THURSDAY

A6XF7PHL

A13 11/01/2018 #354

COMPANIES HOUSE

SHEPHERD NEAME LIMITED ANNUAL REPORT

2017

Co. 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!

CONTENTS

FINANCIAL HIGHLIGHTS

	Turnover	Underlying operating profit[1]	Statutory profit before tax
2017	£156.2M	£15.3M	£11.8M
2016	£139.9M	£14.2M	£14.4M

	Underlying basic earnings per share[2]	Dividend per share	Net assets per share[3]
2017	59.1P	28.35P	£12.86
2016	54.7P	27.50P	£12.38

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 25 June 2016.

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

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

PAGE 16

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

PAGE 20

PROGRESS

TO DRIVE FOOTFALL TO OUR PUBS

- We have acquired eight new freehold pubs from Ei Group plc for £12.5m
- We have acquired five successful freehold pub restaurants in the purchase of Village Green Restaurants Ltd ("VGR") for £11.9m
- We have continued to improve the look and feel of our pubs with an increase in spend on the existing estate to £10.7m (2016: £9.5m)
- We have disposed of 15 pubs (2016: 13 pubs) that no longer fit our long-term strategy

Performance against our KPIs was strong

- Like-for-like ("LFL") sales in managed pubs were up +8.1% (2016: +4.4%)
- LFL EBITDAR* in our tenanted estate was up +1.6% (2016: +2.7%)
- Average EBITDAR per managed pub was up +1.8% (2016: +1.0%)
- Average EBITDAR per tenanted pub was up +5.6% (2016: +6.4%)

TO ATTRACT, RETAIN AND DEVELOP THE BEST PEOPLE

- Continued high performance in an independent survey of licensees
- Recognition from the BII*** as one of the top licensed trade training providers
- Good progress to develop and deliver personal development training programmes both on and offline
- Successful roll out of Love Beer programme to staff to drive increased awareness and passion for beer across the business
- Increased investment in skills and support at head office for licensees

* Like-for-like earnings before interest, tax, depreciation, amortisation and rent payable
** Revenue Per Available Room
*** British Institute of Innkeeping
**** Source: The British Beer and Pub Association

TO DEVELOP OUR OFFER TO ENHANCE THE CUSTOMER EXPERIENCE

- The acquisition of Ultimate Entertainment Services Ltd ("UES") and VGR have brought fresh ideas and skills around food and our customer offer
- New food offers at the Ship and Trades, Chatham Maritime and the Minnis Bay Bar and Brasserie, Birchington have enjoyed great success
- The bedroom development at the Ostrich, Colnbrook has added 11 new bedrooms and the rooms at the Botany Bay, Kingsgate and Bell, Sandwich have been refurbished to a high standard
- Further expansion of premium local products, in particular gin, juices and English sparkling wine

Performance against our KPIs was strong

- Food LFL sales up +7.7% (2016: +4.2%)
- Accommodation LFL sales up +10.1% (2016: +11.7%)
- Drinks LFL sales up +8.0% (2016: +3.1%)
- Occupancy is 79% (2016: 78%)
- RevPAR** is £66 (2016: £63)

TO CREATE DEMAND AND BUILD AWARENESS FOR OUR BRANDS

- Award winning new brand identity launched
- A further £0.4m invested in new pub signage and an enhanced website
- Exciting development of our premium British portfolio with the introduction of Cinque, Five Grain Premium Lager and Orchard View Cider
- Continued strong performance from the Whitstable Bay collection which now represents 10% of own beer excluding contract volumes. Spitfire range returned to growth
- Further investment in the infrastructure of our historic brewing site and installation of new mash tuns
- Trading of a pop-up shop in Bluewater shopping centre to raise awareness for our brands

Performance against our KPIs

- Core own beer volumes excluding contract brewing up +3.9% (2016: +0.3%) versus a market down -0.2%****

AT A GLANCE

We have restored the historic **brewhouse** building and have installed new mash tuns as part of the ongoing modernisation of our infrastructure.

We acquired **Village Green Restaurants Limited**, consisting of five popular pub restaurants in mid-Kent.

The **Spitfire** brand has broadened its appeal thanks to a portfolio consisting of lager, gold and amber variants.

We have carried out major redevelopments at a number of tenanted pubs, including the **Old House at Home, Dormansland.**

We have invested £1m redeveloping the **Minnis Bay Bar and Brasserie**, Birchington, expanding the trading area and improving the function facilities.

Food LFL sales

7.7%

New pubs acquired

14 PUBS

Acquisition investment

£24.8M

Total number of pubs

327 PUBS

Accommodation LFL sales

10.1%

Total investment in existing pub estate

£10.7M

Freehold proportion of estate

87%

Tenanted or leased

253 PUBS

Managed pubs and hotels

66 PUBS

Commercial free of tie

8 PUBS

CHAIRMAN'S STATEMENT

"A strong set of results and a year of significant investment."

