



SHEPHERD NEAME LIMITED
ANNUAL REPORT 2016

138256

SHEPHERD NEAME AN INDEPENDENT FAMILY BUSINESS BRITAIN'S OLDEST BREWER

OUR VISION

To be a Great British Brewer and run the best pubs

OUR MISSION

To give our customers a great and memorable experience to make for a better day!

OUR STRATEGIC OBJECTIVES

**TO DRIVE
FOOTFALL TO
OUR PUBS**
page 8

**TO ATTRACT, RETAIN
AND DEVELOP THE
BEST PEOPLE**
page 16

**TO DEVELOP OUR
OFFER TO ENHANCE
THE CUSTOMER
EXPERIENCE**
page 12

**TO CREATE DEMAND
AND BUILD AWARENESS
FOR OUR BRANDS**
page 20

CONTENTS

STRATEGIC REPORT

- 2 Financial Highlights
- 3 Our Strategy
- 4 At a glance
- 6 Chairman's Statement
- 10 Chief Executive's Review
- 18 Financial Review
- 23 Principal Risks and Uncertainties
- 24 Commitment to the community
- 26 Corporate Social Responsibility

GOVERNANCE

- 28 Board of Directors
- 30 Corporate Governance
- 32 Remuneration Report
- 37 Report of the Directors
- 38 Directors' Responsibilities Statement

FINANCIAL STATEMENTS

- 39 Independent Auditor's Report
- 40 Profit and Loss Account
- 40 Statement of Comprehensive Income
- 41 Balance Sheet
- 42 Statement of Changes in Equity
- 43 Cash Flow Statement
- 44 Notes to the Accounts

OTHER INFORMATION

- 69 Financial Calendar
- 69 Company Advisors
- 70 Notice of Meeting
- 72 Five Year Financial Summary

FINANCIAL HIGHLIGHTS

This is the first set of accounts prepared under the new accounting standard Financial Reporting Standard 102 (FRS 102) as explained in note 34. All comparatives have been restated under FRS 102.

Turnover

2016

£139.9m

2015

£138.2m

Underlying operating profit ¹

2016

£14.2m

2015

£13.8m

Statutory profit before tax

2016

£14.4m

2015

£13.7m

Underlying basic earnings per share ²

2016

54.7p

2015

48.7p

Dividend per share

2016

27.5p

2015

26.7p

Net assets per share ³

2016

£12.38

2015

£12.10

1 Profit before net finance costs, any profit or loss on the disposal of properties, investment property fair value movements and exceptional items.

2 Underlying profit less attributable taxation divided by the weighted average number of ordinary shares in issue during the period. The number of shares in issue excludes those held by the Company and not allocated to the employees under the Share Incentive Plan, which are treated as cancelled.

3 Net assets at the balance sheet date divided by the number of shares in issue being 14,857,500 50p shares.

4 All comparatives are as at 27 June 2015.

OUR STRATEGY

We aim to drive shareholder returns from four key strategic objectives

TO DRIVE FOOTFALL TO OUR PUBS

PAGE 8

TO DEVELOP OUR OFFER TO ENHANCE THE CUSTOMER EXPERIENCE

PAGE 12

OUR STRATEGIC OBJECTIVES

TO ATTRACT, RETAIN AND DEVELOP THE BEST PEOPLE

PAGE 16

TO CREATE DEMAND AND BUILD AWARENESS FOR OUR BRANDS

PAGE 20

PROGRESS

OUR PUBS

- We have invested £7.3m (2015: £6.5m) in our pubs and £2.2m (2015: £2.1m) in repairs and decorations
 - Major investments included £1.2m at the Ship & Trades and £0.7m at the Royal Albion
 - We have acquired three new pubs (2015: two pubs)
 - We have disposed of 13 pubs (2015: 11 pubs) that did not fit our long-term strategy
 - We have acquired eight new pubs since the year end
- Performance against our KPIs was strong:
- Like-for-like sales in managed pubs up +4.4% (2015: +6.1%)
 - LFL EBITDAR* in our tenanted pubs up +2.7% (2015: +2.4%)
 - Average EBITDAR per managed pub up +1.0% (2015: +7.1%)
 - Average EBITDAR per tenanted pub up +6.4% (2015: +4.1%)

BEST PEOPLE

- Enhanced programme to improve communication across the business
- Enhanced brewery management training programme rolled out
- Love Beer programme launched
- Five head chefs have been appointed as mentors across the Managed pubs and hotels estate
- Licensee retention levels rising

CUSTOMER EXPERIENCE

- Acquisition of UES Limited in July 2016 strengthens food skills and resources
 - Unique wine range of Anùela and Mezzora updated
 - Good performance from premium and craft spirits
 - During the year we have refurbished 39 bedrooms across the estate including the Royal Hotel, Deal (2015: 68)
- Performance against our KPIs was strong:
- Food LFL sales in managed pubs up +4.2% (2015: +7.0%)
 - Accommodation LFL sales up +11.7% (2015: +13.8%)
 - Occupancy is 78% (2015: 78%)
 - RevPAR** is £63 (2015: £58)

OUR BRANDS

- New brand identity launched for Shepherd Neame
 - Spitfire Gold and Spitfire Lager successfully launched
 - Continued strong performance from the Whitstable Bay collection and from Samuel Adams Boston Lager
 - Seven awards for quality of beer and packaging
 - Investment to modernise brewhouse plant and building
- Performance against our KPIs:
- Core own beer volumes excluding contract brewing up +0.3% (2015: up +0.1%) versus a market up +1.2%***

* Like-for-like (LFL) earnings before interest, tax, depreciation, amortisation and rent payable

** Revenue Per Available Room *** Source: The British Beer and Pub Association

AT A GLANCE

We have invested £1.2m redeveloping the **Ship & Trades** at Chatham Maritime creating 15 rooms and a superb restaurant overlooking the marina

We have carried out major developments at a number of tenanted pubs, including the **William the Conqueror**, Rye Harbour

The Spitfire portfolio has been enhanced by the successful launch of **Spitfire Gold**

We acquired three pubs in the year, including **The Coastguard** in a stunning beach location at St Margaret's Bay near Dover

We have developed a **new brand identity** for the business and introduced a more stylish and modern presentation of the company logo

We have embarked on a major investment project to modernise our brewhouse plant and buildings and have installed two **new mash tuns**

Food LFL sales

4.2%

New pubs acquired

3 pubs

Proceeds from disposal of 13 pubs and unlicensed property that no longer fit our strategy

£11.9m

Accommodation LFL sales

11.7%

Total investment in existing estate

£9.5m

Freehold proportion of estate

87%

Tenanted or leased

267 pubs

Total number of pubs

328 pubs

Managed pubs and hotels

54 pubs

Commercial free of tie

7 pubs

CHAIRMAN'S STATEMENT

“Another excellent year...
with impressive growth in
managed pubs' profits.”

MILES TEMPLEMAN
Chairman

Overview

I am pleased to report another excellent year for the Company for the 52 weeks to 25 June 2016 with strong underlying growth.

The performance was characterised by good trading in our pub business and impressive growth in managed pubs' profits. This has driven strong operating cash flows which, together with exceptional proceeds from property disposals has created additional headroom to enable the business to grow further through pub acquisitions.

A key part of the strategy in recent years has been to modernise various aspects of the business, to drive operational excellence and update our brand and pub portfolio. I am delighted therefore to be able to introduce in this annual report the Company's new brand identity which has been developed in the last year.

Accounting Standards

This is our first full year report under the FRS 102 accounting standard, and as a consequence we have had to restate some prior year comparatives prepared under previous UK GAAP accounting rules.

There are four principal areas of change: the valuation of our assets; reporting by business segment and different accounting treatment for both lease commitments and for interest rate swaps. The specific impacts of these changes were set out in the transition document on 2 March 2016, which is available at www.shepherdneame.co.uk.

As part of this process, the Company has carried out a one-off revaluation of a significant proportion of its assets as at 28 June 2014 and incorporated this into our balance sheet. This has increased net assets and reduced balance sheet gearing. This revaluation was of the Company's trading licensed freehold assets only and excludes licensed leasehold assets and the brewery site. Assets that are held for rental income are valued separately as investment property at each reporting date.

Financial Performance

Turnover for the period increased by 1.2% to £139.9m (2015: £138.2m). Underlying operating profit grew by 3.5% to £14.2m (2015: £13.8m). Underlying profit before tax¹ grew by 10.7% to £10.3m (2015: £9.3m) and statutory profit before tax is up 4.7% to £14.4m (2015: £13.7m). Underlying basic earnings per share are up 12.3% to 54.7p (2015: 48.7p) and basic earnings per ordinary share are up 13.1% to 84.0p (2015: 74.3p).

Dividend

The Board is proposing a final dividend of 22.05p (2015: 21.40p), making the total dividend for the year 27.50p (2015: 26.70p), an increase of 3.0%. This represents underlying dividend cover of 2.0 times (2015: 1.8 times) which is in line with our stated policy following the share capital reorganisation of 2014. We will continue to target dividend cover at or above this level in the future. The final dividend will be paid on 14 October 2016 to shareholders on the register at the close of business on 7 October 2016.

Cash flow and Financing

Underlying EBITDA² was up 4.3% to £21.7m (2015: £20.8m). This helped fund capital expenditure in the core business of £10.7m (2015: £9.7m), the acquisition of three new pubs and an initial payment for the purchase of eight new pubs from Enterprise Inns plc. This acquisition of eight pubs was completed after the year end.

During the period we realised proceeds from property sales of £11.9m (2015: £3.2m) of which the principal was a one-off benefit from the sale of 10 acres of land remaining from the Company's farming business at Queen Court, outside Faversham. As a consequence of this disposal activity, year end net debt reduced by £8.7m to £60.1m giving headroom against our banking facilities of £19.9m plus a £5.0m overdraft.

Board of Directors

After more than 10 years of outstanding service to the Board, Oliver Barnes and James Leigh-Pemberton have both stepped down as Non-Executive Directors. We are delighted to welcome two new non-executives to the Board who both enjoy distinguished careers in their chosen fields and will bring additional expertise to the Board.

Hilary Riva, OBE, 59, joined the Board in April 2016. Hilary has enjoyed a successful career in fashion retailing with various senior roles in the Arcadia Group followed by her jointly leading the buyout of Principles, Hawkshead, Warehouse and Racing Green as Managing Director of Rubicon Retail.

¹ Profit before any profit or loss on the disposal of properties, investment property fair value movements and exceptional items.

² Underlying profit before tax pre net finance costs, depreciation, amortisation, profit or loss on sale of fixed assets excluding property and free trade loan discounts.

Following the sale of Rubicon, Hilary was CEO of the British Fashion Council from 2005 to 2009. She is a Non-Executive Director at Shaftesbury plc, and at ASOS plc, the largest online fashion retailer, amongst other roles.

Richard Oldfield, DL, 60, joined the Board in June 2016. Richard is executive chairman of Oldfield Partners LLP, an investment management firm managing listed equities funds. He is also a Director of Witan Investment Trust plc and a trustee of the Royal Marsden Cancer Charity and the Clore Duffield Foundation.

I would like to take this opportunity to thank James and Oliver for their very significant individual contributions to the business. They have helped to steer the Company through some challenging times for the industry over the past 10 years and played a big part in helping the Company to achieve the strong position we are in today.

Following these changes, Bill Brett has been appointed Chair of the Remuneration Committee and Richard Oldfield, Chair of the Audit Committee.

Government and Regulation

During the year the Small Business Enterprise and Employment Bill completed its passage through Parliament and the Statutory Code of Practice for large pub companies (more than 500 pubs) became law on 21 July 2016. The smaller pub companies (fewer than 500 pubs) including Shepherd

Neame simultaneously introduced new Voluntary Codes of Practice that apply to all our tenanted and leased pubs.

As announced in 2015, the Government introduced the National Living Wage from April 2016. The additional cost incurred by the business in this financial year was £0.1m. Future increases are due on an annual basis between now and 2020. The annual cost impact of this and the Apprenticeship Levy is estimated to rise to £1.1m by 2020. We were, however, pleased that beer duty was held level in the Budget and that further cuts to corporation tax are anticipated.

Summary

This has been an excellent year for the Company. The continuous investment in our brands and significant improvement in the profile and quality of our pub estate in recent years has transformed the business.

The managed pub estate has been our principal engine for growth whilst our tenanted pubs and brewing and brands deliver strong cash generation.

Strong trading and operational cash flows, cash proceeds from disposals and refinancing, have all helped to put the Company in a good position to seek further growth opportunities through acquisition. We are delighted by the purchase of eight pubs since the year end and continue to pursue other opportunities.

We live in uncertain political and economic times and consumer confidence is very sensitive to changes in sentiment. The outcome of the EU Referendum in June 2016 presents a degree of legal and economic uncertainty whilst the Government negotiates the UK's exit and we are mindful of the possibility of a slowdown in economic activity. Thus we retain a cautious approach at all times and focus on making the right investment decisions for the long term.

Finally I would like to pay tribute to the dedicated and highly talented staff who contribute so much to the success of the Company year after year and whose efforts we rely on greatly. I would also like to congratulate Chief Executive, Jonathan Neame on receiving the Publican's Morning Advertiser Outstanding Industry Contribution Award.

Miles Templeman
Chairman

TO DRIVE FOOTFALL TO OUR PUBS

We aim to drive footfall by designing and developing unique pubs and hotels with a 'wow' factor.

UNIQUE LOCATIONS

We have invested £0.7m to extend the restaurant at the Royal Albion in Broadstairs, to add more restaurant covers with sea views ✓

STYLISH INTERIORS

We have created a new wine bar on the first floor of The Crown, Blackheath ✓

^ DESIGN INNOVATION

We plan to roll out the new brand identity across our pubs from the second half of the 2017 financial year

^ RAISING STANDARDS

We have invested £240,000 to refurbish The White Horse, Maldon and provide five en-suite guest rooms

“The pub looks fantastic, and we have had lots of positive feedback from our customers. The aim was to keep the traditional feel, but give it a more stylish, fresh look.”

Licensee Anita Turner, The Cricketers, Canterbury

Customers enjoying a drink at the
refurbished **Cricketers in Canterbury**

CHIEF EXECUTIVE'S REVIEW

"A strong financial performance, with opportunities to drive further growth in the business."

JONATHAN NEAME
Chief Executive

This has been another successful year for the Company. I am delighted to report a record set of results and impressive progress against our strategic objectives.

Over the last few years we have undertaken a series of initiatives to refine our strategy, modernise our processes and increase our investment to support the growth areas of the business. In particular we have transformed the overall profile of our pub estate by investing the proceeds of pub disposals to build a smaller, but high-quality and well-invested tenanted business, that is providing strong cash generation, and a managed business that has been our key driver for growth.

This has been achieved in a year when consumer demand to eat and drink out was impacted by long spells of wet and unseasonable weather and, in the second half of the year, concerns about the EU Referendum. Within our markets, when the conditions are right, such as at times of holidays or celebration, or fine and settled weather, trade has been very strong. The Rugby World Cup provided a modest benefit in October 2015 and we enjoyed strong trading over Christmas 2015. It is pleasing to note that to date since the EU referendum vote, we have not seen a reduction in consumer spend in our pubs.

Within our heartland, there has been increased economic activity with momentum in house building in areas of major development such as Ashford, the Medway Towns and Ebbsfleet Garden City.

In the UK beer market, volume recovered slightly in the year to June 2016 with growth of +1.2%* (2015: -2.4%) boosted by a strong final quarter. However, long-term

trends continue to point to flat or slow decline in alcohol consumption, with a significant shift towards premium and craft products and increasing consumer demand for innovation in taste and flavour.

Within this overall market context we have made good progress towards our vision, which is to be a great British brewer and run the best pubs. At the same time, we have been developing a new brand identity for the business which we present for the first time in this report. The old logo has been in use for over 20 years and during that time the Company has changed substantially. Our beer range is more diverse and our pub portfolio appeals to a wider audience. We feel it is time, therefore, to introduce a more stylish and modern presentation of the Company logo across the business that articulates the real and original character of the business. We plan to roll out new signage across our pubs from the second half of the year and we will be upgrading to a more mobile friendly Company website in December.

Tenanted and Managed Pub Operations Overview

At the year end we operated 328 pubs and hotels (2015: 338) of which 285 are freehold (2015: 295). Of our total pubs 54 (2015: 52) were managed and 267 (2015: 280) were tenanted or leased and seven (2015: six) operated under commercial free of tie leases.

In the last five years we have actively addressed the changes in the market to reduce our exposure to small wet-led community pubs and to take the opportunities for growth in casual dining and accommodation. We have transformed our pub portfolio through

progressive property management, and continue to pursue every opportunity to raise the average quality.

