787**	*	0 50	17/10/17	17/10/24
	–	4 977	–	–	**4,977**	**	0 50	17/10/17	17/10/24
	29 301	7 764	(4 515)	(3 678)	**28,872**				
Mark 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
	5 365	–	–	–	**5,365**	**	1 00	18/10/16	18/10/23
	–	2 264	–	–	**2 264**	*	0 50	17/10/17	17/10/24
	–	4 043	–	–	**4,043**	**	0 50	17/10/17	17/10/24
	12 677	6 307	–	–	**18 984**				
Total	101 620	29 835	(22 775)	(11 055)	**97 625**				

* Primary share option rights under the Shepherd Neame 2005 Restricted Share Scheme (see note 24b)

** Secondary share option rights under the Shepherd Neame 2005 Restricted Share Scheme (see note 24b)

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 27 June 2015 was £11 20 (28 June 2014 £11 75) and the range during the year was £10 38 to £12 45 (2014 £7 70 to £11 75)

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their Annual Report and Accounts for the 52 weeks ended 27 June 2015

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 and Strategic Report which provide further details of the Company s performance for the 52 weeks ended 27 June 2015 and likely future developments

Dividends

The Company paid an interim dividend of 5 30p per ordinary share of 50p (2014 5 15p per A share of £1 and 0 103p per B share of 2p) The Directors now recommend a final dividend of 21 40p per ordinary share of 50p (2014 20 75p) This makes a total dividend for the year of 26 70p per ordinary share of 50p (2014 25 90p)

The total proposed final dividend on ordinary shares of 50p will be £3 172 000 (2014 £3,074 000) which together with the 2015 interim dividend paid of £787 000 (2014 £660 000) will make total dividends of £3 959 000 (2014 £3,734 000)

Directors

The names of the Directors who served during the year and up to the date of signing are set out on pages 28 and 29 Particulars of the Directors interests in the Company s shares are set out in the Remuneration Report on pages 32-36

Graeme Craig and Mark Rider retire from the Board by rotation and will be offering themselves for re-election James Leigh-Pemberton Oliver Barnes and Miles Templeman having served longer than nine years submit themselves for re-election in accordance with the Articles of Association

Purchase of own shares

During the year 41 891 ordinary shares of 50p representing 0 28% of the Company s issued share capital were purchased at a cost of £465 000 (2014 37 000 ordinary shares of 50p, being 0 25% of the issued share capital at a cost of £432 000) The shares were acquired in connection with the Company s obligations under the Share Schemes

Use of financial instruments

A statement in relation to the use of financial instruments and financial risk management by the Company is given in the Financial Review and also in note 25 to the accounts

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 regular 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 £7 5 million

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
Robin Duncan
Company Secretary
17 Court Street
Faversham Kent
14 September 2015
Registered in England number 138256

DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report Strategic Report the Directors Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have 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 UK accounting standards have been followed subject to any material departures disclosed and explained in the financial statements 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 that are sufficient to show and explain the Company s transactions and 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 corporate and financial 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 current financial projections together with the Company s bank facilities as discussed in the Cash Flow and Financing sections of the Financial Review on pages 18 to 22 and in accordance with the capital and risk management process set out in note 25 and on the basis of reasonable expectation, have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future and accordingly consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements

Directors statement as to disclosure of information to the auditor
The Directors who held office as at the date of approval of this Directors Report confirm that

- so far as they are each aware there is no relevant audit information (as defined in Section 418(2) of the Companies Act 2006) of which the Company s auditor is unaware and
- each Director has taken all the steps that they ought to have taken as a director to be aware of any relevant audit information and to establish that the Company s auditor is aware of that information

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SHEPHERD NEAME LIMITED

We have audited the financial statements of Shepherd Neame Limited for the 52 weeks ended 27 June 2015 which comprise the Profit and Loss Account the Statement of Total Recognised Gains and Losses, the Note of Historical Cost Profits and Losses the Balance Sheet the Cash Flow Statement the Notes to the Cash Flow Statement the Accounting Policies and the related notes 1 to 28 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 auditor s report and for no other purpose To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Company and the Company s members as a body for our audit work for this report or for the opinions we have formed

Respective responsibilities of directors and 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 Company s circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates made by the Directors and the overall presentation of the financial statements In addition we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on or materially inconsistent with the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company s affairs as at 27 June 2015 and of its 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 Strategic Report and 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 matters where the Companies Act 2006 requires us 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

Andrew Clark FCA

Andrew Clark

(Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and
Statutory Auditor
London United Kingdom
14 September 2015

PROFIT AND LOSS ACCOUNT 52 WEEKS ENDED 27 JUNE 2015

	note	52 weeks to 27 June 2015 Before exceptional items £ 000	Exceptional items £ 000	Total £ 000	52 weeks to 28 June 2014 Before exceptional items £ 000	Exceptional items £ 000	Total £ 000
Turnover	1	**138,267**	**-**	**138,267**	138 679	-	138 679
Operating charges	2 3	**(124,177)**	**(375)**	**(124,552)**	(125 278)	(1 279)	(126 557)
Operating Profit		**14,090**	**(375)**	**13,715**	13 401	(1 279)	12 122
Profit on sale of property	3	**-**	**201**	**201**	-	224	224
Profit on ordinary activities before interest		**14,090**	**(174)**	**13 916**	13 401	(1 055)	12 346
Interest receivable and similar income		**14**	**-**	**14**	25	-	25
Interest payable and similar charges	4	**(4,502)**	**-**	**(4,502)**	(4 647)	-	(4 647)
Profit on ordinary activities before taxation		**9 602**	**(174)**	**9,428**	8 779	(1 055)	7 724
Taxation	5	**(2,171)**	**-**	**(2,171)**	(1 622)	76	(1 546)
Profit after taxation		**7,431**	**(174)**	**7,257**	7 157	(979)	6 178
Earnings per 50p ordinary share							
Basic	7			**49 1p**			41 9p
Basic before exceptional items	7			**50 3p**			48 5p
Diluted	7			**48 8p**			41 6p

Movements in reserves are set out in notes 21 and 22

All results are derived from continuing activities

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 £7 257 000 for the 52 weeks ended 27 June 2015 (52 weeks ended 28 June 2014 £6 178 000)

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	52 weeks ended 27 June 2015 £ 000	52 weeks ended 28 June 2014 £ 000
Profit on ordinary activities before taxation	**9,428**	7 724
Realisation of property valuation (see note 21)	**955**	103
Difference between an historic cost depreciation charge and the actual depreciation charge for the year	**29**	29
Historical cost profit on ordinary activities before taxation	**10,412**	7 856
Historical cost profit for the year retained after taxation	**8,241**	6 310