MILES TEMPLEMAN
Chairman

I am delighted to report a strong set of results for the 52 weeks ended 24 June 2017, a year of significant investment in new pubs.

The performance has been good in all operating divisions in the Company and excellent progress has been made against our strategic objectives.

I have been particularly impressed by the pace of change in the business in recent years as the team modernise the pubs and brands portfolio and innovate to address the continuous challenge to enhance the customer experience.

Our growth primarily comes from *reinvesting year after year in our core* business and from driving ever greater efficiency and excellence in execution. This year has been notable for a strong underlying performance, some excellent work to enhance our own brand portfolio, important steps to modernise the brewing operation and a period of significant investment with the acquisition of 14 new pubs.

The core strengths of Shepherd Neame lie in a strong sense of family, a distinct individual character, and a passion for quality, for high standards and for making continuous improvements within a consistent strategic framework. These characteristics deliver a strong and sustainable business for the long-term benefit of shareholders. Equally important is our ability to take advantage of good opportunities when they arise and to be responsive to changes in the market.

Financial results
Turnover for the period increased by +11.7% to £156.2m (2016: £139.9m) driven by the acquisitions and strong managed house like-for-like growth of +8.1%. Underlying operating profit grew by +7.2% to £15.3m (2016: £14.2m). Underlying profit before tax[1] grew by +8.0% to £11.2m (2016: £10.3m) and underlying basic earnings per share are up +8.0% to 59.1p (2016: 54.7p). Statutory profit before tax is down -18.0% to £11.8m (2016: £14.4m), predominantly because we achieved an unusually high profit on disposal of property in the prior year. Basic earnings per ordinary share are down to 69.1p (2016: 84.0p).

Dividend
The Board is proposing a final dividend of 22.73p (2016: 22.05p) making the total dividend for the year 28.35p (2016: 27.50p), an increase of +3.1%. This represents underlying dividend cover of 2.1 times (2016: 2.0 times). We will continue to target our dividend cover at or above this level in the future. The final dividend will be paid on 13 October 2017 to shareholders on the register at the close of business on 29 September 2017.

This level of dividend cover is consistent with the policy stated at the time of our share capital reorganisation in 2014. Since then the total annual dividend paid to shareholders has increased from £3.2m to £4.2m.

Capital and investment
Capital expenditure was £38.0m. Within this sum, £24.8m was invested in the acquisition of UES, eight pubs from Ei Group plc and five pubs in the acquisition of VGR in November 2016. We realised proceeds from property sales of £5.9m (2016: £11.9m).

Net debt has consequently increased from £60.1m at June 2016 to £78.1m at June 2017.

Board of Directors
Following the review of our strategy for brewing and brands as set out in the Chief Executive's Report, and as part of the transition from brewing Asahi Super Dry, the role of Brewing and Brands Director is no longer required. Graeme Craig is consequently stepping down from his role as a Director in September 2017 and will be leaving the business. Graeme has made a considerable contribution to the business since joining in 2006. He has greatly developed and enhanced the brand portfolio, and consolidated the sales, marketing and production activities into a single brewing and brands division. I would like to thank him for what he has done and wish him well for the future.

We are streamlining our management roles in this area. We have recently appointed Andy Pinnock as Head of Sales and Giles Hilton as Head of Customer Relations. We are currently recruiting a Head of Marketing, Brands

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

and Communications and a Head of Production, as Richard Frost retires in 2018. These senior positions will report to the Chief Executive.

Government and regulation
The Company makes a substantial contribution to the local and national economy. In 2017 we have paid £28.7m in excise duty alone. It is disappointing, therefore, after three years of successive excise cuts, that the Chancellor chose to increase duty on beer by 3p per pint in the last budget.

This coincides with substantial increases in business rates and in the national living wage and with the introduction of the apprenticeship levy. These inflationary pressures come at a time of rising inflation in food and imported products, and provide cost challenges to all businesses in the sector at a time of great political uncertainty.

In July 2016 the Small Business Enterprise and Employment Bill which introduced the Statutory Code of Practice and Market Rent Option (MRO) became law. This affects only those large companies which have more than 500 pubs. We believe that effective operation of the voluntary code will make extension of the statutory code unlikely.

Advisors
Since the year end the Company appointed Peel Hunt LLP as its corporate broker in place of Panmure Gordon & Co with effect from 1 August 2017.

Summary
This has been an excellent year for the Company. The Board is focussed on investing for the long-term benefit of shareholders in line with our aims to be a Great British Brewer and to run the best pubs. The investment in our brands and pubs continues to transform the profile and quality of assets in the Company.