During this five year period, we have acquired 15 pubs and disposed of 46. This follows a similar period of activity in the previous five years. Since 2011, the average EBITDAR per tenanted pub has increased by 25.6% and per managed pub by 42.2%.

Our investment focus is to seek high quality, single-site acquisition opportunities within our heartland if they improve the overall business or reach new markets. We also pursue opportunities outside our historic trading area as evidenced by recent pub purchases. We are looking to acquire sites with unique character in landmark or high footfall locations with the potential for further development.

During the year we acquired three new outlets, of which two are operated as managed pubs: the Minnis Bay Bar and Restaurant and the Anchor, Hampstead Lock, Yalding. We have now secured planning permission to develop these sites and work will be carried out during the coming year. The third acquisition was the Coastguard in St. Margaret's Bay in January 2016, which opened after a transformational development in March and is operated as a tenanted pub.

These three acquisitions cost £3.3m (2015: two pubs and the freehold of an existing pub for £3.4m). We have raised gross proceeds of £11.9m (2015: £3.2m) from the disposal of 13 pubs (2015: 11 pubs) and seven unlicensed properties and land holdings (2015: one unlicensed property), of which the largest was the 10 acres of land at Queen Court, outside Faversham, sold for £7.4m.

* Source: The British Beer & Pub Association (BBPA)

Since the year end, we have acquired eight freehold pubs in Kent, Sussex and Surrey from Enterprise Inns plc that are operated under leases. These are all high-quality pubs and will benefit from further investment. The pubs are: the Chequer Inn in Steyning, West Sussex; the Crown and Anchor in Shoreham by Sea, West Sussex; Earls in Maidstone, Kent; the Farm House in West Malling, Kent; The Greyhound in Keston, Kent; Hen and Chickens in Bisley, Surrey; The Kings Head in Guildford, Surrey and The Sussex Oak in Warnham, West Sussex.

Also since the year end, the Company has acquired UES Ltd, a successful business owned and managed by Dan Sidders and Gareth Finney, who operated five of our existing pubs in Faversham and Canterbury under tenancy. All five of these pubs have transferred to the managed estate and a further pub, the Cock and Woolpack in Finch Lane, London EC3, has been transferred from tenancy.

The combined investment in these two acquisitions (both of which completed in July 2016) was £13.4m and as a result there will be an increase in net debt in 2017.

Pub Strategy

Our pub strategy is built around three strategic pillars:

- To drive footfall to our pubs
- To develop our offer to enhance the customer experience
- To attract, retain and develop the best people

Driving footfall to our Pubs

We aim to drive footfall by designing and developing unique pubs and hotels with a 'wow' factor.

In addition to the new pub acquisitions we have invested £7.3m (2015: £6.5m) in improving the look and feel of our pubs and £2.2m (2015: £2.1m) in repairs and decorations.

In the managed estate, major developments during the year have included a £1.2m redevelopment of the Ship & Trades in Chatham Maritime to create 15 stylish rooms and a superb restaurant overlooking the marina. In addition, a £0.7m extension to the restaurant at the Royal Albion in Broadstairs has added more restaurant covers with sea views. Initial trade in both outlets since re-opening has been strong.

In the tenanted estate, we have carried out major developments at a number of sites including the Poyntz Arms, East Molesey; the White Horse in Maldon; the William the Conqueror, Rye Harbour and the Adelaide, Teddington.

Developing our offer to enhance the customer experience

We aim to enhance the customer experience in our pubs by delivering great fresh food, providing accommodation of character, and offering an interesting range of products.

Our food continues to provide good growth in the business. In the managed estate, footfall from diners increased by +7.7% (2015: +9.6%) and spend per head by +3.9% (2015: +0.3%) to £11.96 (2015: £11.51).

We continue to develop initiatives to drive the quality of our menus and food presentation. With Dan and Gareth joining us following the acquisition of UES Ltd, we have strengthened the skills and resources in this area to serve a larger managed pub estate. We have upgraded till and back office systems to enable improved booking and table management at the Ship & Trades, Chatham Maritime as a pilot for a potential future roll-out.

During the year we have refurbished 39 bedrooms across the managed estate (2015: 68) and now offer a total of 283 rooms (2015: 279) presented to a very high standard. In the coming year we will add 11 rooms at the Ostrich in Colnbrook. Occupancy remained at the record high of 78% (2015: 78%) whilst RevPAR continued to grow by +8.6% (2015: +11.5%) to £63 (2015: £58).

Wine volume in our pubs has been good throughout the year. We have updated our popular Añuela and Mezzora ranges and expanded our supply of local quality English wines. Spirits too have seen a resurgence as we have introduced more premium, stylish and craft products. We have enhanced our range of premium mixers and local juices. All these actions strengthen the experience for those drinking or eating in our pubs.

TO DEVELOP OUR OFFER TO ENHANCE THE CUSTOMER EXPERIENCE

We aim to enhance the customer experience in our pubs by delivering great fresh food, providing accommodation of character and offering an interesting range of products.

GREAT FRESH FOOD

We have strengthened our skills and resources to drive the quality of our menus and food presentation ✓

UNIQUE WINE RANGE

Wine volume in our pubs has been good throughout the year and we have updated our popular Añuela range ✓

^ ACCOMMODATION OF CHARACTER

During the year we have refurbished 39 bedrooms. This included the Royal Hotel, Deal and we now offer a total of 283 bedrooms across the managed estate

^ AWARD WINNING PUBS

Our pubs are recognised for their excellence including The Compasses in Crundale, which has received numerous national accolades

“An 18th-century hostelry with none of ye olde English attitude you expect from that heritage. It is quietly going about its business of being genuinely excellent.”

Restaurant Critic, Marina O’Loughlin *The Guardian* on The Compasses, Crundale

Diners enjoying a meal in the new restaurant at the **Ship & Trades**, Chatham Maritime

CHIEF EXECUTIVE'S REVIEW CONTINUED

Attracting, retaining and developing the best people

We aim to attract, retain and develop the best people, by understanding the potential in everyone, inspiring them to achieve their goals, and by building the loyalty and engagement of our licensees, through the professionalism of the support we provide.

In our managed estate we have appointed five head chefs to act as mentors, recruited an additional field trainer and further developed staff skills through e-learning. Our tenanted estate was fully let at the year end with new licensees being required for less than 6% of the total estate. Retention levels are rising as the quality of facility and level of support makes our tenanted offer increasingly commercially attractive.

I was particularly pleased that the Company scored strongly against a range of measures in an independent survey of pub companies. We were also finalists in the Publican Awards Best Tenanted and Leased Pub Company (201+ sites) and in the Best Food Offer (51+ sites).

The Shepherd Neame Pub Awards continue to recognise excellence in a variety of aspects and every year the standards reach higher levels. I would like to congratulate all this year's winners, in particular Lee Walker of the Britannia in Guildford who won the Pub of the Year Award and Robert and Donna Taylor at the Compasses in Crundale who won the Tenanted Pub of the Year and numerous national accolades. Particular mention should go to Steve and Phil Harris at the Sportsman at Seasalter who won the

National Restaurant of the Year 2016 and Gastro Pub of the Year, a remarkable achievement.

Trading Performance

We have consistently pursued a strategy to invest in our pubs and this has resulted in a strong trading performance this year on the back of several years of sustained growth.

Total divisional turnover in the managed estate grew by +9.8% to £48.1m (2015: £43.8m) and divisional underlying operating profit grew by +13.7% to £7.6m (2015: £6.7m). Same outlet like-for-like sales grew by +4.4% (2015: +6.1%) with liquor +3.1% (2015: +4.3%), food +4.2% (2015: +7.0%) and accommodation +11.7% (2015: +13.8%). Average EBITDAR per managed pub grew by +1.0% (2015: +7.1%).

Total divisional turnover in the tenanted and leased estate grew by +0.3% to £33.5m (2015: £33.4m) on 13 fewer outlets. Divisional underlying operating profit was £12.6m (2015: £12.8m). Like-for-like EBITDAR per tenanted pub grew by +2.7% (2015: +2.4%). Average EBITDAR per tenanted pub grew by +6.4% (2015: +4.1%).

Brewing and Brands Overview

The Brewing and Brands business absorbed the first full year costs of the water treatment plant and the final impact of the loss of the Kingfisher contract. After a disappointing first half, performance improved in the second half with some excellent distribution gains.

The UK beer market has seen significant changes in recent years as the growing demand for local products with wider taste and flavour profiles has led to a rapid expansion in the number of micro and

craft brewers entering the market even though overall beer consumption is broadly flat. Shepherd Neame has responded well to this challenge and built an enviable portfolio of great beers such as Spitfire, Bishops Finger, the Whitstable Bay and Classic Collections.

Brewing and Brands Strategy

Our Brewing and Brands Strategy is built on two strategic pillars:

- To create demand and build awareness for our brands
- To attract, retain and develop the best people.

Creating demand and building awareness for our brands

We aim to create demand and build awareness for our brands by developing a range of distinctive beers, instilling a passion for quality and having great engagement with our customers.

Recent range developments have proved to be very successful. In particular, the Whitstable Bay Collection enjoyed excellent growth, with a strong performance from Whitstable Bay Blonde Lager. I am particularly pleased that our Whitstable Bay design and brand development has won a 2016 Brand Effectiveness Award.

The Spitfire brand has performed better in the last year but still experienced a modest decline. The portfolio has been significantly enhanced by the successful launch of Spitfire Gold in the early part of the year and Spitfire Lager, the Lager of Britain, towards the end.

Our Heritage beers have performed well again, in particular the Classic Collection brews such as Double Stout and IPA.

The licensed portfolio has continued to do well with accelerating growth from Samuel Adams Boston Lager as we have won some distribution gains in high-profile restaurant groups and another strong performance from Asahi Super Dry. Angry Orchard, America's No.1 Hard Cider, has made an encouraging start since launch.

Shepherd Neame has been brewing and selling Asahi Super Dry under licence in the UK for more than 10 years with an existing contract in place to the end of 2017. The proposed purchase of the Peroni, Grolsch and Meantime Brewing businesses by Asahi Group Holdings is subject to shareholder approval and we remain in discussions with Asahi over the future of our partnership.

The investment focus in the last year has been to modernise the Brewhouse. After more than 100 years, our wooden mash tuns have been replaced and we have embarked on a major refurbishment of the fabric of our historic brewery buildings. Simultaneously we have replaced the glycol system and upgraded our quality processes. All these initiatives will help drive ever higher standards of quality and consistency, and I am particularly pleased that since the year end we have won seven awards for our brewing and bottling quality.

Attracting, retaining and developing the best people

During the last year we have strengthened the brewing and laboratory management team. In addition, we have developed our management training and enhanced our

programme to improve communication across the business and awareness of the Company's strategic aims and objectives. The annual Shepherd Neame Employee Awards help to focus and reward those that have achieved the standards we require. We have successfully raised the knowledge of brewing and beer styles across the Company through our Love Beer programme.

Trading Performance

Divisional turnover for the year was down -4.1% to £57.3m (2015: £59.7m), of which Kingfisher accounted for almost all of the decline. Total own brewed beer sold was down -6.2% (2015: -8.4%). Own beer volume excluding contract showed modest growth at +0.3% (2015: +0.1%). Divisional underlying operating profit was £1.5m (2015: £1.8m). Cash generation in this part of the business remained robust.

Current Trading

We have made a good start to the new financial year, with a particularly strong performance from our coastal pubs during the fine summer weather. Recent pub investments have performed well and our newly acquired outlets have been integrated into the business and are performing in line with expectation.

For the 10 weeks to 3 September 2016 like-for-like managed sales are up +8.2% (2015: +6.5%), like-for-like EBITDAR in the tenanted estate to 27 August is up +2.2% (2015: +1.8%). Total beer volume is up +1.1% (2015: -3.8%) with own beer volume excluding contract up +1.2% (2015: +8.6%).

Summary

We have ended the year with a strong financial performance, with opportunities to drive further growth in the business.

We have worked hard in recent years to improve the quality of our pub estate and modernise our brand portfolio. We have created a much stronger business with sustainable cash flows and the skills and ambition for further growth. The launch of our new brand identity will present some exciting opportunities to strengthen our engagement with consumers in the year ahead.

General political and economic uncertainty is likely to continue for the next few years as a consequence of the UK's exit from the European Union, but Shepherd Neame, with its strong UK focus, is well positioned to withstand the impact. We will continue to invest for the long term to deliver against our aims to be a great British brewer and to run the best pubs.

Jonathan Neame
Chief Executive

TO ATTRACT, RETAIN AND DEVELOP THE BEST PEOPLE

We aim to attract, retain and develop the best people by understanding the potential in everyone, inspiring them to achieve their goals and building the loyalty and engagement of our licensees, through the professionalism of the support we provide.

INSPIRING LICENSEES

Congratulations to Lee Walker and the team at the Britannia, Guildford, Shepherd Neame Pub of the Year ✓

ACHIEVING EXCELLENCE

The annual Shepherd Neame Employee Awards reward those that achieve the highest standards ✓

^ LOVE BEER

We have successfully raised the knowledge of brewing and beer styles through our Love Beer programme

^ CAREER

DEVELOPMENT

We have strengthened our training team and skills provision, including the appointment of five head chefs as mentors

“We have worked with the brewery for 17 years, and during that time they have provided us with a lot of support, making it a lot easier for us to accomplish our goals.”

Steve Harris The Sportsman, Seasalter
National Restaurant of the Year 2016,
GQ Pub of the Year and Winner of Best Gastropub 2016

Barperson, Darcy Wilson
at **The Crown**, Blackheath
offering a proper welcome

FINANCIAL REVIEW

“Improved earnings per share reflects higher underlying profits, lower finance costs and a lower overall tax rate.”

MARK RIDER

Finance and IT Director

| Summary profit and loss account | 2016 £'000 | 2015 £'000 | Change |
|--|----------------|---------------|--------|
| Turnover | 139,890 | 138,237 | 1.2% |
| Underlying operating profit | 14,235 | 13,758 | 3.5% |
| Underlying operating profit margin | 10.2% | 10.0% | +0.2% |
| Operating items excluded from underlying results | (495) | (63) | |
| Net finance costs | (3,898) | (4,424) | 11.9% |
| Profit on disposal of property | 4,235 | 354 | |
| Investment property fair value movements | 282 | 4,086 | |
| Profit before tax | 14,359 | 13,711 | 4.7% |
| Underlying profit before tax | 10,337 | 9,334 | 10.7% |
| Taxation | (1,940) | (2,734) | 29.0% |
| Profit after tax | 12,419 | 10,977 | 13.1% |
| Underlying basic earnings per share | 54.7p | 48.7p | 12.3% |
| Basic earnings per share | 84.0p | 74.3p | 13.1% |

Transition to FRS 102

This is the first set of results presented by the Company under the new accounting standard for the United Kingdom, FRS 102. The key changes to the Company's accounts were presented in our transition document on 2 March 2016 which is available at www.shepherdneame.co.uk. In addition, the reconciliation of the Company's transition balance sheet and results for 2015 which were reported under the previous UK GAAP and are now reported under FRS 102 are included in note 34 of the accounts.

Results

The year's results reflect the continued investment and growth of our managed pub estate which has driven the increase in the Company's turnover of +1.2% to £139.9m and underlying operating profit of +3.5% to £14.2m.

Managed pub divisional turnover was up +9.8% to £48.1m (2015: £43.8m) reflecting like-for-like sales of +4.4% combined with the addition of two new pubs, The Minnis Bay Bar and Restaurant and the Anchor, Hampstead Lock, Yalding. Divisional underlying operating profit in this segment was up +13.7% to £7.6m (2015: £6.7m) due to the increased turnover and greater mix of food and accommodation.

The tenanted business has delivered solid divisional turnover up +0.3% to £33.5m (2015: £33.4m). Divisional underlying operating profit was down -1.2% to £12.6m (2015: £12.8m) reflecting good like-for-like growth in EBITDAR of +2.7% offset by disposal of pubs that no longer fit our long term strategy and an increase in property and repair costs of £0.3m as we continue to improve the estate for the long term.

Beer business divisional turnover was down -4.1% to £57.3m (2015: £59.7m) and divisional underlying operation profit was down -18.9% to £1.5m (2015: £1.8m) as a result of the exit from the contract to produce Kingfisher lager and additional water recovery costs of £0.3m in the 2016 financial year.

The reduction in brewing and brands turnover combined with our strong growth in the managed pub estate has meant that our mix of revenues has continued to evolve away from brewing and brands to managed pubs with a resulting increase in operating margin to 10.2% (2015: 10.0%).