BALANCE SHEET AS AT 27 JUNE 2015

	note	27 June 2015 £ 000	28 June 2014 £ 000
Fixed assets			
Tangible fixed assets	10	204 468	201 591
Investments and loans	11	816	1 073
		205,284	202 664
Current assets			
Stock	12	7,001	6 417
Debtors	13	16,150	18 202
Cash		6,793	5 981
		29,944	30 600
Creditors amounts falling due within one year			
Bank loans and overdrafts	15	(1,987)	(1 987)
Creditors	14	(23,919)	(23 477)
		(25 906)	(25 464)
Net current assets		4,038	5 136
Total assets less current liabilities		209,322	207 800
Creditors amounts falling due after more than one year			
Bank loans	15	(73,616)	(75 463)
Provision for liabilities	19	(3,556)	(3 586)
Net assets		132,150	128 751
Capital and reserves			
Called up share capital	20	7,429	7 429
Share premium account	21	1,099	1 099
Revaluation reserve	21	12,170	13 125
Reserve for own shares held	21	(827)	(908)
Profit and loss account	21	112,279	108 006
Equity shareholders funds	22	132,150	128 751

These accounts for Shepherd Neame Limited (Registered in England number 138256) were approved by the Board of Directors on 14 September 2015 and were signed on its behalf by

Miles Templeman
Jonathan Neame
Directors

CASH FLOW STATEMENT 52 WEEKS ENDED 27 JUNE 2015

	£ 000	52 weeks ended 27 June 2015 £ 000	£ 000	52 weeks ended 28 June 2014 £ 000
Net cash inflow from operating activities (see note a)		**23 659**		22 437
Returns on investment and servicing of finance				
Interest paid	**(4,391)**		(3 584)	
Interest received	**13**		25	
		(4,378)		(3 559)
Taxation paid		**(2,297)**		(1 458)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	**(13,165)**		(8 819)	
Proceeds of sales of tangible fixed assets	**3,155**		2 217	
Additional loans to customers	**(52)**		(210)	
Customer loan redemptions	**173**		152	
		(9 889)		(6 660)
Equity dividends paid		**(3,861)**		(3 236)
Net cash inflow before financing		**3,234**		7 524
Financing				
Purchase of own shares		**(465)**		(432)
Share option proceeds		**43**		-
Reclassification to reflect maturity		**-**		(1 987)
Repayment of long-term loan		**(2,000)**		-
Movement in cash during the period		**812**		5 105

NOTES TO THE CASH FLOW STATEMENT 52 WEEKS ENDED 27 JUNE 2015

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

	52 weeks ended 27 June 2015			52 weeks ended 28 June 2014		
	Before exceptional items £ 000	Exceptional items £ 000	Total £ 000	Before exceptional items £ 000	Exceptional items £ 000	Total £ 000
Operating profit	14,090	(375)	13 715	13 401	(1 279)	12 122
Depreciation and amortisation (see note 2)	6 731	-	6,731	6 708	-	6 708
Impairment provision (see note 3)	-	375	375	-	45	45
Charge for share-based payments credited to reserves	425	-	425	413	26	439
Increase in stocks	(584)	-	(584)	(627)	-	(627)
Decrease in debtors and prepayments	2,053	-	2,053	582	-	582
Increase/(decrease) in creditors and accruals	1,326	(597)	729	2 406	412	2 818
Free trade loan discounts	136	-	136	162	-	162
Loss on sale of assets (excluding property) (see note 2)	79	-	79	188	-	188
	10,166	(222)	9 944	9 832	483	10 315
Net cash inflow from operating activities	24,256	(597)	23,659	23 233	(796)	22 437

b Reconciliation of cash flows to movement in net debt

	52 weeks ended 27 June 2015 £ 000	52 weeks ended 28 June 2014 £ 000
Opening cash and overdraft	3,994	(1 111)
Closing cash and overdraft	4,806	3 994
Increase in cash during the period	812	5 105
Reclassification to reflect maturity	-	1 987
Repayment of long-term loan	2,000	-
Amortisation of loan issue costs	(153)	(148)
Movement in net debt during the period	2 659	6 944
Net debt at beginning of the period	(71,469)	(78 413)
Net debt at end of the period	(68,810)	(71 469)

c Analysis of changes in net debt

	2014 £ 000	Cash flow £ 000	Reclassification to reflect maturity £ 000	Repayment of long term loan £ 000	Amortisation of issue costs £ 000	2015 £ 000
Cash	5 981	812	-	-	-	6,793
Debt due within one year	(1 987)	-	(1 987)	2 000	(13)	(1 987)
	3 994	812	(1 987)	2 000	(13)	4,806
Debt due after more than one year	(75 463)	-	1 987	-	(140)	(73 616)
Total	(71 469)	812	-	2 000	(153)	(68 810)

ACCOUNTING POLICIES

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 38) 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)

The Company has taken the exemption in S405 of the Companies Act 2006 to exclude its subsidiary undertakings from consolidation as inclusion is not material for the purpose of giving a true and fair view

b 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

c 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

d 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

e 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

f 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

g 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 tied estate properties is recognised in the period in which it arises on an accruals basis

h 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

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

j 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

k 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

l 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

NOTES TO THE ACCOUNTS 27 JUNE 2015

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 Company is that of a fully integrated regional brewer operating in the UK and that this constitutes one class of business Export sales outside the UK during the year were £3 271 000 (2014 £3 485 000)

2 Operating charges

	Before exceptional items 52 weeks ended 27 June 2015 £ 000	Exceptional items 52 weeks ended 27 June 2015 £ 000	Total 52 weeks ended 27 June 2015 £ 000	52 weeks ended 28 June 2014 £ 000
Production costs and costs of goods used in retailing	62,944	-	62,944	65 338
Change in stocks of finished goods and work in progress	(584)	-	(584)	(627)
Staff costs				
Wages and salaries	21,975	-	21,975	21 871
Social security costs	2,000	-	2,000	1 969
Other pension costs	903	-	903	927
Depreciation amortisation and impairment	6,731	375	7,106	6 753
Loss on sale of fixed assets (excluding properties)	79	-	79	188
Property repairs	2,226	-	2,226	2 115
Operating lease rentals - land buildings vehicles & equipment	3 542	-	3,542	3 379
Other operating charges	24,361	-	24 361	24 644
Total operating charges	124,177	375	124,552	126 557