The results and business operations are discussed in more detail in the Chairman's Statement and Chief Executive's Review.

Items excluded from underlying results

Total items excluded from underlying results were a net credit of £4.0m (2015: credit of £4.4m). This year's items comprised four elements:

- The Company has incurred one-off exceptional costs for two regulatory changes within the year. Firstly the financial statements have transitioned to the new accounting standard FRS 102. In addition the Company has registered and complied with the new Financial Conduct Authority requirements around its administration of customer loans. Total legal and professional fees associated with these transfers total £0.2m.
- The annual impairment review exercise was carried out in the year which resulted in a charge of £0.3m (2015: £0.1m) being recognised in relation to the impairment of six pubs (2015: two pubs).

- Property profits of £4.2m (2015: £0.4m) on the sale of 13 pubs (2015: 11 pubs), the land at Queen Court, outside Faversham and six unlicensed properties (2015: one unlicensed property) 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 new asset category on the balance sheet of investment properties is subject to market valuation at each reporting date. The results of this valuation are an increase in value of £0.3m (2015: £4.1m).

Finance costs

Net finance costs decreased by 11.9% to £3.9m (2015: £4.4m) following the lower cost of the new revolving credit facility and the reduction in net debt seen across the 2015 and 2016 financial years.

Underlying interest cover was 3.7 times (2015: 3.1 times).

Taxation

The total tax charge was £1.9m (2015: £2.7m), an effective rate of 13.5% (2015: 19.9%). The effective tax rate has benefited from the reduction in the corporation tax rates. The average statutory rate of corporation tax in the UK for the period was 20.0% (2015: 20.75%).

The net tax charge on items excluded from underlying results was a credit of £0.3m. We have recognised a tax credit of £0.7m resulting from the reductions

| | 2016 Profit £'000 | Tax £'000 | Rate % | 2015 Profit £'000 | Tax £'000 | Rate % |
|--|-------------------------|--------------|-------------|-------------------------|--------------|-------------|
| Summary rates of taxation | | | | | | |
| Profit before tax and tax thereon | 14,359 | 1,940 | 13.5 | 13,711 | 2,734 | 19.9 |
| Exceptional items | 188 | 38 | - | - | - | - |
| Impairment | 307 | 61 | - | 63 | 13 | - |
| Profit on disposal of property | (4,235) | (427) | - | (354) | 235 | - |
| Investment property fair value movements | (282) | (56) | - | (4,086) | (848) | - |
| Exceptional effect of reduction in corporation tax rate on deferred tax provisions | - | 698 | - | - | - | - |
| Underlying profit before tax and underlying tax thereon | 10,337 | 2,254 | 21.8 | 9,334 | 2,134 | 22.9 |

in the UK Corporation tax rate which will be effective from April 2017 and April 2020. These rate changes will affect the amount of future tax cash payments to be made by the company reducing the net deferred tax charge. This benefit has been reduced by the tax charge of £0.4m on property disposals.

The Company expects the underlying tax rate to continue to be around 2% higher than the average statutory rate in place.

Earnings per share

Underlying basic earnings per ordinary share increased by 12.3% to 54.7p (2015: 48.7p). Basic earnings per ordinary share increased by 13.1% to 84.0p (2015: 74.3p). This improved earnings per share reflects higher underlying operating profits, lower finance costs and a lower overall tax rate.

Dividends

Dividend per share paid and proposed in respect of the year increased by 3.0% to 27.5p per ordinary share (2015: 26.70p per ordinary share) to give total dividends of £4.1m (2015: £4.0m). Dividend cover has increased to 3.1 times (2015: 2.8 times). Underlying dividend cover increased to 2.0 times (2015: 1.8 times).

TO CREATE DEMAND AND BUILD AWARENESS FOR OUR BRANDS

We aim to create demand and build awareness of our brands by developing a range of distinctive beers, instilling a passion for quality and having great engagement with our customers.

DISTINCTIVE BEERS

In summer 2016 we launched Spitfire Lager, The Lager of Britain ✓

STRONG DEMAND FOR OUR BRANDS

The Whitstable Bay Collection enjoyed excellent growth with a strong performance from Whitstable Blonde Lager ✓

^ BRAND IDENTITY

We will be rolling out the new brand identity across our digital platforms, point of sale and merchandise during the coming year

^ BUILDING OUR PORTFOLIO

Angry Orchard, American's No. 1 Hard Cider, has made an encouraging start since launch

“I’m really pleased that we have won seven awards for the quality of our beers and packaging.”

Richard Frost Head Brewer

Senior Brewer Derya Unver
at **Mash Tun Number 2**

FINANCIAL REVIEW CONTINUED

Cash flow and net debt

| Summary cash flow statement | 2016 £'000 | 2015 £'000 |
|--|-----------------|---------------|
| Underlying EBITDA | 21,678 | 20,784 |
| Working capital and other operating cash flows | 1,116 | 3,485 |
| Tax | (2,313) | (2,297) |
| Operating Exceptional items | (188) | (597) |
| Cash flow from operations | 20,293 | 21,375 |
| Dividends | (3,977) | (3,861) |
| Interest | (3,904) | (4,391) |
| Purchase of own shares and share option proceeds | (255) | (422) |
| Issue costs of new loan | (313) | - |
| Disposal of fixed assets | 11,893 | 3,155 |
| Internally generated free cash flow | 23,737 | 15,856 |
| Core capital expenditure | (10,718) | (9,748) |
| Net loans to customers | 224 | 121 |
| Cash flow pre acquisitions and debt repayment | 13,243 | 6,229 |
| Acquisition of pubs | (4,673) | (3,417) |
| Repayment of loan | (16,000) | (2,000) |
| Net cash (outflow)/inflow for the year | (7,430) | 812 |
| Movement in loan issue costs | 140 | (153) |
| Closing net debt | (60,076) | (68,786) |

Underlying EBITDA increased by 4.3% to £21.7m (2015: £20.8m) reflecting the increase in underlying operating profit. There was a net cash inflow from working capital movements of £1.1m (2015: £3.5m), mainly due to timing differences around creditors and stock. Tax cash payments remained at £2.3m with the increase resulting from disposal activity in the year being offset by increased tax deductions from the transition to FRS 102. As a result of these three factors the net cash inflow from operating activities decreased by £1.1m to £20.3m (2015: £21.4m).

The exceptional outflow in the year of £0.2m relates to the payment of legal and professional fees for the Company's transition to FRS 102 and the Financial Conduct Authority compliance regime.

The total cash cost of interest and dividends decreased by £0.4m to £7.9m (2015: £8.3m). Interest payments have fallen following the reduction in net debt within the year combined with the lower costs of the new revolving credit facility. Dividend payments reflect the increase in payment of the final 2015 and Interim 2016 dividends.

In order to service the Company's obligations under employee incentive plans 49,000 shares were purchased (2015: 42,000) at an average market price of £11.92 (2015: £11.09) leading to a cash outflow of £0.3m (2015: £0.5m). A further £0.3m of the purchase consideration was settled after the year end.

Cash spend on core capital expenditure was £10.7m, up from £9.7m in 2015 as we continue to invest to grow the business for the long term. This was driven by the developments at the Ship & Trades, Chatham and the Royal Albion, Broadstairs and an increase in tenanted developments. In addition a further £4.7m (2015: £3.4m) of acquisition capital expenditure was invested in three freehold properties, The Minnis Bay, The Anchor, Yalding and the Coastguard, St Margarets Bay and the initial payment for the acquisition of pubs from Enterprise Inns plc. Proceeds of £11.9m (2015: £3.2m) were realised from the sale of 13 pubs (2015: 11 pubs), the land at Queen Court, outside Faversham and six unlicensed properties (2015: one unlicensed property).

Financing and loan facilities

As announced previously, following a review of our banking arrangements, the medium-term loan of £16m and the revolving credit facility of £10m due to expire in May 2017 were refinanced in September 2015 to provide a new £20m revolving credit facility with an expiry of September 2020. This facility 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 are in place together with a £5m overdraft facility which is renewable in June 2017.

Interest margin above LIBOR on the 20-year term loan was fixed by swap contracts to give an effective rate of interest of 5.78%. The policy for managing treasury and financial risk is as set out in note 21.

Balance sheet

Overall there was a £0.6m increase in fixed assets (2015: increase of £7.3m) reflecting the acquisitions and core capital expenditure made in the year offset by the disposal of 13 pubs. The continued strong operating cash flows and disposal activity mean net debt decreased at the balance sheet date by £8.7m to £60.1m (2015: £68.8m).

As a result of the net debt reduction, balance sheet gearing at the year end was 33% (2015: 38%) and the ratio of net debt to EBITDA at the year end was 2.8 times (2015: 3.3 times).

Shareholders funds at 25 June 2016 were £183.9m (2015: £179.8m) meaning net assets per share showed an increase of 2.3% at £12.38 (2015: £12.10).

PRINCIPAL RISKS AND UNCERTAINTIES

Principal Risks

Mitigation and Monitoring

ECONOMIC AND POLITICAL

Strength of the economy and the United Kingdom's exit from the European Union

The success of the Company's operations is partly reliant upon the strength of the UK and regional economy. 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.

The business is exposed to the consequences of exiting the EU, which is expected to result in challenges to UK economic and financial stability. It may have an impact on our performance, the regulatory framework we operate in, and our investment property valuations.

We monitor and respond to changes in the economy by reviewing the investment levels in our 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 tightly regulated and heavily taxed through excise duty. There is a risk that future increases, or other changes in taxation, or drinking regulations, 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 has implemented 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 Industry Voluntary Codes of Practice to ensure the transparency and openness of our tied agreements, and fair dealings with our licensees.

We monitor proposed legislation and ongoing dialogue between the Government and trade bodies.

OPERATIONAL

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 the reputation of our brands.

Adherence to high-quality standards throughout the business, regular management review, staff training 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.

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.

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 impact on the profitability of the Company.

We have developed a disaster recovery plan to mitigate disruption in such circumstances. We have a maintenance programme and undertake regular site inspections. Our finished product is decentralised and held in a number of warehouse locations through Kuehne and Nagel Drinks Logistics.

Water recovery

The Company operates a 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. 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.

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 prolonged failure of these systems would affect all aspects of our business.

The IT function has back-up systems, virus protection, a cyber protection strategy, a business continuity plan, a disaster recovery plan and external support agreements for hardware and software, which aims to ensure that in the event of any problem normal trading would be restored quickly.

COMMITMENT TO THE COMMUNITY

Our staff and customers toast Britain's favourite drink at **Beer Day Britain** at managed pub, the Old Doctor Butler's Head in the City

Samantha Jeal of the Brewery Visitor Centre, winner of the **Unsung Hero Award**, Beautiful South Tourism Awards

We invest around £500,000 a year in local sports sponsorship, including **Maidstone United FC**

A busy programme of sporting and community **summer events**

Outstanding Industry Contribution Award for Chief Executive Jonathan Neame at The Publican Awards 2016

RAF Spitfire Rugby 7s' **Battle of Britain Bike Ride** visit the brewery

Supporting live music festivals including the '**Ramblin' Man Fair**' and the '**New Day Festival**'.

The brewery team at the **Canterbury Hop Pocket Race**, marking the beginning of Kent Green Hop Beer Fortnight

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 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 installed a water recovery plant that has enabled the recovery and reuse 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. Of our malt supply, 98% is sourced from the UK and more than 80% 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 have met the ESOS* requirements within the statutory time period. 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.

The recent upgrade to our glycol and storage and distribution system will reduce power consumption during the production process.

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.

* Energy Savings Opportunity Scheme

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, 27% have 10–20 years' service and 14% 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 including staff newsletters and presentations. Feedback and ideas are encouraged, facilitated by quarterly Chief Executive lunches with staff.

We encourage all employees 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, and organise an annual awards ceremony. We achieved a Grade 1: Outstanding rating for training provision in the 2015 annual monitoring visit by the BII.

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 is the principal sponsor of Maidstone United FC. The Company also sponsors local leagues and provides equipment for community sides. We support a number of summer events, music festivals, regattas, airshows and the Kent County Show.

We take great pride in supporting the town of Faversham and the county of Kent through events such as the Faversham Hop Festival, Kent Creative Awards, the Historic Transport Weekend, and local food and drink weekends. We also sponsor 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 recent 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 the 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, which is chaired by Jonathan Neame. 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 2016 and was signed on its behalf by:

Jonathan Neame
Chief Executive



* The calculation is based on brewery employees as at 25 June 2016 excluding managed pubs and the visitor centre.

BOARD OF DIRECTORS

MILES TEMPLEMAN (68)

Chairman of the Board, Chairman of the Nomination 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. He is currently a Non-Executive Director of Fairgrove Partners Limited, a Council member of the RNLI, and is a Governor of Brighton College.

JONATHAN NEAME DL (52)

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 Limited and a Trustee of the Leeds Castle Foundation. He was Chairman of the British Beer and Pub Association until December 2015 and then became Chairman of Visit Kent from this date. In July 2016 he was awarded an Honorary Doctorate from the University of Kent.

MARK RIDER (40)

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.

BILL BRETT (51)

Non-Executive Director, Chairman of the Remuneration Committee from June 2016
Appointed to the Board in September 2013. He is Executive Chairman of Robert Brett & Sons Limited and was Chairman of the Mineral Products Association until September 2015.

RICHARD OLDFIELD DL (60)

Non-Executive Director from June 2016
Chairman of the Audit Committee from September 2016
He is Executive Chairman of Oldfield Partners LLP, a director of Witan Investment Trust Plc and a trustee of the Royal Marsden Cancer Charity and Clore Duffield Foundation. He was previously Chief Executive of Alta Advisers Limited, Chairman of the Oxford University investment committee and of Keystone Investment Trust Plc.

HILARY RIVA OBE (59)

Non-Executive Director from April 2016
She is a Non-Executive director of ASOS Plc, Shaftesbury Plc and London and Partners Limited. She was previously a member of the Management Board of Arcadia, Managing Director of Rubicon Retail and Chief Executive of the British Fashion Council. She was awarded an OBE for services to the fashion industry in 2008.

GEORGE BARNES (62)

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 (49)

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 Limited.

GRAEME CRAIG (45)

Brewing and Brands Director

Joined the Company in May 2006 and was appointed to the Board in July 2006 as Sales and Marketing Director. He was previously at PepsiCo for 12 years, latterly as Convenience Director. He became Brewing and Brands Director with effect from January 2014.

OLIVER BARNES (65)

Non-Executive Director Chairman of the Remuneration Committee to June 2016

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. He retired from the Board in June 2016.

JAMES LEIGH-PEMBERTON CVO (59)

Non-Executive Director, Chairman of the Audit Committee

Appointed to the Board in September 2004. He is Executive Chairman of UK Financial Investments Limited. He was previously Chief Executive of Credit Suisse UK and a Non-Executive Director of RIT Capital Partners Plc. He retired from the Board in September 2016.

ROBERT NEAME CBE DL DCL (82)

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 (60)

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 several management positions within the Company and is a Fellow of the Chartered Institute of Personnel 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 Limited 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. One Non-Executive Director retired from the Board in September 2016. 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 and other 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 twice 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 appointment of a recruitment consultancy and subsequent proposal of the appointments of Hilary Riva and Richard Oldfield and the re-election of directors.

Before any appointment is made, the Committee 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 until September 2016 and in his absence by the company chairman. It comprises the Non-Executive Directors. The Executive Directors and external auditor attend its meetings by invitation. The Committee has defined terms of reference, reviews

| | Board | Audit Committee | Remuneration Committee | Nomination Committee |
|--------------------------------|----------|-----------------|------------------------|----------------------|
| Number of meetings | 9 | 3 | 3 | 2 |
| 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 | 3 | 3 | 2 |
| W J Brett | 9 | 2 | 3 | 2 |
| J H Leigh-Pemberton | 6 | 1 | 2 | 1 |
| R J Oldfield ¹ | 1 | - | 1 | - |
| H S Riva ² | 4 | 1 | 1 | - |
| M H Templeman | 9 | 3 | 3 | 2 |

¹ Richard Oldfield was appointed to the Board on 23 June 2016.

² Hilary Riva was appointed to the Board on 4 April 2016.

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

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 three meetings during the year. On two occasions the Chief Executive and Finance and IT Director attended and on the other occasion all executive directors attended to review the transition to FRS 102.

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 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 2016 Deloitte provided audit services in respect of the Company accounts and pension scheme of £175,000 (including £74,000 in respect of the transition to FRS 102), tax services of £21,000 and non-audit services of £29,000.