The analysis of auditor s remuneration is as follows

	52 weeks ended 27 June 2015 £ 000	52 weeks ended 28 June 2014 £ 000
Total fees payable to Deloitte LLP for the audit of the Company s annual accounts	89	86
Other services pursuant to legislation		
Tax services	20	20
Other services	3	-
Total non-audit fees	23	20
Fees payable to the Company s auditor for the audit of associated pension schemes	8	7
Total fees payable to Deloitte LLP	120	113

3 Exceptional items

	52 weeks ended 27 June 2015 £ 000	52 weeks ended 28 June 2014 £ 000
Operating items		
Impairment of tangible fixed assets	(375)	(45)
Reorganisation costs - principally in respect of redundancy and other staff costs	-	(526)
Share capital restructure legal and professional fees stationery and printing costs	-	(708)
	(375)	(1 279)
Non-operating items		
Profit on sale of property	201	224
Total exceptional items before tax	(174)	(1 055)
Taxation (see note 5)	-	76
Total exceptional items after tax	(174)	(979)

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 27 June 2015 £ 000	52 weeks ended 28 June 2014 £ 000
Current tax		
UK corporation tax at 20 75% (2014 22 50%)	2 270	2 196
Prior year over provision	(19)	(50)
Total current tax	2,251	2 146
Deferred tax		
Origination and reversal of timing differences	(70)	(65)
Effect of reduction in the rate of corporation tax	-	(535)
Prior year over provision	(10)	-
Total deferred tax	(80)	(600)
Total tax charge	2,171	1 546

b Factors affecting the current tax charge

The tax assessed on the profit on ordinary activities before taxation for the year is higher than the standard average statutory rate of corporation tax in the UK of 20 75% (2014 22 50%) The differences are reconciled below

	52 weeks ended 27 June 2015 £ 000	52 weeks ended 28 June 2014 £ 000
Profit on ordinary activities before tax	9,428	7 724
UK corporation tax at average statutory rate 20 75% (2014 22 50%)	1,956	1 738
Expenses not deductible for tax purposes and non taxable income	284	416
Capital allowances less than depreciation	124	81
Short-term timing differences	(33)	49
Utilisation of tax losses	(19)	(65)
Profit on sale of property less chargeable gains	-	(23)
Rolled over gains on asset disposals	(42)	-
Prior year over provision	(19)	(50)
Total current tax	2,251	2 146

The exceptional profit on the disposal of properties of £201 000 (2014 £224 000) gives rise to a tax charge of £nil (2014 £28 000) after the effect of rollover relief The exceptional operating charge of £375 000 (2014 £1 279 000) gives rise to a tax credit of £nil (2014 £104 000) This gives a net tax credit on exceptional items of £nil (2014 £76 000)

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 £3 6m (2014 £3 6m) based on a corporation tax rate of 20% (2014 20%) At present it is not envisaged that any such tax will become payable in the foreseeable future

NOTES TO THE ACCOUNTS 27 JUNE 2015

6 Dividends

	52 weeks ended 27 June 2015 £ 000	52 weeks ended 28 June 2014 £ 000
Declared and paid during the year		
50p ordinary shares		
Final dividend for 2014 20 75p	3,074	-
Interim dividend for 2015 5 30p	787	-
	3,861	-
£1 A shares		
Final dividend for 2013 20 15p	-	2 302
Interim dividend for 2014 5 15p	-	590
	-	2 892
2p B shares		
Final dividend for 2013 0 403p	-	274
Interim dividend for 2014 0 103p	-	70
	-	344
Dividends paid	3,861	3 236
Proposed for approval at the 2015 AGM		
Final dividend for 2015 on 50p ordinary shares 21 40p (2014 20 75p)	3,172	3 074

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

	52 weeks ended 27 June 2015 £ 000	52 weeks ended 28 June 2014 £ 000
Profit attributable to equity shareholders	7,257	6 178
Weighted average number of shares in issue	14,770	14 746
Dilutive outstanding options	113	121
Adjusted weighted average share capital	14 883	14 867
Basic	49 1p	41 9p
Basic before exceptional items	50 3p	48 5p
Diluted	48 8p	41 6p

The earnings per share before exceptional items are calculated on profit after tax and before exceptional items of £7 431 000 (2014 £7 157 000)

8 Directors remuneration

Full details are provided in the Directors Remuneration Report and tables on pages 32-36

9 Employees

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

	52 weeks ended 27 June 2015 Number of employees	52 weeks ended 28 June 2014 Number of employees
Brewery	273	293
Retailing	933	890
	1,206	1 183

10 Tangible fixed assets

	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 28 June 2014	169 913	942	6 463	32 777	50 489	1 163	261 747
Additions	4 077	-	57	1 030	7 150	700	13 014
Disposals	(2 777)	-	(171)	(65)	(1 383)	(1)	(4 397)
Transfers	22	-	2	8	162	(194)	-
At 27 June 2015	**171,235**	**942**	**6 351**	**33,750**	**56,418**	**1,668**	**270,364**
Accumulated depreciation							
At 28 June 2014	6 373	98	3 267	22 818	26 978	622	60 156
Charge for year	452	17	213	1 733	4 316	-	6 731
Impairment	368	-	28	-	166	-	562
Reversal of past impairment	(106)	-	-	-	(19)	(62)	(187)
On disposals	(287)	-	(171)	(57)	(851)	-	(1 366)
At 27 June 2015	**6,800**	**115**	**3,337**	**24,494**	**30,590**	**560**	**65,896**
Net book values							
At 27 June 2015	**164,435**	**827**	**3,014**	**9,256**	**25,828**	**1 108**	**204,468**
At 28 June 2014	163 540	844	3 196	9 959	23 511	541	201 591

Included in additions is £70 000 (2014 £114 000) of own labour capitalised

Disposals includes an amount of £583 000 (2014 £1 812 000) 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 £50 777 000 are included in the valuation or cost of the freehold properties at 27 June 2015 (2014 £52 528 000)

If they had not been revalued freehold properties would have been carried in the balance sheet at 27 June 2015 at

	2015 £ 000	2014 £ 000
Cost	**149,687**	147 410
Accumulated depreciation	**(6,016)**	(5 583)
Net book amount	**143,671**	141 827

The Company has entered into certain operating leases as lessor The gross cost of assets held for use under these leases amounted to £18 808 000 (2014 £21 315 000) and the related accumulated depreciation charges amounted to £448 000 (2014 £806 000) and the aggregate rentals receivable amounted to £932 000 (2014 £1 028 000)