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, 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 Company's website and 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 has been chaired by Oliver Barnes and from June 2016 is being chaired by Bill Brett. It 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 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 2015 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 2015 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") was introduced as a replacement to the Shepherd Neame Limited 2005 Restricted Share Scheme (the "2005 Scheme") which expired on 28 October 2015. 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 Executive Directors 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.

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 2016 financial year was 2%. The figures for

annual bonus for the highest paid Director relate to performance in the 2016 and 2015 financial years respectively. The bonus for the highest paid Director under the cash bonus scheme will be £28,000 or 11.5% of salary for the 2016 financial year.

Bonuses totalling £112,000 or 11.5% of salary, will be paid to Executive Directors in relation to the 2016 financial year.

The average salary increase for Executive Directors was 2.2% in the 2016 financial year and the aggregate bonus paid to Executive Directors in the 2016 financial year, relating to the 2015 financial year was £111,000 or 11.6% as a percentage of the 2015 executive salaries.

In October 2015, 8,618 primary options, which were granted to all Executive Directors in 2012, vested (2015: 9,212 granted in October 2011 vested in October 2014). Of the secondary options granted in October 2012 to all Executive Directors, it was agreed at the Remuneration Committee meeting held in October 2015, that in relation to performance measured against performance criteria set at the time these options were granted, 52% had vested. (2015: 52% of the secondary options granted in October 2011 vested in October 2014).

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 25 June 2016 which total £54,000 and are included within emoluments (2015: £53,000). The aggregate gain, subject to tax, not included above, made by the highest paid Director on the exercise of share options was £86,000 (2015: £49,000).

In October 2015, 13,136 primary options were granted to Executive Directors in respect of the 2015 financial year (2015: 10,710 options granted in respect of the 2014 financial year). The options granted to each Director will vest if the Director remains in employment until October 2018. The aggregate number of secondary options granted to Executive Directors in October 2015, for the reference period 2015 to 2018 was 20,525 (2015: 19,125 for the reference period 2014 to 2017). These options will vest by reference to performance criteria to be measured against the 2018 results.

Subject to the approval of the accounts the Remuneration Committee will consider secondary option awards for the reference period to 2016 in October 2016.

REMUNERATION REPORT CONTINUED

Directors' emoluments

The information in this table is subject to audit and as required to be disclosed in note 11.

| | 52 weeks ended 25 June 2016 £'000 | 52 weeks ended 27 June 2015 £'000 |
|--|---|---|
| Aggregate amount: | | |
| Salary | 1,180 | 1,147 |
| Salary in lieu of pension contributions | 95 | 93 |
| Taxable benefits | 107 | 98 |
| Cash payment in lieu of share options | - | 30 |
| Annual bonus | 112 | 111 |
| Share Incentive Plan | 18 | 14 |
| Directors' emoluments | 1,512 | 1,493 |
| Primary and secondary share options vesting in the year | 267 | 216 |
| Pension contributions | 115 | 106 |
| | 1,894 | 1,815 |
| The number of Directors who: | | |
| Had pensions benefit accruing under money purchase schemes | 5 | 5 |
| Exercised options over shares in the Company | 5 | 4 |
| Had awards receivable in the form of shares under a long-term incentive plan | 5 | 5 |
| Details of Directors' share options are shown on page 36 | | |
| Highest paid Director: | | |
| Salary | 245 | 240 |
| Salary in lieu of pension contributions | 54 | 53 |
| Taxable benefits | 35 | 34 |
| Annual bonus | 28 | 27 |
| Primary and secondary share options vesting in the year | 73 | 72 |
| Share Incentive Plan | 4 | 3 |
| | 439 | 429 |

In 2016 the highest paid Director was granted primary options and secondary options over 3,315 and 5,180 ordinary shares respectively under the long-term incentive plan (2015: 2,787 and 4,977 respectively). He exercised options over 8,050 shares (2015: 4,515).

The aggregate gain, not included above, made by the highest paid Director on the exercise of share options was £86,000 (2015: £49,000).

Options benefit is calculated as the share price at the date the shares vest (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 £73,000, includes an amount of £45,000 in respect of shares subsequently exercised. This amount forms a part of the gain on exercise of share options disclosed above of £86,000.

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 29.

The interests of the current Directors and those who held office during the financial year in the Company's shares at 25 June 2016 (27 June 2015) are as follows:

| | | Beneficial | Ordinary shares As trustees | Under SIP |
|-------------------------|-------------|----------------|--------------------------------|--------------|
| George Barnes | 2016 | 38,043 | - | 2,349 |
| | 2015 | 29,346 | - | 2,048 |
| Oliver Barnes | 2016 | 85,202 | - | - |
| | 2015 | 85,202 | - | - |
| Nigel Bunting | 2016 | 12,864 | - | 1,479 |
| | 2015 | 10,209 | - | 1,718 |
| Bill Brett | 2016 | 15,735 | - | - |
| | 2015 | 15,895 | - | - |
| Graeme Craig | 2016 | 3,924 | - | 1,389 |
| | 2015 | 3,236 | - | 1,789 |
| Jonathan Neame | 2016 | 147,001 | 81,790 | 1,973 |
| | 2015 | 153,901 | 102,769 | 1,672 |
| Richard Oldfield | 2016 | 2,000 | - | - |
| | 2015 | 2,000 | - | - |
| Mark Rider | 2016 | 2,119 | - | 826 |
| | 2015 | - | - | 525 |
| Miles Templeman | 2016 | 8,905 | - | - |
| | 2015 | 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, 2014 and 2015 and are held in trust for a qualifying period of three years before ownership vests unconditionally (see note 30a).

REMUNERATION REPORT CONTINUED

The information in this table is subject to audit and as required to be disclosed in note 29.

Subject to performance conditions being met, options over the Company's ordinary shares held by Directors at 25 June 2016 (27 June 2015) are as follows:

| | At 2015 | Granted | Exercised | Forfeited | At 2016 | | Exercise price £ | Date from which exercisable | Expiry date |
|-----------------------|---------------|---------------|-----------------|-----------------|---------------|------|---------------------|--------------------------------|-------------|
| George Barnes | 1,671 | - | (1,671) | - | - | * | 1.00 | 19/10/15 | 19/10/22 |
| | 5,223 | - | (2,716) | (2,507) | - | ** | 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 |
| | - | 2,221 | - | - | 2,221 | *** | 0.50 | 16/10/18 | 16/10/25 |
| | - | 3,470 | - | - | 3,470 | **** | 0.50 | 16/10/18 | 16/10/25 |
| | 16,628 | 5,691 | (4,387) | (2,507) | 15,425 | | | | |
| Nigel Bunting | 1,648 | - | (1,648) | - | - | * | 1.00 | 19/10/15 | 19/10/22 |
| | 5,150 | - | (2,678) | (2,472) | - | ** | 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 |
| | - | 2,414 | - | - | 2,414 | *** | 0.50 | 16/10/18 | 16/10/25 |
| | - | 3,772 | - | - | 3,772 | **** | 0.50 | 16/10/18 | 16/10/25 |
| | 16,397 | 6,186 | (4,326) | (2,472) | 15,785 | | | | |
| Graeme Craig | 1,648 | - | (1,648) | - | - | * | 1.00 | 19/10/15 | 19/10/22 |
| | 5,150 | - | (2,678) | (2,472) | - | ** | 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 |
| | - | 2,483 | - | - | 2,483 | *** | 0.50 | 16/10/18 | 16/10/25 |
| | - | 3,879 | - | - | 3,879 | **** | 0.50 | 16/10/18 | 16/10/25 |
| | 16,744 | 6,362 | (4,326) | (2,472) | 16,308 | | | | |
| Jonathan Neame | 3,985 | - | (3,985) | - | - | ** | 1.00 | 28/10/14 | 28/10/21 |
| | 2,501 | - | - | - | 2,501 | * | 1.00 | 19/10/15 | 19/10/22 |
| | 7,817 | - | (4,065) | (3,752) | - | ** | 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 |
| | - | 3,315 | - | - | 3,315 | *** | 0.50 | 16/10/18 | 16/10/25 |
| | - | 5,180 | - | - | 5,180 | **** | 0.50 | 16/10/18 | 16/10/25 |
| | 28,872 | 8,495 | (8,050) | (3,752) | 25,565 | | | | |
| Mark Rider | 1,150 | - | (1,150) | - | - | * | 1.00 | 19/10/15 | 19/10/22 |
| | 6,162 | - | (3,204) | (2,958) | - | ** | 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 |
| | - | 2,703 | - | - | 2,703 | *** | 0.50 | 16/10/18 | 16/10/25 |
| | - | 4,224 | - | - | 4,224 | **** | 0.50 | 16/10/18 | 16/10/25 |
| | 18,984 | 6,927 | (4,354) | (2,958) | 18,599 | | | | |
| Total | 97,625 | 33,661 | (25,443) | (14,161) | 91,682 | | | | |

* Primary share option rights under the Shepherd Neame 2005 Restricted Share Scheme (see note 30b).

** Secondary share option rights under the Shepherd Neame 2005 Restricted Share Scheme (see note 30b).

*** Primary share option rights under the Shepherd Neame 2015 Restricted Share Scheme (see note 30c).

**** Secondary share option rights under the Shepherd Neame 2015 Restricted Share Scheme (see note 30c).

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 25 June 2016 was £11.88 (27 June 2015: £11.20) and the range during the year was £11.10 to £12.20 (2015: £10.38 to £12.45).

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their Annual Report and Accounts for the 52 weeks ended 25 June 2016.

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 25 June 2016 and likely future developments.

Dividends

The Company paid an interim dividend of 5.45p per ordinary share of 50p (2015: 5.30p). The Directors now recommend a final dividend of 22.05p per ordinary share of 50p (2015: 21.40p). This makes a total dividend for the year of 27.50p per ordinary share of 50p (2015: 26.70p).

The total proposed final dividend on ordinary shares of 50p will be £3,269,000 (2015: £3,168,000) which together with the 2016 interim dividend paid of £809,000 (2015: £787,000) will make total dividends of £4,078,000 (2015: £3,955,000).

Directors

The names of the Directors who served during the year are set out on pages 28 and 29. Changes in Directors since the year end include the resignation of Oliver Barnes on 23 June 2016 and of James Leigh Pemberton on 8 September 2016. They are replaced by Hilary Riva and Richard Oldfield, who were appointed to the Board on 4 April 2016 and 23 June 2016 respectively. Particulars of the Directors' interests in the Company's shares are set out in the Remuneration Report on pages 32-36.

Jonathan Neame, George Barnes and Bill Brett retire from the Board by rotation and will be offering themselves

for re-election. Miles Templeman, having served longer than nine years, submits himself for re-election in accordance with the Articles of Association.

Purchase of own shares

During the year 49,000 ordinary shares of 50p representing 0.33% of the Company's issued share capital, were purchased at a cost of £584,000 (2015: 41,891 ordinary shares of 50p, being 0.28% of the issued share capital at a cost of £465,000). Of the consideration £297,000 was settled after the year end. 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 note 21 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 continually aims 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.

Political Contributions

The Company made no political contributions during the year (2015: Enil).

Events after the balance sheet date

Since the year end, the Company has acquired eight freehold pubs in Kent, Sussex and Surrey from Enterprise Inns plc that are operated under leases.

The Company has also acquired UES Limited since the year end, a successful business which operated five of our existing pubs in Faversham and Canterbury under tenancy. These pubs have been transferred to the managed estate.

The combined investment in these two acquisitions was £13.4m.

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 2016

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) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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 accounting 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 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 21; 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 25 June 2016 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 34. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 25 June 2016 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 2016

PROFIT AND LOSS ACCOUNT 52 weeks ended 25 June 2016

| | note | 52 weeks to 25 June 2016 | | | 52 weeks to 27 June 2015 | | |
|--|------|-----------------------------|--|--------------------------|-----------------------------|--|--------------------------|
| | | Underlying results £'000 | Items excluded from underlying results £'000 | Total statutory £'000 | Underlying results £'000 | Items excluded from underlying results £'000 | Total statutory £'000 |
| Turnover | 3, 4 | 139,890 | - | 139,890 | 138,237 | - | 138,237 |
| Operating charges | 5, 7 | (125,655) | (495) | (126,150) | (124,479) | (63) | (124,542) |
| Operating Profit | 3 | 14,235 | (495) | 13,740 | 13,758 | (63) | 13,695 |
| Net finance costs | 6 | (3,898) | - | (3,898) | (4,424) | - | (4,424) |
| Profit on disposal of property | 7 | - | 4,235 | 4,235 | - | 354 | 354 |
| Investment property fair value movements | 7 | - | 282 | 282 | - | 4,086 | 4,086 |
| Profit on Ordinary activities before taxation | | 10,337 | 4,022 | 14,359 | 9,334 | 4,377 | 13,711 |
| Taxation | 8 | (2,254) | 314 | (1,940) | (2,134) | (600) | (2,734) |
| Profit after taxation | | 8,083 | 4,336 | 12,419 | 7,200 | 3,777 | 10,977 |
| Earnings per 50p ordinary share | 10 | | | | | | |
| Basic | | | | 84.0p | | | 74.3p |
| Underlying basic | | | | 54.7p | | | 48.7p |
| Diluted | | | | 83.4p | | | 73.8p |

All results are derived from continuing activities.

STATEMENT OF COMPREHENSIVE INCOME 52 weeks ended 25 June 2016

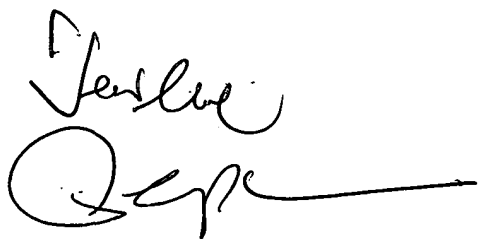
| | note | 52 weeks ended 25 June 2016 £'000 | 52 weeks ended 27 June 2015 £'000 |
|--|------|---|---|
| Profit after taxation | | 12,419 | 10,977 |
| Losses arising on cash flow hedges during the period | 19 | (5,887) | (2,263) |
| Tax relating to components of other comprehensive income | 8 | 1,521 | 453 |
| Other comprehensive losses | | (4,366) | (1,810) |
| Total comprehensive income | | 8,053 | 9,167 |

BALANCE SHEET as at 25 June 2016

| | note | 25 June 2016 £'000 | 27 June 2015 £'000 |
|--|------|-----------------------|-----------------------|
| Fixed assets | | | |
| Tangible fixed assets | 13 | 279,872 | 279,247 |
| Investments and loans | 14 | 333 | 713 |
| | | 280,205 | 279,960 |
| Current assets | | | |
| Stocks | 15 | 6,580 | 7,001 |
| Debtors | 16 | 18,114 | 16,103 |
| Deferred tax asset due after one year | 22 | 4,409 | 3,965 |
| Cash | | 90 | 6,793 |
| | | 29,193 | 33,862 |
| Creditors: amounts falling due within one year | | | |
| Bank loans and overdrafts | 18 | (727) | (1,987) |
| Creditors | 17 | (26,703) | (24,156) |
| | | (27,430) | (26,143) |
| Net current assets | | 1,763 | 7,719 |
| Total assets less current liabilities | | 281,968 | 287,679 |
| Creditors: amounts falling due after more than one year | | | |
| Bank loans | 18 | (59,439) | (73,592) |
| Derivative financial instruments | 20 | (23,670) | (17,783) |
| Deferred lease liability | | (1,831) | (1,640) |
| Provision for liabilities | 22 | (13,151) | (14,838) |
| Net assets | | 183,877 | 179,826 |
| Capital and reserves | | | |
| Called-up share capital | 23 | 7,429 | 7,429 |
| Share premium account | 24 | 1,099 | 1,099 |
| Revaluation reserve | 24 | 73,253 | 72,430 |
| Reserve for own shares held | 24 | (915) | (827) |
| Hedging reserve | 24 | (19,288) | (14,226) |
| Profit and loss account | 24 | 122,299 | 113,921 |
| Equity shareholders' funds | | 183,877 | 179,826 |

These accounts for Shepherd Neame Limited (Registered in England number 138256) were approved by the Board of Directors on 14 September 2016 and were signed on its behalf by:

Miles Templeman
Jonathan Neame
Directors



STATEMENT OF CHANGES IN EQUITY 52 weeks ended 25 June 2016

| | Share capital £'000 | Share premium £'000 | Revaluation Reserve £'000 | Own shares held £'000 | Hedging reserve £'000 | Profit and loss account £'000 | Total £'000 |
|--|------------------------|------------------------|------------------------------|--------------------------|--------------------------|----------------------------------|----------------|
| Balance at 28 June 2014 as previously stated | 7,429 | 1,099 | 13,125 | (908) | - | 108,006 | 128,751 |
| Changes on transition to FRS 102 (see note 34) | - | - | 60,167 | - | (12,416) | (1,985) | 45,766 |
| Balance at 28 June 2014 as restated | 7,429 | 1,099 | 73,292 | (908) | (12,416) | 106,021 | 174,517 |
| Profit for the financial year | - | - | - | - | - | 10,977 | 10,977 |
| Losses arising on cash flow hedges during the year | - | - | - | - | (2,263) | - | (2,263) |
| Tax relating to components of other comprehensive income | - | - | - | - | 453 | - | 453 |
| Total comprehensive income | - | - | - | - | (1,810) | 10,977 | 9,167 |
| Ordinary dividends paid | - | - | - | - | - | (3,861) | (3,861) |
| Transfer of realised revaluation | - | - | (862) | - | - | 862 | - |
| 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 | 7,429 | 1,099 | 72,430 | (827) | (14,226) | 113,921 | 179,826 |
| Profit for the financial year | - | - | - | - | - | 12,419 | 12,419 |
| Losses arising on cash flow hedges during the year | - | - | - | - | (5,887) | - | (5,887) |
| Tax relating to components of other comprehensive income | - | - | 696 | - | 825 | - | 1,521 |
| Total comprehensive income | - | - | 696 | - | (5,062) | 12,419 | 8,053 |
| Ordinary dividends paid | - | - | - | - | - | (3,977) | (3,977) |
| Transfer of realised revaluation | - | - | 127 | - | - | (127) | - |
| Accrued share-based payments | - | - | - | - | - | 528 | 528 |
| Purchase of own shares | - | - | - | (584) | - | - | (584) |
| Distribution of own shares | - | - | - | 359 | - | (328) | 31 |
| Unconditionally vested share awards | - | - | - | 137 | - | (137) | - |
| Balance at 25 June 2016 | 7,429 | 1,099 | 73,253 | (915) | (19,288) | 122,299 | 183,877 |

CASH FLOW STATEMENT 52 weeks ended 25 June 2016

| | 52 weeks ended 25 June 2016 | | 52 weeks ended 27 June 2015 | |
|---|--------------------------------|-----------------|--------------------------------|-----------------|
| | £'000 | £'000 | £'000 | £'000 |
| Net cash flows from operating activities (note 25) | | 20,293 | | 21,375 |
| Cash flows from investing activities | | | | |
| Proceeds of sale of tangible fixed assets | 11,893 | | 3,155 | |
| Purchase of tangible fixed assets | (15,391) | | (13,165) | |
| Additional loans to customers | (21) | | (52) | |
| Customer loan redemptions | 245 | | 173 | |
| Net cash flows from investing activities | | (3,274) | | (9,889) |
| Cash flows from financing activities | | | | |
| Dividends paid | (3,977) | | (3,861) | |
| Interest paid | (3,904) | | (4,391) | |
| Repayment of long-term loan | (16,000) | | (2,000) | |
| Issue costs of new long-term loan facility | (313) | | - | |
| Purchase of own shares | (287) | | (465) | |
| Share option proceeds | 32 | | 43 | |
| Net cash flows from financing activities | | (24,449) | | (10,674) |
| Net (decrease)/increase in cash and cash equivalents | | (7,430) | | 812 |
| Cash and cash equivalents at beginning of the period | | 6,793 | | 5,981 |
| Cash and cash equivalents at end of the period | | (637) | | 6,793 |

NOTES TO THE ACCOUNTS 25 June 2016

1 Accounting Policies

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

a General information and basis of accounting

Shepherd Neame Limited is a company incorporated in the United Kingdom under the Companies Act. The Company is a private company limited by shares and is registered in England and Wales. The registered office is 17 Court Street, Faversham, Kent ME13 7AX. The nature of the Company's operations and its principal activities are set out in the Directors' report on page 37.

The accounts have been prepared on a going concern basis under the historical cost convention, modified to include certain items at fair value and by the revaluation of freehold licensed and associated properties. They are prepared in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The prior year financial statements were restated for material adjustments on adoption of FRS 102 in the current year. For more information see note 34.

The functional currency of the Company is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The financial statements are also presented in pounds sterling, rounded to the nearest thousand (£'000) unless otherwise stated.

The Company has taken the exemption in Section 405 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 stated at cost or valuation, net of depreciation and any provision for impairment. Licensed freehold properties were revalued on transition to FRS 102, with fair value treated as deemed cost.

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 |

Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

c Investment properties

Investment properties are carried at fair value and measured at each reporting date with any change recognised in the profit and loss account.

d Fixed asset investments

Fixed asset investments are measured at cost less impairment. 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.

e Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Debt instruments are subsequently measured at amortised cost using the effective interest method. Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet certain conditions, are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

ii) Derivative financial instruments – Hedge accounting

The Company uses derivative financial instruments (interest rate swaps) to adjust interest rate exposures. The Company does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. At the inception of the hedge relationship, the economic relationship between the hedging instrument and the hedged item is documented, along with the risk management objectives and clear identification of the risk in the hedged item that is being hedged by the hedging instrument. Furthermore, at the inception of the hedge the Company determines and documents causes for hedge ineffectiveness.

The interest rate swaps are classified as cash flow hedges because the derivative financial instruments hedge the variable interest rate risk of the cash flows associated with the recognised debt instrument measured at amortised cost (the £60m long-term loan to 2026).

The effective portion of changes in the fair value of the designated hedging instrument is recognised in other comprehensive income. The gain or loss relating to any ineffective portion is recognised immediately in profit or loss. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods in which the hedged item affects profit or loss or when the hedging relationship ends.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time is reclassified to profit or loss when the hedged item is recognised in profit or loss. When a forecast transaction is no longer expected to occur, any gain or loss that was recognised in other comprehensive income is reclassified immediately to profit or loss.

f Stocks

Stocks are valued at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Cost of own beers produced includes materials and directly attributable fixed and variable production overheads. Cost is calculated using the average cost method. Provision is made for obsolete, slow-moving or defective items where appropriate.

g Accounting for leases

Rentals payable and receivable under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

h Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in the profit and loss account as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

NOTES TO THE ACCOUNTS 25 June 2016

1 Accounting Policies continued

i Taxation

Current tax

Corporation tax payable is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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 that will result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as 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. Deferred tax relating to property, plant and equipment measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

The tax expense or income is presented in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

j Turnover

Turnover is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch or delivery of the goods; or on provision of services. 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 or for leased properties on a straight-line basis over the term of the lease.

k Retirement benefits

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 schemes.

Other long-term employee benefits are measured at the present value of the benefit obligation at the financial reporting date.

l Foreign currency

Transactions expressed in foreign currencies are translated into sterling and recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at rates of exchange prevailing at that date. All differences are taken to the profit and loss account.

m Dividends

Dividends payable are shown as a movement in reserves when declared (interim dividend) or approved (final dividend).

n Share-based payment

All options are equity-settled. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using the Black-Scholes pricing model which is considered by management to be the most appropriate method of valuation. 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.

o Investment in subsidiaries

The Company recognises its investment in subsidiaries at cost. Income is recognised from these investments only in relation to distributions received from post-acquisition profits. Distributions received in excess of post-acquisition profits are deducted from the cost of the investment.

2 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects both current and future periods.

Key source of estimation uncertainty – impairment of assets

Financial and non-financial assets are subject to impairment reviews at the balance sheet date based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount is based on the higher of the value in use and fair value less costs to dispose. Value in use is calculated from expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance as disclosed in note 13.

3 Segmental reporting

In adopting FRS 102, the operating segment disclosure requirements of IFRS 8 are required as the Company has publically traded equity instruments. The standard is applied retrospectively. The accounting policy for identifying segments is based on internal management reporting information that is regularly reviewed by the chief operating decision-maker.

The Company has three operating segments, which are largely organised and managed separately according to the nature of the products and services provided and the profile of the customers:

- Brewing and Brands which comprises the brewing, marketing and sales of beer, wine and spirits;
- Managed Pubs and Hotels which comprises managed pubs and managed hotels and;
- Tenanted and Leased Pubs which comprises pubs operated by third parties under tenancy or lease agreements.

Transfer prices between operating segments are set on an arm's length basis.

The measurement policies the Company uses for segment reporting under IFRS 8 are the same as those used in the financial statements.

| 52 weeks ended 25 June 2016 | Brewing and Brands £'000 | Managed Pubs and Hotels £'000 | Tenanted and Leased Pubs £'000 | Unallocated £'000 | Total £'000 |
|--|-----------------------------|----------------------------------|-----------------------------------|----------------------|----------------|
| Turnover | 57,267 | 48,062 | 33,509 | 1,052 | 139,890 |
| Underlying operating profit | 1,479 | 7,581 | 12,598 | (7,423) | 14,235 |
| Exceptional items | - | - | (307) | (188) | (495) |
| Divisional operating profit | 1,479 | 7,581 | 12,291 | (7,611) | 13,740 |
| Net finance costs | | | | | (3,898) |
| Profit on disposal of property | | | | | 4,235 |
| Investment property fair value movements | | | | | 282 |
| Profit on ordinary activities before taxation | | | | | 14,359 |
| Other segment information | | | | | |
| Capital expenditure - tangible fixed assets | 2,374 | 6,055 | 6,774 | 436 | 15,639 |
| Depreciation | 2,172 | 2,016 | 2,028 | 899 | 7,115 |
| Underlying divisional EBITDA | 3,880 | 9,677 | 14,642 | (6,521) | 21,678 |
| Number of pubs | - | 54 | 267 | 7 | 328 |

NOTES TO THE ACCOUNTS 25 June 2016

3 Segmental reporting continued

| 52 weeks ended 27 June 2015 | Brewing and Brands £'000 | Managed Pubs and Hotels £'000 | Tenanted and Leased Pubs £'000 | Unallocated £'000 | Total £'000 |
|--|-----------------------------|----------------------------------|-----------------------------------|----------------------|----------------|
| Turnover | 59,718 | 43,759 | 33,424 | 1,336 | 138,237 |
| Underlying operating profit | 1,823 | 6,665 | 12,751 | (7,481) | 13,758 |
| Exceptional items | - | - | (63) | - | (63) |
| Divisional operating profit | 1,823 | 6,665 | 12,688 | (7,481) | 13,695 |
| Net finance costs | | | | | (4,424) |
| Profit on disposal of property | | | | | 354 |
| Investment property fair value movements | | | | | 4,086 |
| Profit on ordinary activities before taxation | | | | | 13,711 |
| Other segment information | | | | | |
| Capital expenditure - tangible fixed assets | 1,827 | 6,382 | 4,180 | 625 | 13,014 |
| Depreciation | 2,306 | 1,825 | 1,958 | 722 | 6,811 |
| Underlying divisional EBITDA | 4,368 | 8,464 | 14,709 | (6,757) | 20,784 |
| Number of pubs | - | 52 | 280 | 6 | 338 |

Geographical information

An analysis of the Company's turnover by geographical market is set out below:

| | 52 weeks ended 25 June 2016 £'000 | 52 weeks ended 27 June 2015 £'000 |
|-------------------|---|---|
| Turnover | | |
| UK | 137,424 | 134,966 |
| Rest of the World | 2,466 | 3,271 |
| | 139,890 | 138,237 |

4 Turnover

An analysis of the Company's turnover is as follows:

| | 52 weeks ended 25 June 2016 £'000 | 52 weeks ended 27 June 2015 £'000 |
|----------------------------|---|---|
| Sale of goods and services | 131,253 | 129,531 |
| Rental income | 8,637 | 8,706 |
| | 139,890 | 138,237 |

5 Operating charges

| | Before exceptional items 52 weeks ended 25 June 2016 £'000 | Exceptional items 52 weeks ended 25 June 2016 £'000 | Total 52 weeks ended 25 June 2016 £'000 | 52 weeks ended 27 June 2015 £'000 |
|---|--|--|--|---|
| Production costs and costs of goods used in retailing | 60,141 | - | 60,141 | 62,944 |
| Change in stocks of finished goods and work in progress | 421 | - | 421 | (584) |
| Staff costs: | | | | |
| Wages and salaries | 24,543 | - | 24,543 | 22,297 |
| Social security costs | 2,043 | - | 2,043 | 1,977 |
| Other pension costs | 959 | - | 959 | 903 |
| Depreciation of tangible fixed assets (note 13) | 7,115 | - | 7,115 | 6,811 |
| Impairment of tangible fixed assets (note 13) | - | 307 | 307 | 63 |
| Loss on sale of fixed assets (excluding properties) | 215 | - | 215 | 79 |
| Property repairs | 2,443 | - | 2,443 | 2,226 |
| Operating lease rentals – land, buildings, vehicles & equipment | 3,672 | - | 3,672 | 3,736 |
| Foreign exchange loss/(gain) | 29 | - | 29 | (29) |
| Impairment of stock recognised as an expense | 419 | - | 419 | 424 |
| Other operating charges | 23,655 | 188 | 23,843 | 23,695 |
| Total operating charges | 125,655 | 495 | 126,150 | 124,542 |

The analysis of auditor's remuneration is as follows:

| | 52 weeks ended 25 June 2016 £'000 | 52 weeks ended 27 June 2015 £'000 |
|---|---|---|
| Total fees payable to Deloitte LLP for the audit of the Company's annual accounts | 167 | 89 |
| Other services pursuant to legislation: | | |
| Tax services | 21 | 20 |
| Other services | 29 | 3 |
| Total non-audit fees | 50 | 23 |
| Fees payable to the Company's auditor for the audit of associated pension schemes | 8 | 8 |
| Total fees payable to Deloitte LLP | 225 | 120 |

The total fee payable for the audit of the Company included £74,000 in respect of the transition to FRS 102.

NOTES TO THE ACCOUNTS 25 June 2016

6 Net finance costs

| | 52 weeks ended 25 June 2016 £'000 | 52 weeks ended 27 June 2015 £'000 |
|---|---|---|
| Interest payable: Bank loans and overdrafts | 4,004 | 4,502 |
| Investment income: Income from fixed asset investments | (14) | (14) |
| Other finance income: Unwinding of discounts on provisions | (92) | (64) |
| Net finance costs | 3,898 | 4,424 |

7 Non-GAAP reporting measures

Certain items recognised in reported profit or loss before tax can vary significantly from year to year and therefore create volatility in reported earnings which does not reflect the underlying performance of the Company. The Directors believe that the "underlying operating profit", "underlying profit before tax", "underlying basic earnings per share", "underlying earnings before interest, tax, depreciation, and amortisation" presented provide a clear and consistent presentation of the underlying performance of ongoing business for shareholders. Underlying profit is not defined by FRS 102 and therefore may not be directly comparable with the "adjusted" profit measures of other companies. The adjusted items are:

- Profit or loss on disposal of properties
- Investment property fair value movements
- Exceptional items - these are items which are either material or infrequent in nature and do not relate to the underlying performance.

| | 52 weeks ended 25 June 2016 £'000 | 52 weeks ended 27 June 2015 £'000 |
|--|---|---|
| Underlying EBITDA | 21,678 | 20,784 |
| Depreciation | (7,115) | (6,811) |
| Free trade loan discounts | (113) | (136) |
| Loss on sale of assets (excluding property) | (215) | (79) |
| Underlying operating Profit | 14,235 | 13,758 |
| Net Finance costs | (3,898) | (4,424) |
| Underlying Profit before tax | 10,337 | 9,334 |
| Profit on disposal of properties | 4,235 | 354 |
| Investment property fair value movements | 282 | 4,086 |
| Exceptional items | (495) | (63) |
| Profit on ordinary activities before taxation | 14,359 | 13,711 |

Exceptional items of £495,000 for the 52 weeks ended 25 June 2016 comprised an impairment charge of £307,000 (see note 13), legal and professional fees of £71,000 for the Consumer Credit Authorisation application, required by the Financial Conduct Authority; and £117,000 for the professional fees related to the transition for reporting under FRS 102. The charge of £63,000 for the 52 weeks ended 27 June 2015 relates to impairment of tangible fixed assets.