A net impairment loss of £375 000 was recognised in the year (2014 £45 000) An impairment loss of £562 000 was recognised in respect of 11 licensed properties to write them down to their recoverable amount (2014 £692 000 in respect of 10 licensed properties) Prior year impairment losses of £187 000 were reversed in respect of three licensed properties to write them back to their recoverable amount (2014 £647 000 in respect of two licensed properties)

Impairment was assessed at the income generating unit level considered to be on the basis of each individual pub Whether an asset was impaired or 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 based upon the budget for the forthcoming financial year approved by the Directors Cash flows beyond the budget period are extrapolated in perpetuity for freehold properties and over the length of the remaining lease for leasehold properties The long-term growth rates applied are 2 5% for managed pubs and 1 5% for tenanted pubs The pre-tax discount rate used in this review was 8 14% (2014 8 22%)

11 Investments and loans

	2015 £ 000	2014 £ 000
Investment in subsidiaries	**101**	101
Loans to customers	**715**	972
	816	1 073

a Investment in subsidiaries

At the year end the Company had investments in the following dormant subsidiary companies

Caremill Limited
Invicta Inns Limited
Kingfisher Inns Limited
Royal Albion Hotel Broadstairs Limited
Shepherd Neame (Trustees) Limited
SN Finance plc
Thomas Grant & Sons Limited
Todd Vintners Limited

b Loans to customers

	2015 £ 000	2014 £ 000
At start of year	**972**	1 092
Additions	**52**	210
Redemptions	**(173)**	(168)
Loan discounts	**(136)**	(162)
At end of year	715	972

c The maturity profile of the loans is

	2015 £ 000	2014 £ 000
Recoverable <1 year	**26**	90
Recoverable 1–5 years	**436**	443
Recoverable >5 years	**253**	439
	715	972

Of these loans £313 000 is expected to be repaid in cash and £402 000 is expected to be repaid by offset against discounts to be earned but not received by customers (2014 £382 000 and £590 000 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

	2015 £ 000	2014 £ 000
Raw materials and consumables	**1,945**	1 990
Work in progress	**276**	359
Finished goods including goods for resale	**4,780**	4 068
	7,001	6 417

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

13 Debtors

	2015 £ 000	2014 £ 000
Trade debtors	**13,327**	15 159
Other debtors	**207**	398
Prepayments	**2 616**	2 645
	16,150	18 202

14 Creditors amounts falling due within one year

	2015 £ 000	2014 £ 000
Trade creditors	7,037	6 756
Amounts due to subsidiary undertakings	101	101
Corporation tax	1,188	1 235
Other tax and social security	6,257	6 461
Accruals and deferred Income	7,166	6 828
Trade deposits	1,770	1 716
Other creditors	400	380
	23,919	23 477

15 Bank Loans

Amounts falling due after more than one year

	2015 £ 000	2014 £ 000
Bank loans	74,000	76 000
Less loan issue costs	(384)	(537)
	73 616	75 463

The bank loans at the year end comprise a 20 year term loan of £60m arranged in April 2007 and a five year term loan of £16m arranged in June 2012 The 20 year term loan is hedged by interest rate swap contracts which are referred to in note 25 Both loans were provided by the Royal Bank of Scotland plc and Lloyds Banking Group plc

The £60m 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 £16m loan was a £2m repayment on 31 May 2016 with the balance repayable on 31 May 2017

The Company also had a £10m five year revolving credit facility that matured in May 2017 and a £5m committed overdraft facility that is renewable in June 2016 At both this and the prior year end there were no drawings on the revolving credit facility

Since the year end the Company s medium term facilities have been refinanced (see note 28)

The bank loans and overdraft were repayable as follows

	2015 £ 000	2014 £ 000
Amounts payable on demand or within one year	2,000	2 000
Amounts payable between 1-5 years	14,000	16 000
Amounts payable in over five years	60,000	60 000
	76 000	78 000

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

16 Capital commitments

Contracts for capital expenditure not provided for in the accounts amounted to £118 000 (2014 £410 000)

17 Other financial commitments

	Land and buildings 2015 £ 000	Plant and machinery 2015 £ 000	Land and buildings 2014 £ 000	Plant and machinery 2014 £ 000
Annual commitments under non-cancellable operating leases which expire				
Within one year	197	51	198	26
Between 1-5 years	216	225	216	242
After 5 years	2,378	-	2 407	-
	2,791	276	2 821	268

18 Contingent liabilities

The Company has guaranteed a mortgage totalling £45 000 (2014 £47 000) 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

As previously announced the Company has invested in a new water treatment plant which will minimise the consumption of extracted well water through greater recycling This plant was necessary as we have reached the end of a long-term agreement with our local water company

The Company is in dispute regarding the terms on which the long-term agreement terminated and any residual liabilities under it owed by the Company The Board is of the view that there should be no material liability for the Company in this respect beyond charges yet to be invoiced in line with the contract for the final four years The Company has made accruals in respect of these amounts The dispute resolution procedure in the long-term agreement is arbitration In the absence of a consensual resolution to this dispute there is a possibility that arbitration could commence It is estimated that the Company s legal and associated costs of an arbitration case could be up to £750 000 The Company would seek to reclaim these costs as part of the arbitration process

19 Provision for liabilities

	Onerous lease		Deferred tax		Total	
	2015 £ 000	2014 £ 000	**2015 £ 000**	2014 £ 000	**2015 £ 000**	2014 £ 000
As at 28 June 2014	**42**	–	**3,544**	4 144	**3,586**	4 144
Arising in the year	**50**	42	**-**	-	**50**	42
Credited to profit and loss	**-**	–	**(80)**	(600)	**(80)**	(600)
As at 27 June 2015	**92**	42	**3,464**	3 544	**3,556**	3 586

Onerous lease provisions will unwind over the life of the leases being a period of up to 12 years Deferred tax liabilities principally arise on fixed asset depreciation timing differences and will unwind over the lives of the assets concerned

The deferred tax included in the balance sheet is as follows

	2015 £ 000	2014 £ 000
Accelerated capital allowances	**3,461**	3 583
Other timing differences	**3**	(20)
Unutilised tax losses	**-**	(19)
	3,464	3 544

20 Share capital

	2015 £ 000	2014 £ 000
Allotted called-up and fully paid		
14 857 500 ordinary shares of 50p each	**7,429**	7 429

21 Reserves

	Share premium £ 000	Revaluation reserve £ 000	Own shares held £ 000	Profit & loss account £ 000	**Total £ 000**
Balance at 28 June 2014	1 099	13 125	(908)	108 006	**121,322**
Profit for the period	–	–	–	7 257	**7,257**
Dividends paid	–	–	–	(3 861)	**(3,861)**
Transfer of realised revaluation	–	(955)	–	955	**-**
Accrued share-based payments	–	–	–	425	**425**
Purchase of own shares	–	–	(465)	–	**(465)**
Distribution of own shares	–	–	405	(362)	**43**
Unconditionally vested share awards	–	–	141	(141)	**-**
Balance at 27 June 2015	**1,099**	**12 170**	**(827)**	**112,279**	**124 721**

The Company held 90 117 50p ordinary shares at 27 June 2015 with a market value of £1 009 000 (2014 102 905 and £1 209 000) 57 191 of the own shares held are allocated to employees under the Share Incentive Plan and a further 74 627 have vested unconditionally and as such are no longer treated as own shares held (2014 64 638 and 72 741 respectively) Of these shares 43 743 can be distributed to the employees free of tax (2014 57 263)

22 Reconciliation of movements in shareholders funds

	2015 £ 000	2014 £ 000
Shareholders funds at the beginning of the year as previously reported	**128,751**	125 802
Profit after taxation	**7,257**	6 178
Ordinary dividends paid	**(3,861)**	(3 236)
Accrued share-based payments	**425**	439
Purchase of own shares	**(465)**	(432)
Share option proceeds	**43**	-
Movement during the year	3,399	2 949
Shareholders funds at the end of the year	132,150	128 751

23 Directors interests

The interests of the Directors in the Company s shares and options over the Company s ordinary shares held by Directors at 27 June 2015 and 28 June 2014 are as disclosed in the Remuneration report on pages 32-36

24 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 the maximum of £3 000 was made to all eligible employees in January 2003 2004 2005 2006 and November 2006 2007 2008 2010 2011 2012 2013 and 2014 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 purchase any shares for the Employee Share Incentive Plan in either 2015 or 2014

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

	2015 Number	2014 Number
Outstanding shares at start of year	**132,242**	150 835
Granted during the year	**20,137**	20 327
Forfeited during the year	**(3,751)**	(3 006)
Distributed during the year	**(19,602)**	(35 914)
Outstanding shares at end of year	**129,026**	132 242
Distributable at end of year	**74,627**	72 741

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 was £11 207 (2014 £9 508)
The weighted average fair value of the shares granted in November 2014 was £12 20 (November 2013 £9 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 27 June 2015 was £185 000 (2014 £216 000)

24 Share-based payment continued

b 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 four other Directors This scheme replaced the 1995 Restricted Share Scheme following its cessation in 2005 It was updated to reflect changes in tax legislation and market practice since the 1995 scheme was adopted and the scheme ends in 2015 There were no options outstanding at 27 June 2015 in respect of the 1995 scheme

Under the 2005 restricted share scheme primary options were awarded which are exercisable three years after they were awarded subject normally to the grantee remaining in the Company s employment The Directors were also granted secondary options which are exercisable three years after they were awarded if the Company achieves certain financial performance criteria and normally provided that the Director remains in the Company s employment

During the year the Company purchased 41 891 ordinary shares at an average cost of £11 093 per share (2014 37 000 shares at an average cost of £11 665)

The contractual life of each option granted is 10 years

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

	2015 Number	2015 Weighted average exercise price	2014 Number	2014 Weighted average exercise price
Outstanding at start of year	**123,734**	**£1 00**	138 568	£1 00
Granted during the year	**41 309**	**£0 50**	25 685	£1 00
Exercised	**(33 071)**	**£1 00**	(8 576)	£1 00
Forfeited during the year	**(11,055)**	**£1 00**	(31 943)	£1 00
Outstanding options at end of year	**120,917**	**£0 83**	123 734	£1 00
Exercisable at end of year	**6,244**	**£1 00**	6 697	£1 00

The weighted average fair value of the options granted during the year was £11 8924 (2014 £8 6817) The range of the exercise price for options outstanding at the end of the year was £0 50 – £1 00 and the options outstanding at 27 June 2015 had a remaining contractual life of 8 14 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 27 June 2015 and 28 June 2014

	2015	2014
Expected share price volatility	**49%**	25%
Risk-free interest rate	**5 090%**	5 090%
Expected life of option (years)	**6 5**	6 5
Weighted average share price	**£12 250**	£9 400

A charge of £240 000 was recognised for share-based payments made under the Shepherd Neame 2005 Restricted Share Scheme in respect of employee services during the year to 27 June 2015 (2014 £223 000)

25 Financial instruments

a Capital management
The capital structure of the Company consists of bank loans (see note 15) cash and shareholders equity comprising share capital reserves and retained earnings (see notes 20 21 and 22) In managing its capital the Company 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 Company 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 Company s dividend policy and funding requirements regularly throughout the year

b Categories of financial assets and liabilities
The Company 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 Company 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 Company uses derivative instruments to change the economic characteristics of its financial instruments It is Company policy not to enter into or trade in financial instruments for speculative purposes

Interest rate risk

Currently it is Company policy to manage the cost of its borrowings by using a mixture of fixed and variable interest rates at the balance sheet date 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 Company They all bear interest at variable rates based on LIBOR and National Westminster Bank base rate The interest on the rate subject to bank margin of £60m 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 Company policy to have short-term borrowing on a variable rate basis

Liquidity risk

The Company 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 which amounted to £76m fully drawn at the year end The balance of its requirements at the balance sheet date was provided by a five year revolving credit loan facility of £10m which was due to mature in May 2017 and a committed overdraft facility of £5m which matured in June 2015 The size of the facility is regularly reviewed and the overdraft facility is renewed annually At the year end none (2014 nil) of the revolving credit loan facility and none (2014 £nil) of the overdraft facility was being utilised Subsequent to the year end the medium term facilities have been refinanced (see note 28)

Credit risk

The Company trades only with recognised creditworthy third parties It is the Company 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 In addition receivable balances are monitored on an ongoing basis The growth of the Company s business with national retailers has increased the concentration of credit risk However the Board of Directors consider that the credit risk from these customers remains relatively low

With respect to credit risk arising from other financial assets of the Company which comprise cash and cash equivalents the Company 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 principal financial instruments are denominated in sterling and the vast majority of the Company s operations are undertaken within the UK Consequently the foreign currency risk is immaterial except for importation of product and those infrequent occasions when the Company purchases plant and equipment denominated in foreign currency In these circumstances it is the policy of the Company to enter into forward exchange contracts to fix future payments as they fall due At the year end the Company had no outstanding contracts to purchase foreign currency