8 Taxation

a Tax on profit on ordinary activities

| | 52 weeks ended 25 June 2016 £'000 | 52 weeks ended 27 June 2015 £'000 |
|--|---|---|
| Tax charged to profit and loss | | |
| Current tax | | |
| UK Corporation tax at 20.0% (2015: 20.75%) | 2,573 | 2,270 |
| Prior year under/(over) provision | 25 | (19) |
| Total current tax | 2,598 | 2,251 |
| Deferred tax | | |
| Origination and reversal of timing differences | 40 | 493 |
| Effect of reduction in the rate of corporation tax | (698) | - |
| Adjustments in respect of prior years | - | (10) |
| Total deferred tax | (658) | 483 |
| Total tax charged to profit and loss | 1,940 | 2,734 |
| Tax charged to other comprehensive income | | |
| Deferred tax | | |
| Losses arising on cash flow hedges in the period | (1,177) | (453) |
| Effect of reduction in the rate of corporation tax | (344) | - |
| Total tax charged to other comprehensive income | (1,521) | (453) |

b Reconciliation of the total tax charge

| | 52 week ended 25 June 2016 £'000 | 52 week ended 27 June 2015 £'000 |
|---|--|--|
| Profit on ordinary activities before tax | 14,359 | 13,711 |
| UK corporation tax at average statutory rate 20.0% (2015: 20.75%) | 2,872 | 2,845 |
| Expenses not deductible for tax purposes | 7 | 68 |
| Profit on sale of property less chargeable gains | (266) | (150) |
| Effect of reduction in the rate of corporation tax | (698) | - |
| Prior year under/(over) provision | 25 | (29) |
| Total tax charge to profit and loss | 1,940 | 2,734 |

c Factors that may affect future tax charges

During the period the Finance Act 2015 received Royal Asset. The main impact was the reduction of the UK Corporation tax rate from 20% to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020). To the extent that these rate changes will affect the amount of future tax cash tax payments to be made by the Company, this will reduce the size of both the Company's deferred tax liability and tax asset. The impact in the 52 weeks to 25 June 2016 was an exceptional credit to profit and loss of £698,000 and a credit to other comprehensive income of £344,000. A further reduction in the UK Corporation tax rate from 1 April 2020 to 17% has been announced but has not yet been substantively enacted.

During the 52 weeks beginning 26 June 2016, the net reduction of deferred tax liabilities expected to be credited to the profit and loss account is estimated at £500,000 due to the reversal of accelerated capital allowances and reduction in the deferred tax liability on the revaluation of freehold pubs.

There is no expiry date on timing differences.

NOTES TO THE ACCOUNTS 25 June 2016

9 Dividends

| | 52 weeks ended 25 June 2016 £'000 | 52 weeks ended 27 June 2015 £'000 |
|---|---|---|
| Declared and paid during the year | | |
| Final dividend for 2015: 21.4p (2014: 20.75p) per ordinary share | 3,168 | 3,074 |
| Interim dividend for 2016: 5.45p (2015: 5.30p) per ordinary share | 809 | 787 |
| Dividends paid | 3,977 | 3,861 |

The Directors propose a final dividend of 22.05p (2015: 21.40p) per 50p ordinary share totalling £3,269,000 (2015: £3,168,000) for the year ended 25 June 2016. The dividend is subject to approval by the shareholders at the Annual General Meeting, to be held on 14 October 2016 and has not been included as a liability in these financial statements, as it has not yet been approved or paid.

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.

10 Earnings per share

| | 52 weeks ended 25 June 2016 £'000 | 52 weeks ended 27 June 2016 £'000 |
|--|---|---|
| Profit attributable to equity shareholders | 12,419 | 10,977 |
| Items excluded from underlying results | (4,336) | (3,777) |
| Underlying earnings attributable to equity shareholders | 8,083 | 7,200 |
| | Number | Number |
| Weighted average number of shares in issue | 14,779 | 14,770 |
| Dilutive outstanding options | 113 | 113 |
| Diluted weighted average share capital | 14,892 | 14,883 |
| Basic | 84.0p | 74.3p |
| Underlying basic | 54.7p | 48.7p |
| Diluted | 83.4p | 73.8p |

The earnings per share calculation is based on earnings from continuing operations and on the weighted average ordinary share capital which excludes shares held by trusts in respect of employee incentive plans and options.

11 Directors' remuneration

Details of directors' remuneration required to be disclosed by the Companies Act 2006 are included in the table and footnotes on page 34.

12 Employees

The average monthly number of employees (including executive directors), during the year, was as follows:

| | 52 weeks ended 25 June 2016 Number | 52 weeks ended 27 June 2015 Number |
|-----------|--|--|
| Brewery | 278 | 269 |
| Retailing | 1,040 | 933 |
| | 1,318 | 1,202 |

13 Tangible fixed assets

| | 2016 £'000 | 2015 £'000 |
|-------------------------------|----------------|---------------|
| Property, plant and equipment | 273,643 | 269,176 |
| Investment properties | 6,229 | 10,071 |
| Total tangible fixed assets | 279,872 | 279,247 |

a Property, plant and equipment

| | 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 27 June 2015 | 231,893 | 942 | 6,351 | 33,750 | 56,418 | 805 | 330,159 |
| Additions | 4,621 | - | 14 | 465 | 9,056 | 1,483 | 15,639 |
| Disposals | (2,689) | - | - | (99) | (1,448) | - | (4,236) |
| Transfers | (426) | - | - | 112 | 394 | (512) | (432) |
| At 25 June 2016 | 233,399 | 942 | 6,365 | 34,228 | 64,420 | 1,776 | 341,130 |
| Accumulated depreciation | | | | | | | |
| At 27 June 2015 | 2,569 | 115 | 3,337 | 24,494 | 30,468 | - | 60,983 |
| Charge for year | 547 | 16 | 209 | 1,600 | 4,743 | - | 7,115 |
| Impairment | 268 | - | 39 | - | - | - | 307 |
| On disposals | (23) | - | - | (74) | (820) | - | (917) |
| Transfers | (1) | - | - | - | - | - | (1) |
| At 25 June 2016 | 3,360 | 131 | 3,585 | 26,020 | 34,391 | - | 67,487 |
| Net book values | | | | | | | |
| At 25 June 2016 | 230,039 | 811 | 2,780 | 8,208 | 30,029 | 1,776 | 273,643 |
| At 27 June 2015 | 229,324 | 827 | 3,014 | 9,256 | 25,950 | 805 | 269,176 |

Included in additions is £98,000 (2015: £70,000) of own labour capitalised.

Disposals includes an amount of £308,000 (2015: £583,000) in respect of fully depreciated items.

Licensed freehold properties were revalued to fair value at 28 June 2014, on transition to FRS 102, with subsequent additions at cost. The properties were revalued individually by the Company's own professionally qualified staff. A sample was verified by Porters, a firm of independent external qualified valuers. The revaluation was in accordance with the provisions of the RICS Valuation - Professional Standards January 2014 ("the Red Book"). The revalued amounts, adjusted for subsequent disposals, have been retained. Valuations of £215,400,000 are included in the valuation or cost of the freehold properties at 25 June 2016 (2015: £218,448,000).

NOTES TO THE ACCOUNTS 25 June 2016

13 Tangible fixed assets continued

If they had not been revalued, freehold properties would have been carried in the balance sheet at 25 June 2016 at:

| | 2016 £'000 | 2015 £'000 |
|--------------------------|---------------|---------------|
| Cost | 147,589 | 146,483 |
| Accumulated depreciation | (5,792) | (5,895) |
| Net book amount | 141,797 | 140,588 |

The Company has entered into certain operating leases as lessor. The gross cost of assets held for use under these leases amounted to £19,132,000 (2015: £18,896,000) and the related accumulated depreciation charges amounted to £336,000 (2015: £266,000) and the aggregate rentals receivable amounted to £912,000 (2015: £910,000).

A net impairment loss of £307,000 was recognised in the year in respect of six licensed properties to write them down to their recoverable amount (2015: £63,000 in respect of two licensed properties). The loss arose as a result of a decline in performance at these properties, principally at one property which is currently being disposed.

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 8.16% (2015: 8.14%).

Impairments and reversal of impairments of fixed assets are included in operating charges excluded from underlying results.

b Investment properties

Investment properties, which are all freehold, are revalued to fair value at each reporting date by the Company's own professionally qualified staff. The valuations were performed by a Company director who is RICS qualified. An independent valuation of the properties has not been performed.

The fair values for commercial property and land are based on the rental income earned on the properties and average yields earned on comparable properties from publicly available information and for residential properties on comparable market evidence.

As a consequence of the vote to exit the EU, it has not been possible to gauge the effect, if any, of this decision on property valuations at 25 June 2016 by reference to transactions in the market place.

| | 2016 £'000 | 2015 £'000 |
|-----------------------|---------------|---------------|
| Valuation: | | |
| At start of year | 10,071 | 6,468 |
| Additions | - | 25 |
| Disposals | (4,555) | (508) |
| Transfers | 431 | - |
| Fair value movement | 282 | 4,086 |
| At end of year | 6,229 | 10,071 |

The investment property rental income during the year was £177,000 (2015: £92,000).

If the investment properties had not been revalued, they would have been carried in the balance sheet at 25 June 2016 at a cost of £2,422,000 (2015: £3,185,000).

14 Investments and loans

| | 2016 £'000 | 2015 £'000 |
|----------------------------|---------------|---------------|
| Investment in subsidiaries | - | 101 |
| Loans to customers | 333 | 612 |
| Carrying value | 333 | 713 |

a Investment in subsidiaries

At the year end, the Company had investments in the following dormant subsidiary undertakings:

| Subsidiary undertakings | Aggregate capital and reserves (£) | Holding | Proportion held |
|-----------------------------------|---------------------------------------|-----------------------|--------------------|
| Invicta Inns Limited | 2 | £1 Ordinary shares | 50% |
| Shepherd Neame (Trustees) Limited | 2 | £1 Ordinary shares | 100% |
| SN Finance plc | 12,502 | £1 Ordinary shares | 50% |
| | | £0.25 Ordinary shares | 100% |
| Thomas Grant & Sons Limited | 9,000 | £1 Preference shares | 100% |
| | | £1 Ordinary shares | 99.9% |
| Todd Vintners Limited | (52,800) | £1 Ordinary shares | 50% |

The above companies are incorporated in England and Wales and the registered office for each of them is 17 Court Street, Faversham, Kent ME13 7AX. They have been excluded from consolidation on the grounds of immateriality.

Investment in principal subsidiaries

| | 2016 £'000 | 2015 £'000 |
|--------------------------------------|---------------|---------------|
| Cost | | |
| At beginning of year | 4,109 | 4,109 |
| Disposals | (4,109) | - |
| | - | 4,109 |
| Provisions for impairment | | |
| At beginning of year | (4,008) | (4,008) |
| Disposals | 4,008 | - |
| | - | (4,008) |
| Carrying value at end of year | - | 101 |

During the year, a number of subsidiaries were liquidated as part of the transition to FRS 102 resulting in the elimination of the investments as noted above.

b Loans to customers

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Carrying value at start of year | 612 | 818 |
| Additions | 21 | 52 |
| Redemptions | (245) | (173) |
| Loan discounts awarded | (113) | (136) |
| Unwinding of discounts on loans receivable | 58 | 51 |
| Carrying value at end of year | 333 | 612 |

NOTES TO THE ACCOUNTS 25 June 2016

14 Investments and loans continued

c The maturity profile of the loans is:

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Recoverable within one year | 18 | 26 |
| Recoverable between one and five years | 211 | 391 |
| Recoverable after five years | 104 | 195 |
| | 333 | 612 |

Loans receivable constitute financing transactions and are measured at the present value of the future cash flows, discounted at a market rate of interest.

Of these loans £142,000 is expected to be repaid in cash and £191,000 is expected to be repaid by offset against discounts to be earned but not received by customers (2015: £275,000 and £337,000 respectively). The level of discounts awarded and the interest and fees charged depends on the trading performance of each customer against individual targets.

15 Stock

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Raw materials and consumables | 2,021 | 1,945 |
| Work in progress | 293 | 276 |
| Finished goods including goods for resale | 4,266 | 4,780 |
| | 6,580 | 7,001 |

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

16 Debtors

| | 2016 £'000 | 2015 £'000 |
|--------------------------------------|---------------|---------------|
| Amounts falling due within one year: | | |
| Trade debtors | 14,464 | 13,265 |
| Other debtors | 397 | 207 |
| Prepayments | 3,253 | 2,631 |
| | 18,114 | 16,103 |

Amounts due after more than one year comprised £285,000 (2015: £525,000) included in trade debtors.

The trade receivables balance is shown net of the provision for bad debts. A charge for specific trade debts which are not considered recoverable of £289,000 (2015: £538,000) was recognised in profit and loss during the year.

17 Creditors: Amounts falling due within one year

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Trade creditors | 7,994 | 7,037 |
| Amounts due to subsidiary undertakings | - | 101 |
| Corporation tax | 1,472 | 1,188 |
| Other tax and social security | 6,609 | 6,257 |
| Accruals and deferred income | 7,767 | 7,403 |
| Trade deposits | 1,831 | 1,770 |
| Other creditors | 1,030 | 400 |
| | 26,703 | 24,156 |

18 Bank Loans: Amounts falling due after more than one year

| | 2016 £'000 | 2015 £'000 |
|------------------------|---------------|---------------|
| Bank loans | 60,000 | 74,000 |
| Less: loan issue costs | (561) | (408) |
| | 59,439 | 73,592 |

The bank loan at the year end comprises a 20-year term loan of £60m arranged in April 2007. This loan is hedged by interest rate swap contracts which are referred to in note 20. The loan was provided by the Royal Bank of Scotland plc and Lloyds Banking Group plc. It 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.

During the year, 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. At both this and the prior year end there were no drawings on the revolving credit facility.

The bank loans and overdraft were repayable as follows:

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Amounts payable on demand or within one year | 727 | 2,000 |
| Amounts payable between one and five years | - | 14,000 |
| Amounts payable after five years | 60,000 | 60,000 |
| | 60,727 | 76,000 |

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

19 Financial Instruments

The interest rate profile of the Company's borrowings was as follows:

| | 2016 Notional principal £'000 | 2016 Weighted average interest rate % | 2016 Weighted average period for which rate fixed (years) | 2015 Notional principal £'000 | 2015 Weighted average interest rate (%) | 2015 Weighted average period for which rate fixed (years) |
|-----------|--|---|---|--|---|---|
| Bank loan | 60,000 | 5.78 | 10.75 | 60,000 | 5.78 | 11.75 |

Medium-term borrowings outstanding at 25 June 2016 amounted to £nil (2015: £16,000,000 drawn on a five-year term loan bearing interest at between 3% and 5.25% above LIBOR). Three-month LIBOR was 0.56% at 25 June 2016 (27 June 2015: 0.58%). The overdraft facility bears interest at 2.5% (2015: 2.5%) above National Westminster Bank base rate which was 0.5% at 25 June 2016 (2015: 0.5%).

Categories of financial assets and liabilities

The carrying values of the primary financial instruments are as follows:

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Financial assets | | |
| Debt instruments measured at amortised cost | | |
| • Loans receivable from customers | 734 | 1,200 |
| Measured at undiscounted amount receivable | | |
| • Cash | 90 | 6,793 |
| Financial liabilities | | |
| Measured at fair value and designated in an effective hedge relationship | | |
| • Derivative financial liabilities | (23,670) | (17,783) |
| Measured at amortised cost | | |
| • Variable rate bank loan | (59,439) | (75,579) |
| Measured at undiscounted amount payable | | |
| • Bank overdraft | (727) | - |

NOTES TO THE ACCOUNTS 25 June 2016

19 Financial Instruments continued

The Company's income, expense, gains and losses in respect of financial instruments are summarised below:

| | 2016 £'000 | 2015 £'000 |
|---|---------------|---------------|
| Interest income and expense | | |
| Total interest income for financial assets at amortised cost | 91 | 61 |
| Total interest expense for financial liabilities at amortised cost | (3,809) | (4,302) |
| Fair value gains and losses | | |
| On derivative financial liabilities designated in an effective hedging relationship | (5,887) | (2,263) |

20 Derivative financial Instruments

As stated in the interest rate risk section within note 21, the intention of the interest rate swap contracts is to fix interest on the long-term loan to 2026 and there is currently no intention to terminate this loan and the associated swap contracts and realise this potential liability. The interest rate swaps are classified as cash flow hedges because the derivative financial instruments hedge the variable interest rate risk of the cash flows associated with the recognised debt instrument measured at amortised cost (the £60m long-term loan). Under the terms of the swaps, the Company receives floating rate interest and pays fixed rate interest.