Interest rate profile

The interest rate profile of the borrowing is

	2015 Notional principal £ 000	2015 Weighted average interest rate (%)	2015 Weighted average period for which rate fixed (years)	2014 Notional principal £ 000	2014 Weighted average interest rate (%)	2014 Weighted average period for which rate fixed (years)
Bank loan	**60,000**	**5 78**	**11 75**	60 000	5 94	12 75

Medium-term borrowings outstanding at 27 June 2015 amounted to £16 000 000 (2014 £18 000 000) comprising £16 000 000 (2014 £18 000 000) drawn on a five year term loan and nil (2014 nil) drawn on the five year revolving credit facility both bearing interest at between 3% and 5 25% above LIBOR Three month LIBOR was 0 577% at 27 June 2015 (28 June 2014 0 552%) The overdraft facility bears interest at 2 5% (2014 2 5%) above National Westminster Bank base rate which was 0 5% at 27 June 2015 (28 June 2014 0 5%)

25 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 Company 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 Company s other financial assets and liabilities

	Book value 2015 £ 000	Fair value 2015 £ 000	Book value 2014 £ 000	Fair value 2014 £ 000
Primary financial instruments				
Variable rate bank loan	**(76,000)**	**(76,000)**	(78 000)	(78 000)
Cash	**6,793**	**6,793**	5 981	5 981
Derivative financial instruments held to manage the interest rate profile				
Interest rate swaps – deferred	**-**	**(18,176)**	-	(15 864)

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

The fair values for interest rate swaps are a volatile value often referred to as the mark to market value This value is determined by marking the fixed rate within the swap against the market for forward interest rates If forward interest rates are below the fixed swap rate then the swap will have a negative fair value for the Company If forward interest rates are above the swap rate then there will be a positive fair value for the Company

As stated in the interest rate risk section of this note the intention of the interest rate swap contracts is to fix interest on the long term loan to 2026 and there is no intention to terminate this loan and the associated swap contracts and realise this potential liability

26 Pension commitments

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 costs represents contributions payable by the Company to the funds and amounts to £903 000 (2014 £927 000) Contributions of £119 000 (2014 £117 000) were payable to the scheme at the year end Three executive Directors are contributing members of one of the Company s defined contribution schemes but due to changes in legislation the highest paid Director and one other executive Director are no longer contributing members of this scheme although they do have entitlement to deferred benefits

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

27 Related party transactions

During the year the Company purchased goods to the value of £11 000 (2014 £13 000) including VAT and made sales of £123 000 (2014 £118 000) to St Austell Brewery Company Limited a company of which Mr J B Neame is a non-executive Director At the year end Shepherd Neame Limited was owed £25 000 (2014 26 000) including VAT by St Austell Brewery Company Limited Shepherd Neame Limited did not owe any balance to St Austell at the year end (2014 nil)

Ms C Neame a close member of Mr J B Neame s family is a director of Charlotte Neame Interior Design Limited which provided goods and design services in respect of the refurbishment of the Royal Wells Hotel at a cost of £54 000 including VAT There was no balance owed to this company at the year end

Mr N J Bunting executive Director of Shepherd Neame Limited is also a director of Davy and Company Limited During the year the Company made sales to the value of £252 000 (2014 £497 000) to Davy and Company and its associated companies At the year end the balance owed to Shepherd Neame Limited by the Davy Group of companies including VAT was £16 000 (2014 £44 000)

All the transactions referred to above were made in the ordinary course of business

28 Post Balance Sheet Event

Since the year end the company s medium term facilities have been refinanced with the five year term loan of £16m and the revolving credit facility of £10m both of which expired in 2017 being replaced by a new committed revolving credit facility of £20m The new agreement contains the uncommitted option for the company to extend the revolving credit facility by a further £10m and runs for five years to 2020 The 20 year term loan of £60m maturing in 2026 remains unchanged

FINANCIAL CALENDAR AND COMPANY ADVISORS

Financial calendar

2015

8 October	Ex-dividend date
9 October	Record date*
16 October	Annual General Meeting and payment of final dividend

2016

March	Announcement of interim results
March	Payment of interim dividend
September	Preliminary results announcement
October	Annual General Meeting

* Shareholders on the register at this date

Company advisors

Registrars

Computershare Investor Services PLC
The Pavilions Bridgwater Road
Bristol BS99 6ZZ
Tel 0370 702 0003
Dedicated Shareholder Tel 0370 707 1291
www computershare com/investor/uk

Auditor

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Stockbrokers

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

Panmure Gordon (UK) Limited
One New Change
London EC4M 9AF

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

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Shepherd Neame Limited (the Company) will be held at the Parish Church of St Mary of Charity Church Road Faversham on Friday 16 October 2015 at 12 00 noon for the following purposes

To consider and if thought fit to pass the following resolutions which will be proposed as ordinary resolutions

Resolution 1 – To receive the Annual Report and Accounts for the 52 weeks ended 27 June 2015 together with the reports of the Directors and Auditor thereon

Resolution 2 – To declare a final dividend of 21 40p per ordinary share for the 52 weeks ended 27 June 2015 payable on 16 October 2015 to holders of ordinary shares registered at the close of business on 9 October 2015

Resolution 3 – To re elect Mr G R Craig as a Director

Resolution 4 – To re elect Mr M J Rider as a Director

Resolution 5 – To re elect Mr J H Leigh Pemberton as a Director

Resolution 6 – To re elect Mr O W A Barnes as a Director

Resolution 7 – To re elect Mr M H Templeman as a Director

Resolution 8 – To re appoint Deloitte LLP as the auditor of the Company until the next general meeting at which accounts are laid and authorise the Directors to determine the auditor s remuneration

Resolution 9 – 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 its ordinary shares of 50 pence each (**ordinary shares**) provided that

(a) the maximum number of ordinary shares that may be purchased is 1 485 750

(b) the minimum price (excluding expenses) which may be paid for each ordinary share is 50 pence

(c) the maximum price (excluding expenses) which may be paid for each ordinary share shall not be more than an amount equal to 105 per cent of the average of the middle market quotations for such shares (as derived from the ISDX Markets website) for the five business days immediately preceding the day on which the purchase is made and

(d) the authority conferred by this resolution shall (unless previously renewed or revoked) expire on the earlier of the conclusion of the next Annual General Meeting of the Company and 16 January 2017 save that the Company may enter into a contract to purchase ordinary shares before the expiry of such authority which will or may be completed wholly or partly thereafter and a purchase of ordinary shares may be made in pursuance of any such contract or contracts