The fair values for interest rate swaps are a volatile value often referred to as "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.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

Cash flow hedges - interest rate swaps

| | Average contract fixed interest rate | | Notional principal value | | Fair value | |
|----------|--------------------------------------|-----------|--------------------------|---------------|---------------|---------------|
| | 2016 % | 2015 % | 2016 £'000 | 2015 £'000 | 2016 £'000 | 2015 £'000 |
| 5 years+ | 5.1 | 5.1 | 60,000 | 60,000 | 23,670 | 17,783 |

The interest rate swaps settle on a three monthly basis. The floating rate on the interest rate swaps is LIBOR plus variable rates. The Company settles the difference between the fixed and floating interest rate on a net basis.

A loss of £5,887,000 (2015: £2,263,000) was recognised in other comprehensive income in respect of the swaps in cash flow hedges. Amounts accumulated will be reclassified to profit or loss in the period that the hedging relationship ends.

21 Financial Risk Management

a Financial risks

The main risks associated with the Company's financial assets and liabilities are interest rate risk, liquidity risk, counterparty 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 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 in notes 19 and 20. 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 £60m 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 £20m, which is due to mature in September 2020 and a committed overdraft facility of £5m, which matures in June 2017. The size of the facility is regularly reviewed and the overdraft facility is renewed annually. At the year end none (2015: nil) of the revolving credit loan facility and £0.7m (2015: £nil) of the overdraft facility was being utilised.

Counterparty 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.

b Capital management

The capital structure of the Company consists of bank loans (see note 18), cash and shareholders' equity, comprising share capital, reserves and retained earnings (see notes 23 and 24). 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.

NOTES TO THE ACCOUNTS 25 June 2016

22 Provision for liabilities

| | 2016 £'000 | 2015 £'000 |
|--------------------------|-----------------|-----------------|
| Onerous lease provisions | (140) | (92) |
| Deferred tax liabilities | (13,011) | (14,746) |
| | (13,151) | (14,838) |

a Onerous lease provisions

| | 2016 £'000 | 2015 £'000 |
|----------------------------|---------------|---------------|
| As at start of year | (92) | (42) |
| Charged to profit and loss | (48) | (50) |
| As at end of year | (140) | (92) |

Onerous lease provisions will unwind over the life of the leases being a period of up to 10 years.

b Deferred tax

| | Asset 2016 £'000 | Liability 2016 £'000 | Net 2016 £'000 | Asset 2015 £'000 | Liability 2015 £'000 | Net 2015 £'000 |
|--|------------------------|----------------------------|----------------------|------------------------|----------------------------|----------------------|
| As at start of year | 3,965 | (14,746) | (10,781) | 3,480 | (14,231) | (10,751) |
| (Charged)/credited to profit and loss | (381) | 1,039 | 658 | 32 | (515) | (483) |
| Credited to other comprehensive income | 825 | 696 | 1,521 | 453 | - | 453 |
| As at end of year | 4,409 | (13,011) | (8,602) | 3,965 | (14,746) | (10,781) |

The deferred tax included in the balance sheet is as follows:

| | Asset 2016 £'000 | Liability 2016 £'000 | Net 2016 £'000 | Asset 2015 £'000 | Liability 2015 £'000 | Net 2015 £'000 |
|--------------------------------------|------------------------|----------------------------|----------------------|------------------------|----------------------------|----------------------|
| Derivative financial instruments | 4,383 | - | 4,383 | 3,557 | - | 3,557 |
| Accelerated capital allowances | - | (3,015) | (3,015) | - | (3,461) | (3,461) |
| Revaluation of freehold pubs | - | (6,258) | (6,258) | - | (7,150) | (7,150) |
| Rolled over capital gains | - | (3,492) | (3,492) | - | (3,222) | (3,222) |
| Others | 26 | (246) | (220) | 408 | (913) | (505) |
| Total deferred tax asset/(liability) | 4,409 | (13,011) | (8,602) | 3,965 | (14,746) | (10,781) |

23 Called-up share capital

| | 2016 £'000 | 2015 £'000 |
|--|---------------|---------------|
| Allotted, called-up and fully paid 14,857,500 ordinary shares of 50p each | 7,429 | 7,429 |

The Company has one class of ordinary shares which carry no right to fixed income and all shares carry one vote per share. On a winding up of the Company, any surplus assets will be applied to the ordinary shares in proportion to the amounts paid up.

24 Reserves

Share premium reserve

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

Revaluation reserve

The revaluation reserve represents the cumulative effect of revaluations of freehold land and buildings.

Own shares held reserve

The own shares held reserve arises in connection with the employee share schemes. The Company held 88,069 50p ordinary shares at 25 June 2016 with a market value of £1,046,000 (2015: 90,117 and £1,009,000). Of the own shares held 56,558 are allocated to employees under the Share Incentive Plan but have not yet vested.

A further 79,931 shares, held by the Trustees of the Share Incentive Plan, have vested unconditionally and as such are no longer treated as own shares held (2015: 57,191 and 74,627 respectively). Of these shares 47,290 can be distributed to the employees free of tax (2015: 43,743).

Hedging reserve

The hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in hedging variable interest rate risk of recognised financial instruments. Amounts accumulated in this reserve are reclassified to profit or loss when the hedging relationship ends.

Profit and loss reserve

The profit and loss reserve represents all current and prior period retained profits and losses, including unrealised profit on the re-measurement of investment properties.

25 Notes to the cash flow statement

a Reconciliation of operating profit to cash generated by operations

| | 52 weeks ended 25 June 2016 | | | 52 weeks ended 27 June 2015 | | |
|--|-----------------------------|---|----------------|-----------------------------|---|----------------|
| | Underlying results £'000 | Excluded from underlying results £'000 | Total £'000 | Underlying results £'000 | Excluded from underlying results £'000 | Total £'000 |
| Operating profit | 14,235 | (495) | 13,740 | 13,758 | (63) | 13,695 |
| Adjustment for: | | | | | | |
| Depreciation and amortisation | 7,115 | - | 7,115 | 6,811 | - | 6,811 |
| Impairment provision | - | 307 | 307 | - | 63 | 63 |
| Charge for share-based payments credited to reserves | 528 | - | 528 | 425 | - | 425 |
| Decrease/(increase) in stocks | 421 | - | 421 | (584) | - | (584) |
| (Increase)/decrease in debtors and prepayments | (1,978) | - | (1,978) | 2,083 | - | 2,083 |
| Increase/(decrease) in creditors and accruals | 2,131 | - | 2,131 | 1,548 | (597) | 951 |
| Free trade loan discounts | 113 | - | 113 | 136 | - | 136 |
| Loss on sale of assets (excluding property) | 215 | - | 215 | 79 | - | 79 |
| Interest received | 14 | - | 14 | 13 | - | 13 |
| Income tax paid | (2,313) | - | (2,313) | (2,297) | - | (2,297) |
| Net cash inflow/(outflow) from operating activities | 20,481 | (188) | 20,293 | 21,972 | (597) | 21,375 |

b Analysis of net debt

| | 2015 £'000 | Cash flow £'000 | Repayment of long-term loan £'000 | Issue costs of new loan £'000 | Amortisation of issue costs £'000 | 2016 £'000 |
|-----------------------------------|-----------------|--------------------|--------------------------------------|----------------------------------|--------------------------------------|-----------------|
| Cash | 6,793 | (6,703) | - | - | - | 90 |
| Bank overdraft | - | (727) | - | - | - | (727) |
| Cash and cash equivalents | 6,793 | (7,430) | - | - | - | (637) |
| Debt due within one year | (1,987) | - | 2,000 | - | (13) | - |
| | 4,806 | (7,430) | 2,000 | - | (13) | (637) |
| Debt due after more than one year | (73,592) | - | 14,000 | 313 | (160) | (59,439) |
| Total | (68,786) | (7,430) | 16,000 | 313 | (173) | (60,076) |

NOTES TO THE ACCOUNTS 25 June 2016

26 Capital commitments

Contracts for capital expenditure not provided for in the accounts amounted to £212,000 (2015: £118,000).

27 Operating lease commitments

a Operating lease commitments where the Company is the lessee

Total future minimum lease rentals payable under non-cancellable operating leases are due as follows:

| | Land and buildings 2016 £'000 | Plant and machinery 2016 £'000 | Land and buildings 2015 £'000 | Plant and machinery 2015 £'000 |
|----------------------------|--|---|--|---|
| Within one year | 2,671 | 372 | 2,594 | 276 |
| Between one and five years | 10,321 | 596 | 9,686 | 329 |
| After five years | 38,446 | - | 39,091 | - |
| | 51,438 | 968 | 51,371 | 605 |

b Operating lease commitments where the Company is the lessor

The Company earns rental income from two sources. Licensed property included within property, plant and equipment is rented under agreements where lessees must also purchase goods from the Company. Additionally there are a smaller number of agreements in respect of investment properties where there is no requirement for the lessee to purchase goods. At the balance sheet date, future minimum rentals receivable by the Company are as follows:

| | Investment properties 2016 £'000 | Investment properties 2015 £'000 | Other property, plant and equipment 2016 £'000 | Other property, plant and equipment 2015 £'000 |
|----------------------------|---|---|---|---|
| Within one year | 103 | 92 | 764 | 866 |
| Between one and five years | 331 | 382 | 1,032 | 1,708 |
| After five years | - | 52 | 8 | 96 |
| | 434 | 526 | 1,804 | 2,670 |

28 Contingent liabilities

The Company has guaranteed a mortgage totalling £43,000 (2015: £45,000) 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.

The Company is in dispute regarding the terms on which a long-term agreement with our local water company 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 which terminated in April 2015. 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.

29 Directors' interests

The interests of the Directors in the Company's shares and options over the Company's ordinary shares held by Directors at 25 June 2016 and 27 June 2015 are included in the tables and footnotes on pages 35 and 36.

30 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 £3,600, was made to all eligible employees in January 2003, 2004, 2005, 2006 and November 2006, 2007, 2008, 2010, 2011, 2012, 2013, 2014 and 2015. 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 2016 or 2015.

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

| | 2016 Number | 2015 Number |
|-------------------------------------|----------------|----------------|
| Outstanding shares at start of year | 129,026 | 132,242 |
| Granted during the year | 21,420 | 20,137 |
| Forfeited during the year | (2,498) | (3,751) |
| Distributed during the year | (13,677) | (19,602) |
| Outstanding shares at end of year | 134,271 | 129,026 |
| Distributable at end of year | 79,231 | 74,627 |

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 £11.740 (2015: £11.207).

The weighted average fair value of the shares granted in November 2015 was £11.950 (November 2014: £12.200). 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 25 June 2016 was £200,000 (2015: £185,000).

b The Shepherd Neame 2005 Restricted Share Scheme

The Company has operated 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 ended in 2015. There were no options outstanding at 25 June 2016 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 49,000 ordinary shares at an average cost of £11.922 per share (2015: 41,891 shares at an average cost of £11.093). £297,000 of the purchase consideration was settled after the year end. The contractual life of each option granted is ten years.

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

| | 2016 Number | 2016 Weighted average exercise price | 2015 Number | 2015 Weighted average exercise price |
|------------------------------------|----------------|--|----------------|--|
| Outstanding at start of year | 120,917 | £0.83 | 123,734 | £1.00 |
| Granted during the year | - | - | 41,309 | £0.50 |
| Exercised | (32,067) | £1.00 | (33,071) | £1.00 |
| Forfeited during the year | (14,161) | £1.00 | (11,055) | £1.00 |
| Outstanding options at end of year | 74,689 | £0.72 | 120,917 | £0.83 |
| Exercisable at end of year | 7,695 | £1.00 | 6,244 | £1.00 |

The weighted average fair value of the options granted during the year to 27 June 2015 was £11.892. 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 25 June 2016 had a remaining contractual life of 7.73 years.

NOTES TO THE ACCOUNTS 25 June 2016

30 Share-based payment continued

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, which is considered by management to be the most appropriate method of valuation. 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 following table lists the inputs to the model used for the year ended 27 June 2015.

| | 2015 |
|---------------------------------|---------|
| Expected share price volatility | 49% |
| Risk-free interest rate | 5.090% |
| Expected life of option (years) | 6.5 |
| Weighted average share price | £12.250 |

A charge of £286,000 was recognised for share-based payments made under the Shepherd Neame 2005 Restricted Share Scheme in respect of employee services during the year to 25 June 2016 (2015: £240,000).

c The Shepherd Neame 2015 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 2005 Restricted Share Scheme following its cessation in 2015. The 2015 scheme provides for the grant of primary and secondary share options under similar terms and restricted to the same maximum limits as those that applied to the 2005 scheme. It was updated to reflect changes in market practice since the 2005 scheme was adopted.

Under the 2015 restricted share scheme, primary options were awarded which are exercisable three years after they are 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 did not purchase any shares for this scheme (2015: nil). The contractual life of each option granted is ten years.

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

| | 2016 Number | 2016 Weighted average exercise price | 2015 Number | 2015 Weighted average exercise price |
|------------------------------------|----------------|--|----------------|--|
| Outstanding at start of year | - | - | - | - |
| Granted during the year | 47,512 | £0.50 | - | - |
| Outstanding options at end of year | 47,512 | £0.50 | - | - |

None of these options were exercisable at 25 June 2016.

The weighted average fair value of the options granted during the year was £11.689. The exercise price for all options outstanding at the end of the year was £0.50 and the options outstanding at 25 June 2016 had a remaining contractual life of 9.31 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, which is considered by management to be the most appropriate method of valuation. 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 following table lists the inputs to the model used for the year ended 25 June 2016:

| | 2016 |
|---------------------------------|--------|
| Expected share price volatility | 47% |
| Risk-free interest rate | 4.884% |
| Expected life of option (years) | 4.0 |
| Weighted average share price | £12.10 |

A charge of £42,000 was recognised for share-based payments made under the Shepherd Neame 2015 Restricted Share Scheme in respect of employee service during the year to 25 June 2016 (2015: nil).

31 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 £959,000 (2015: £903,000). Contributions of £118,000 (2015: £119,000) were payable to the scheme at the year end. Three of the executive Directors (2015: three) are contributing members of one of the Company's defined contribution schemes. 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.

32 Related party transactions

The key management of the Company are considered to be the executive Directors, the total remuneration for whom was £1,894,000 for the year (2015: £1,815,000) being remuneration of £1,609,000 (2015: 1,585,000) and share based payment expenses of £285,000 (2015: £230,000) as disclosed in the Remuneration Report on pages 32 to 36. The Directors are granted discounts on purchases from the Company, in line with the discount given to all other staff.

During the year, advances totalling £43,000 were paid to two Directors, in respect of tax and NI payable on the exercise and sale of share options. The sums were repaid within one month with no interest payable. The amount outstanding at the year end was nil.

During the year, the Company purchased goods to the value of £25,000 (2015: £11,000) including VAT and made sales of £139,000 (2015: £123,000) 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 (2015: £25,000), including VAT, by St Austell Brewery Company Limited. Shepherd Neame Limited owed a balance of £2,000 to St Austell at the year end (2015: nil).

Mr J B Neame became Chairman of Visit Kent in December 2015. Fees and sponsorship activity paid to Visit Kent amounted to £22,000 including VAT.

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 Hotel, Deal at a cost of £11,000 (2015: £54,000) including VAT. There was no balance owed to this company at the year end (2015: nil).

Mr A J A Barnes, a close member of Mr G H A Barnes' family, is a partner of Clarke Barnes Solicitors LLP, which provided legal services in respect of Company properties during the year to 25 June 2016 at a cost of £41,000 including VAT and disbursements to third parties (2015: £62,000) At the year end there was no balance owed to the partnership by Shepherd Neame Limited (2015: nil).

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 £203,000 (2015: £252,000) 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 (2015: £16,000).

All the transactions referred to above were made in the ordinary course of business and outstanding balances were not overdue.

There is no overall controlling party of Shepherd Neame Limited.

33 Post Balance Sheet Event

Since the year end, the Company has acquired eight freehold pubs in Kent, Sussex and Surrey from Enterprise Inns plc that are operated under leases.

The Company has also acquired UES Limited since the year end, a successful business which operated five of our existing pubs in Faversham and Canterbury under tenancy. These pubs have been transferred to the managed estate.

The combined investment in these two acquisitions was £13.4m.

NOTES TO THE ACCOUNTS 25 June 2016

34 Explanation of transition to FRS 102

This is the first year that the Company has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 27 June 2015 and the date of transition to FRS 102 was therefore 28 June 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard. The tables below show the impact of these changes on opening equity and profit for the comparative period:

Reconciliation of profit for the year ended 27 June 2015

| | 2015 £'000 Before tax | 2015 £'000 Tax | 2015 £'000 After tax |
|--|-----------------------------|----------------------|----------------------------|
| Previous UK GAAP | | | |
| Profit on ordinary activities | 9,428 | (2,171) | 7,257 |
| Adjustments to profit on ordinary activities on transition to FRS 102: | | | |
| Depreciation on revalued licensed properties | (80) | 238 | 158 |
| Difference in impairment and difference in profit on sale of revalued properties | 465 | - | 465 |
| Recognition of deferred tax on rolled over gains | - | (42) | (42) |
| Revaluation of investment property | 4,086 | (796) | 3,290 |
| Operating leases | (224) | 45 | (179) |
| Customer loans | 61 | (12) | 49 |
| Bank loans | 3 | (1) | 2 |
| Short-term compensated absences | (28) | 5 | (23) |
| | 4,283 | (563) | 3,720 |
| FRS 102 | | | |
| Profit on ordinary activities | 13,711 | (2,734) | 10,977 |

Reconciliation of equity as at 27 June 2015 and 28 June 2014

| | 27 June 2015 £'000 | 28 June 2014 £'000 |
|---|-----------------------|-----------------------|
| Previous UK GAAP | | |
| Equity shareholders' funds | 132,150 | 128,751 |
| Adjustments to equity on transition to FRS 102: | | |
| Revaluation of licensed property | 68,744 | 68,391 |
| Revaluation of investment property | 6,035 | 1,916 |
| Operating leases | (1,625) | (1,401) |
| Customer loans | (164) | (225) |
| Bank loans | 24 | 21 |
| Short-term compensated absences | (237) | (209) |
| Interest rate swaps | (17,783) | (15,520) |
| Deferred tax | (7,318) | (7,207) |
| | 47,676 | 45,766 |
| FRS 102 | | |
| Equity shareholders' funds | 179,826 | 174,517 |

The changes in accounting policies and impact on the financial statements can be summarised as follows:

a Licensed properties

Under previous UK GAAP, freehold licensed properties were revalued at an open market value on an existing use basis as at 28 June 1997, and adjusted for subsequent disposals in accordance with FRS 15. Under FRS 102, the one-off option to revalue freehold licensed properties at the date of transition was taken, and these were revalued at an open market value as at 28 June 2014. Deferred tax is provided on all revaluations under FRS 102 whereas previously provision was only made when a binding agreement existed at the balance sheet date to dispose of the assets concerned. Revaluation gains in excess of original cost are taken to Other Comprehensive Income and recognised in the Revaluation reserve.

The Company's FRS 102 opening balance sheet at 28 June 2014 shows £4,552,000 reclassified from property, plant and equipment to investment property and a revaluation increase of £68,391,000. The pre-tax impact for the year ended 27 June 2015 due to the difference in depreciation on these properties is an increase in operating costs of £80,000, and the difference in profit on disposal of properties is an increase in property profits of £153,000. The pre-tax impact for the year ended 27 June 2015 due to the difference in impairment charged following revaluation of the properties, is a decrease in operating costs of £312,000.

b Investment properties

Under previous UK GAAP, investment property was classified as property held for its investment potential. As the value for the Company was not material relative to total property held, the unlicensed property was not classified separately as investment property. All property was valued at cost less depreciation. Under FRS 102, property (being land or buildings) held in order to earn rentals or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business, is classified as investment property. As a result, certain unlicensed property held by the Company has been reclassified as investment property and must accordingly be valued at fair value and revalued at each reporting date, with the changes in fair value recognised in the profit and loss account.

The Company's FRS 102 opening balance sheet at 28 June 2014 shows £4,552,000 reclassified from property, plant and equipment to investment property, and a fair value increase of £1,916,000. At 27 June 2015 the fair value of the investment property was £10,071,000 and the pre-tax impact for the year ended 27 June 2015 due to the difference in fair value, is an increase in profit of £4,086,000. This is recognised in the profit and loss account but excluded from the Company's definition of underlying operating profit.

c Operating leases

Under previous UK GAAP, rentals receivable and payable under operating leases were included in turnover on an accruals basis. Under FRS 102, rentals receivable or payable are charged to the profit and loss account on a straight-line basis over the period of the lease.

As a result the Company's FRS 102 opening balance sheet at 28 June 2014 includes accrued income of £45,000 for those properties where the Company is the lessor and an accrual of £1,447,000 for increased lease expenses for those properties where the Company is the lessee. The pre-tax impact for the year ended 27 June 2015 is an increase in operating costs of £224,000.

d Financial Instruments

i) Discounting of financial assets

Under previous UK GAAP, basic debt instruments such as loans made to customers were accounted for at the transaction price. Under FRS 102, these arrangements constitute a financing transaction and as such are measured at amortised cost using the effective interest rate method*.

The Company's FRS 102 opening balance sheet at 28 June 2014 shows a provision of £225,000 to reflect the discounting of the loans to free trade customers (£154,000) and loans to tenanted customers (£71,000). The pre-tax impact for the year ended 27 June 2015 is a decrease in finance costs of £61,000 due to a net unwinding of the discounted provision.

ii) Discounting of financial liabilities

Under previous UK GAAP, amortisation of bank loan issue costs was spread evenly over the period to repayment. Under FRS 102, the amortisation is calculated using the effective interest rate method.

The Company's FRS 102 opening balance sheet at 28 June 2014 shows a net asset of £21,000 to reflect the difference in amortisation of the bank loan costs. The pre-tax impact for the year ended 27 June 2015 is a decrease in finance costs of £3,000.

* The effective interest method is a method of calculating the actual interest rate in a period based on the amount of a financial instrument's book value at the start of the accounting period. The effective interest rate discounts the expected future cash inflows and outflows over the life of the financial instrument. The interest expense/income in a period equals the carrying amount of the financial instrument at the beginning of the period multiplied by the effective interest rate for the period.

34 Explanation of transition to FRS 102 continued

e Short-term compensated absences

Under previous UK GAAP, the Company did not make provision for accrued holiday pay earned but not taken before the year end. FRS 102 requires the cost of short-term compensated absences to be recognised when employees render the service that increases their entitlement.

The Company's opening balance sheet at 28 June 2014 shows an accrual of £209,000 to reflect this. The accrual at 27 June 2015 had increased to £237,000 and the pre-tax impact for the year ended 27 June 2015 is an increase in operating costs of £28,000.

f Interest rate swaps

Under previous UK GAAP, there was no requirement to recognise derivative financial instruments on the balance sheet. Instead the effects of the derivative financial instruments were recognised in profit or loss on settlement. The fair value was disclosed in the notes to the financial accounts, and calculated with reference to the expected future cash flows at prevailing interest rates. Under FRS 102, derivative financial instruments are classified as other financial instruments and are recognised as a financial asset or liability, at fair value, when an entity becomes party to the contractual provisions of the instrument. The fair values for interest rate swaps are a volatile value often referred to as "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.

The Company's FRS 102 opening balance sheet at 28 June 2014 shows a financial liability of £15,520,000, representing interest rate swaps which are fully provided at fair value. At 27 June 2015, the fair value of the interest rate swaps was £17,783,000 and the resulting difference in liability of £2,263,000 has been recognised as other comprehensive income as the hedge is fully effective.

g Deferred and current tax

FRS 102 accounting adjustments have been tax affected where appropriate.

Under FRS 102, deferred tax is accounted for on the basis of taxable timing differences that have originated but not reversed at the balance sheet date. FRS 102 requires a deferred tax liability to be recognised on the balance sheet on the revaluation of tangible fixed assets and on taxable gains that have been rolled over into new assets. Under previous UK GAAP this potential liability was disclosed in the notes to the accounts and only recognised on the balance sheet if there was a binding obligation to sell such assets at the balance sheet date. The FRS 102 balance sheet includes an additional net deferred tax liability of £7,207,000 arising from the transitional differences. At 27 June 2015, the net liability has increased to £7,318,000.

FINANCIAL CALENDAR AND COMPANY ADVISORS

Financial Calendar

2016

| | |
|------------|--|
| 6 October | Ex-dividend date |
| 7 October | Record date* |
| 14 October | Annual General Meeting and payment of final dividend |

2017

| | |
|-----------|----------------------------------|
| 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 14 October 2016 at 12.00 noon for the following purposes:

To consider and, if thought fit, to pass the following resolutions, of which Resolutions 1 to 10 will be proposed as ordinary resolutions and Resolution 11 will be proposed as a special resolution:

Resolution 1 – To receive the Annual Report and Accounts for the 52 weeks ended 25 June 2016, together with the reports of the Directors and Auditor thereon.

Resolution 2 – To declare a final dividend of 22.05p per ordinary share for the 52 weeks ended 25 June 2016, payable on 14 October 2016 to holders of ordinary shares registered at the close of business on 7 October 2016.

Resolution 3 – To re-elect Mr J B Neame as a Director.

Resolution 4 – To re-elect Mr G H A Barnes as a Director.

Resolution 5 – To re-elect Mr W J Brett as a Director.

Resolution 6 – To re-elect Mr M H Templeman as a Director.

Resolution 7 – To elect Mrs H S Riva as a Director.

Resolution 8 – To elect Mr R J Oldfield as a Director.

Resolution 9 – 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 10 – 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 14 January 2018 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 11 – That, pursuant to section 21(1) of the Companies Act 2006, the Articles of Association produced to the Annual General Meeting, and for the purpose of identification signed by the Chairman, be approved and adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association of the Company.

Notes to the Resolutions

Resolutions 3 to 8 – 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 J B Neame, Mr G H A Barnes, Mr W J Brett and Mr M H Templeman will retire and are each offering themselves for re-election. The articles of association also require that any Director appointed by the Board shall be subject to the election of shareholders at the next Annual General Meeting of the Company. Accordingly, Resolutions 7 and 8 propose the election of Mrs H S Riva and Mr R J Oldfield who have been appointed to the Board since the last Annual General Meeting of the Company. Brief biographies of the Directors are set out on pages 28 to 29 of the Annual Report and Accounts 2016.

Resolution 10 – Authority to make market purchases of ordinary shares

Resolution 10 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 19 September 2016. 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 11 – Adoption of New Articles of Association

The provisions regulating the relationship between the Company and its shareholders are set out in the Company’s Articles of Association (the “**Current Articles**”). The Directors have undertaken a review of the Current Articles and, following this review, the Directors propose that the Company adopt new articles of association (the “**New Articles**”). A copy of the New Articles will be available for inspection on the Company’s website www.shepherdneame.co.uk/investor-relations/general-meetings and at its registered office until the conclusion of the Annual General Meeting.

A brief summary of the changes made in the New Articles is set out below.

Definition of Family Members

It is proposed to amend the definition of Family Members by removing the reference to “or any of their descendants” within the definition and thereby narrowing the scope of persons who may be treated as Family Members for the purposes of the Articles.

Article 88 (Directors)

It is proposed to amend Article 88 so that it is clear that both legal and beneficial holdings of Family Members are to be included for the purposes of Article 88, as was always intended.

Articles 138 and 139 (Dividends)

In March 2014, the Institute of Chartered Secretaries and Administrators (“**ICSA**”) Registrars’ Group published guidance on the practical issues relating to the provisions on dividend distributions in companies’ articles of association. ICSA noted that it is clear that new payment methods will be adopted in the short to medium term and it is important that the market is prepared for such methods. ICSA, therefore, recommended that companies amend their articles of association to ensure that they have the flexibility to adopt new developments if, and when, it is considered desirable to do so. Consequently, the New Articles include the wording proposed by ICSA in relation to the payment of dividends to provide the Company with this flexibility.

By Order of the Board

R N Duncan
Company Secretary
17 Court Street
Faversham
Kent
20 September 2016

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 notorially 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 12 October 2016;
- (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 12 October 2016; 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 12 October 2016 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. A corporate shareholder may authorise a person to act as its representative(s) at the AGM. In accordance with the provisions of the 2006 Act, each such representative may exercise (on behalf of the corporate) the same powers as the corporation could exercise if it were an individual shareholder of the Company, provided that they do not do so in relation to the same shares. It is no longer necessary to nominate a designated corporate representative.

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

9. The proposed New Articles are available for inspection on the Company's website www.shepherdneame.co.uk/investor-relations/general-meetings and at the registered office of the Company, 17 Court Street, Faversham, Kent ME13 7AX, during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded), from the date of this Notice until the conclusion of the Annual General Meeting and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the Meeting.

FIVE YEAR FINANCIAL SUMMARY

| | Company 2016 FRS 102 £'000 | Company 2015 FRS 102 £'000 | Company 2014 UK GAAP £'000 | Company 2013 UK GAAP £'000 | Group 2012 UK GAAP £'000 |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-----------------------------------|
| Profit and loss | | | | | |
| Turnover | 139,890 | 138,237 | 138,679 | 134,906 | 133,025 |
| Underlying operating profit | 14,235 | 13,758 | - | - | - |
| Operating profit before exceptional items | - | - | 13,401 | 12,708 | 12,704 |
| Operating items excluded from underlying results | (495) | (63) | - | - | - |
| Net finance costs | (3,898) | (4,424) | (4,622) | (4,675) | (4,292) |
| Exceptional charges | - | - | (1,279) | (1,243) | - |
| Profit on disposal of property | 4,235 | 354 | 224 | 317 | 649 |
| Investment property fair value movements | 282 | 4,086 | - | - | - |
| Profit on ordinary activities before taxation | 14,359 | 13,711 | 7,724 | 7,107 | 9,061 |
| Taxation | (1,940) | (2,734) | (1,546) | (1,637) | (2,112) |
| Earnings available to shareholders | 12,419 | 10,977 | 6,178 | 5,470 | 6,949 |
| Dividends | | | | | |
| Interim and finals for the year | 4,078 | 3,955 | 3,734 | 3,215 | 3,127 |
| Dividend - pence per share* | 27.50 | 26.70 | 25.90 | 25.15 | 24.50 |
| Dividend cover** | 3.1 | 2.8 | 1.6 | 1.5 | 1.9 |
| Underlying dividend cover | 2.0 | 1.8 | - | - | - |
| Dividend cover (excluding exceptional items)** | - | - | 1.9 | 1.7 | 1.8 |
| Earnings per 50p nominal share** value (p) based on: | | | | | |
| Earnings available to shareholders | 84.0p | 74.3p | 41.9p | 37.1p | 47.0p |
| Earnings (excluding exceptional items) | - | - | 48.5p | 41.5p | 42.9p |
| Underlying earnings available to shareholders | 54.7p | 48.7p | - | - | - |
| Shareholders' funds employed | | | | | |
| Share capital | 7,429 | 7,429 | 7,429 | 12,818 | 12,818 |
| Share premium | 1,099 | 1,099 | 1,099 | 1,439 | 1,439 |
| Revaluation reserve | 73,253 | 72,430 | 13,125 | 13,228 | 13,151 |
| Hedging reserve | (19,288) | (14,226) | - | - | - |
| Revenue reserves | 121,384 | 113,094 | 107,098 | 98,317 | 95,762 |
| | 183,877 | 179,826 | 128,751 | 125,802 | 123,170 |
| Represented by assets | | | | | |
| Fixed assets | 280,205 | 279,960 | 202,664 | 202,505 | 198,610 |
| Current assets | 29,193 | 33,862 | 30,600 | 24,643 | 23,982 |
| | 309,398 | 313,822 | 233,264 | 227,148 | 222,592 |
| Liabilities | | | | | |
| Short-term creditors | 27,430 | 26,143 | 25,464 | 19,900 | 19,325 |
| Long-term creditors | 59,439 | 73,592 | 75,463 | 77,302 | 76,158 |
| Derivative financial instruments | 23,670 | 17,783 | - | - | - |
| Deferred lease liability | 1,831 | 1,640 | - | - | - |
| Provision for liabilities | 13,151 | 14,838 | 3,586 | 4,144 | 3,939 |
| | 125,521 | 133,996 | 104,513 | 101,346 | 99,422 |
| Net assets | 183,877 | 179,826 | 128,751 | 125,802 | 123,170 |
| Net assets per share (£)*** | 12.38 | 12.10 | 8.67 | 8.47 | 8.29 |

* 2012, 2013 dividend per £1 share.

** Following the share reorganisation in 2014, earnings per share and dividend cover were restated for 2012 and 2013 based on the revised weighted average number of shares in issue.

*** Net assets per share has been restated for 2012 and 2013 based on the shares in issue at 28 June 2014 being 14,857,500 ordinary shares.

HMQ Celebration Ale in
honour of HM The Queen's
90th birthday

SHEPHERD NEAME LIMITED
17 COURT STREET, FAVERSHAM,
KENT, ME13 7AX

TEL: 01795 532206
FAX: 01795 538907
EMAIL: COMPANY@SHEPHERDNEAME.CO.UK
WWW.SHEPHERDNEAME.CO.UK
REGISTERED IN ENGLAND NUMBER 138256