Resolution 10 – To approve the adoption of the Shepherd Neame Limited 2015 Restricted Share Scheme (Scheme) and authorise the Directors to do all such things as are necessary to adopt the Scheme

Notes to the Resolutions

Resolutions 3 to 7 – Re-election of Directors

The articles of association of the Company require certain of the Directors to retire by rotation at each Annual General Meeting and require any non executive Director who has served for longer than nine years to submit themselves for annual re election This year Mr G R Craig Mr M J Rider Mr J H Leigh Pemberton Mr O W A Barnes and Mr M H Templeman will retire and are each offering themselves for re election

Brief biographies of the Directors are set out on pages 28 to 29 of the Annual Report and Accounts 2015

Resolution 9 – Authority to make market purchases of ordinary shares

Resolution 9 seeks authority for the Company to make market purchases of its own ordinary shares If passed the resolution gives authority for the Company to purchase up to 1 485 750 of its ordinary shares representing 10 per cent of the Company s issued ordinary share capital as at 21 September 2015 The Directors have no present intention of making such purchases but consider it is prudent for them to retain the ability to do so The Directors would not propose to exercise their authority to make purchases unless the expected effect of the purchase would be to increase earnings per share and it is generally in the best interest of the shareholders Any shares purchased under this authority will be cancelled

The resolution specifies the highest and lowest price which the Company can pay for any ordinary shares purchased under the authority and when the authority expires The Directors presently intend that a resolution to renew this authority will be proposed at each succeeding Annual General Meeting

Resolution 10 – Shepherd Neame Limited 2015 Restricted Share Scheme

Resolution 10 seeks authority for the Company to implement a discretionary share incentive plan

The Shepherd Neame Limited 2015 Restricted Share Scheme (the **2015 Scheme**) is being introduced as a replacement to the Shepherd Neame Limited 2005 Restricted Share Scheme which expires on 28 October 2015 (the **2005 Scheme**) The terms of the 2015 Scheme are similar to the 2005 Scheme except certain terms have been updated to reflect current market practice and like the 2005 Scheme the 2015 Scheme aims to make awards which are closely aligned to Company performance and the interests of shareholders over the long term The 2015 Scheme includes features consistent with prevailing market and best practices including malus and clawback provisions (which may apply at the discretion of the Remuneration Committee to awards made under the 2015 Scheme)

A summary of the principal terms of the 2015 Scheme is set out in the Appendix to this Notice of Meeting

By Order of the Board
R N Duncan
Company Secretary
17 Court Street
Faversham
Kent

22 September 2015

Explanatory notes

1 Members entitled to attend and vote at the Annual General Meeting (the **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 the Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member

2 You may appoint a proxy in one of the following ways

(i) by using the enclosed form of proxy In order to be valid the form of proxy should be completed and returned together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of the same 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 no later than 12 00 noon on Wednesday 14 October 2015

(ii) online at www investorcentre co uk/eproxy using the Control Number Shareholder Reference Number and PIN printed on the enclosed form of proxy by no later than 12 00 noon on Wednesday 14 October 2015 or

(iii) if you hold your shares in uncertificated form by using the CREST electronic proxy appointment service as described in note 4 below

3 The appointment of a proxy will not prevent a member from attending and voting in person at the Meeting

4 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service should follow the procedures described in the CREST Manual CREST personal members or other CREST sponsored members and those CREST members who have appointed (a) voting service provider(s) should refer to their CREST sponsor or voting service provider(s) to take the appropriate action on their behalf

In order for a proxy appointment or instruction made using the CREST service to be valid the appropriate CREST message (a **CREST Proxy Instruction**) must be properly authenticated in accordance with Euroclear UK & Ireland s specifications and must contain the information required for such instructions as described in the CREST Manual The message regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must in order to be valid be transmitted so as to be received by the issuer s agent (ID 3RA50) not less than 48 hours before the time for holding the Meeting For this purpose the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer s agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means

CREST members and where applicable their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions It is the responsibility of the CREST member concerned to take (or if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time In this connection CREST members and where applicable their CREST sponsors or voting service providers are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings The CREST Manual can be reviewed at www euroclear com

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended)

5 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended) only shareholders registered in the Register of Members of the Company as at 6 p m on 14 October 2015 shall be entitled to attend and vote at the Meeting in respect of the number of ordinary shares registered in their name at such time If the Meeting is adjourned the time by which a person must be entered in the Register of Members of the Company in order to have the right to attend and vote at the adjourned meeting is 6 p m on the date which is two days before the time of the adjourned meeting Changes to the Register of Members after the relevant times shall be disregarded in determining the rights of any person to attend and vote at the Meeting

6 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

7 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 delivered at the Meeting to the chairman of the Meeting or secretary or any person appointed by the Company to receive such authorisation and unless such certified copy of such resolution is so deposited the authority granted by such resolution shall not be treated as valid (unless the chairman of the Meeting in his absolute discretion decides otherwise)

8 The Notice of Meeting together with other information for shareholders as regards the Meeting can be found at www shepherdneame co uk

NOTICE OF MEETING – APPENDIX

THE SHEPHERD NEAME LIMITED 2015 RESTRICTED SHARE SCHEME (THE 2015 SCHEME")

The principal terms of the 2015 Scheme are as follows

Eligibility

Any employee including senior managers and executive directors are eligible to participate in the 2015 Scheme at the discretion of the Board although executive directors will only be granted options under the 2015 Scheme having taken into account the recommendations of the Remuneration Committee

Grant of Options

Options may take the form of

(i) a Primary Option being a right to acquire Shares in the Company subject only to the employee remaining employed within the Group or

(ii) a Secondary Option being a right to acquire Shares in the Company subject to specified performance conditions specified at the date of grant

Options may normally only be granted by the Board or a trustee of an employee benefit trust to eligible employees during the period of 42 days from (and including) the announcement of the Company s final or interim results for any financial period

Options may be granted on terms that their exercise/vesting will be subject to the employee paying any employer s National Insurance contributions due in relation to an option

Exercise Price

The price at which an employee may acquire Shares on the exercise or vesting of an Option under the 2015 Scheme shall be determined by the Board on the date of grant and may not be less than the nominal value of a Share

Scheme Limits

The number of newly issued Shares over which (or in respect of which) options may be granted under the 2015 Scheme on any date shall be limited so that the total number of Shares issued and issuable pursuant to options granted in any ten year period under the 2015 Scheme and any other employee share scheme operated by the Company is restricted to 10% of the Company s issued Shares calculated at the relevant time

For the purposes of this limit no account will be taken of options which have lapsed been released or otherwise become incapable of exercise

Shares held in treasury will be treated as issued Shares for the purposes of these limits

Individual Limits

The aggregate market value of Shares comprised in options granted to an individual under the 2015 Scheme in any financial year shall not exceed 100% of his annual salary for that year

Performance Vesting and Performance Adjustment Secondary Options must be granted on terms that their vesting will be subject to the satisfaction of any such performance conditions as the Board may in its discretion think fit Performance conditions will be determined prior to or on the date of grant by the Board

Primary Options are not subject to performance conditions (other than continued employment)

Both Primary and Secondary Options may also be granted on terms that all or a proportion of unvested options may be forfeited back to the Company in exceptional circumstances of fraud financial misstatement and misconduct (as determined by the Remuneration Committee in its absolute discretion)

In addition and if specified at the time of grant in exceptional circumstances of fraud financial misstatement and misconduct (as determined by the Remuneration Committee in its absolute discretion) the Company (acting fairly and reasonably) may reclaim and/or be compensated for all or a proportion of the Shares acquired by an employee under his vested options whether Primary or Secondary

Manner of Exercise

Within 30 days of vesting and/or the receipt of a notice of exercise of an option together with a payment (or arrangements to pay) for the aggregate exercise price due and a payment (or arrangements to pay) for any income tax and National Insurance contributions due the Shares in respect of which the option has been exercised must be issued by the Company or the Company must procure their transfer to the employee Shares issued or transferred by the Company on the exercise and/or vesting of options will rank pari passu with existing Shares

Cessation of Employment

Options will normally only be exercisable by an employee who is still an eligible employee of the Group on the vesting date

Options (whether vested or unvested) will normally lapse on cessation of employment save in the circumstances set out below

If an employee is a good leaver i e if he dies or leaves employment through injury ill health disability or retirement or by reason of his employing company or the business he works for ceasing to be part of the Group or for any other reason determined by the Board (in its absolute discretion) then the Board may permit that employee (or his personal representatives if appropriate) to exercise his unvested option within 12 months (or in the case of death 6 months) of such cessation and it shall lapse if it has not been exercised at the end of such period

In relation to Secondary Options the Board may in its discretion permit unvested options held by good leavers to vest and be exercised early in a limited period following cessation having regard to the achievement of the performance conditions to that date and the period of time that has passed since the relevant date of grant

Change of Control

If a change of control event occurs such as a takeover reconstruction (but not including an internal re organisation) or voluntary winding up of the Company then the Board will determine in its absolute discretion whether and to what extent subsisting options (whether vested or unvested) shall vest and become exercisable but taking into account all relevant factors and circumstances including but not limited to the performance of the Company (where applicable) the period of time which has elapsed since the relevant date of grant

Variation of Share Capital

In the event of a capitalisation issue or offer by way of rights (including an open offer) or upon any consolidation subdivision split reclassification reduction or any such other variation of the Company s capital and/or a demerger of the Group the number of Shares the subject of an option and/or the exercise price may be adjusted by the Board in such manner as the Remuneration Committee considers fair and reasonable

Amendments and General

The 2015 Scheme may be amended by the Board in any way provided that

(i) no such amendment may be made to the 2015 Scheme which would materially affect the subsisting rights of participants in relation to options already granted to them under the 2015 Scheme unless the prior consent of the affected participants has been obtained

(ii) no material amendment to the advantage of participants nor in respect of the exercise of options or cessation of employment may be made to the 2015 Scheme without the prior consent of the Company in general meeting unless they are minor amendments to benefit the administration of the scheme or to obtain or maintain favourable tax exchange control or regulatory treatment for participants employees the Company a member of the Group or a trustee

FIVE YEAR FINANCIAL SUMMARY

	Company 2015 £ 000	Company 2014 £ 000	Company 2013 £ 000	Group 2012 £ 000	Company 2011 £ 000
Profit and loss					
Turnover	**138,267**	138 679	134 906	133 025	121 346
Operating profit before exceptional items	**14,090**	13 401	12 708	12 704	12 252
Net finance charges	**(4,488)**	(4 622)	(4 675)	(4 292)	(4 271)
Exceptional charges	**(375)**	(1 279)	(1 243)	–	(1 915)
Profit on sale of property	**201**	224	317	649	419
Profit before taxation	**9,428**	7 724	7 107	9 061	6 485
Taxation	**(2 171)**	(1 546)	(1 637)	(2 112)	(2 090)
Earnings available to shareholders	**7,257**	6 178	5 470	6 949	4 395
Dividends					
Interim and finals for the year	**3,959**	3 734	3 215	3 127	3 045
Dividend – pence per share*	**26 70**	25 90	25 15	24 50	23 80
Dividend cover**	**1 8**	1 6	1 5	1 9	1 3
Dividend cover (excluding exceptional items)**	**1 9**	1 9	1 7	1 8	1 7
Earnings per 50p nominal share value (p) based on**					
Earnings available to shareholders	**49 1p**	41 9p	37 1p	47 0p	29 7p
Earnings (excluding exceptional items)	**50 3p**	48 5p	41 5p	42 9p	39 8p
Shareholders funds employed					
Share capital	**7,429**	7 429	12 818	12 818	12 818
Share premium	**1 099**	1 099	1 439	1 439	1 439
Revaluation reserve	**12,170**	13 125	13 228	13 151	14 046
Revenue reserves	**111,452**	107 098	98 317	95 762	91 241
	132,150	128 751	125 802	123 170	119 544
Represented by assets					
Fixed assets	**205,284**	202 664	202 505	198 610	185 753
Current assets	**29 944**	30 600	24 643	23 982	27 774
	235,228	233 264	227 148	222 592	213 527
Liabilities					
Short-term	**25 906**	25 464	19 900	19 325	19 861
Long-term	**73 616**	75 463	77 302	76 158	69 506
Provisions	**3,556**	3 586	4 144	3 939	4 616
	103,078	104 513	101 346	99 422	93 983
Net assets	**132,150**	128 751	125 802	123 170	119 544
Net assets per share (£)***	**8 89**	8 67	8 47	8 29	8 05

* 2011 2012 2013 dividend per £1 share

** Following the share reorganisation in the prior year, earnings per share and dividend cover were restated for 2011 2012 and 2013 based on the revised weighted average number of shares in issue

*** Net assets per share has been restated for 2011 2012 and 2013 based on the shares in issue at 27 June 2015 being 14 857 500 ordinary shares

COMMEMORATING 800 YEARS

1215 Ale commemorating the 800th Anniversary of the sealing of Magna Carta

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