The managed estate has now become our largest business division by turnover and has been our principal engine for growth.

Our tenanted business is high quality and robust after many years of investing to drive up standards. It generates substantial and sustainable free cash flow and continues to attract exceptional operators.

In the brewing and brands business we have an extended period of transition ahead of us as the arrangements with Asahi come to an end. However, the underlying trends in this division are encouraging and our emerging, innovative and broad brand portfolio gives good reason for optimism.

These three business divisions generate strong cash flow and all contribute to the growing reputation the Company has for offering a great experience to our customers. The new brand identity has strengthened our profile further.

Whilst the performance has been good, the short-term horizon is clouded by the inflationary pressures on the business, and the medium-term horizon by the uncertainty over the UK's exit from the European Union. Shepherd Neame is, as has been demonstrated over the years, a resilient and flexible business capable of rapidly adjusting to and succeeding in an ever changing world.

We remain confident to continue to invest for the long-term benefit of shareholders.

Miles Templeman
Chairman

OUR STRATEGY

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

The Farmhouse, West Malling
– one of eight acquisitions from Ei Group plc.

Unique locations
We own many pubs in unique locations, such as the Belle Vue Tavern at Pegwell Bay where we have introduced an outside cocktail bar.

Design Innovation
We use our in-house team and work with a variety of designers to create the best schemes for our pubs.

Stylish interiors
Striking interior features are helping to make our venues stand out in the market.

Raising standards
We have started the roll out of a new pub signage scheme, following the introduction of the new brand identity.

OU

R PUBS

CHIEF EXECUTIVE'S REVIEW

"Good progress in all areas of the business and a strong underlying performance."

JONATHAN NEAME
Chief Executive

This has been an exciting year of development for the Company, with good progress in all areas of the business, a strong underlying performance and some great acquisitions that add real value to the Company.

We have successfully pursued our strategy to drive long-term value for our shareholders based around four key objectives:

- To drive footfall to our pubs
- To develop our offer to enhance the customer experience
- To create demand and build awareness for our brands
- To attract, retain and develop the best people

It is this consistent strategy that has enabled the Company to outperform the national market year after year and to excel on a local basis. We have modernised and improved our business such that the profile and quality of our pubs and brands have been greatly enhanced and the offer and experience for our customer transformed. Furthermore, as our heartland of Kent enjoys the benefit of infrastructural development and the regeneration of the coastal areas, our strong local knowledge enables us to exploit the opportunities that arise.

Whilst the weather conditions have been favourable during this year with a long hot summer in 2016 and plenty of sunshine in the spring of 2017, market conditions have become progressively harder, as consumer spending is being squeezed by inflation.

Nonetheless, we have achieved impressive like-for-like sales growth in our managed estate of +8.1% against the Coffer Peach Tracker Index* of +1.4% and own beer volume growth excluding contract of +3.9% against the market of -0.2% (Source: BBPA).

In pursuit of our objectives, this year has been characterised by some significant achievements:

- Acquisition of 14 pubs
- The launch of a new brand identity
- Some exciting new product developments
- Completion of the initial phase of our modernisation plan for the brewery and its buildings

We have successfully delivered these projects whilst maintaining strong underlying growth across the business. We have also developed our future brewing and brands strategy, namely to build our own brands, drive necessary cost reduction and streamline management roles where appropriate, as we exit the Asahi contract in the coming year.

We have an outstanding team of people, renowned for their passion and commitment, their expertise and in-depth knowledge of the business, their friendliness and approachability. These characteristics distinguish Shepherd Neame and give it its unique personality. It is this personality that is the differentiator to build customer loyalty, where quality and value for money are taken for granted.

All operators in the sector face significant cost inflation through increasing business rates, the national living wage and the apprenticeship levy. The fall in the value of sterling following the EU referendum has compounded these challenges and is driving up prices in food and other imported products such as wine. We will continue to focus on enhancing the customer experience, raising standards across our business, and driving efficiencies as appropriate to mitigate this cost and to take advantage of the opportunities that are presented.

Tenanted and Managed Pub Operations
Overview

At the year-end we operated 327 pubs and hotels (2016: 328) of which 285 are freehold (2016: 285). Of our total pubs, 66 (2016: 54) were managed and 253 (2016: 267) were tenanted or leased and eight (2016: seven) operated under commercial free of tie leases.

Our investment focus is to improve the quality of our core business and to seek high-quality, single-site acquisition opportunities within our heartland if they improve the overall business or reach new markets. We will pursue suitable opportunities outside our historic trading area, and are alive to opportunities to acquire small groups of pubs that meet our requirements, as evidenced by recent pub purchases. We are seeking to acquire sites with unique character in landmark or high-footfall locations, preferably with the potential for further development.

During the last five years, we have acquired 22 pubs and disposed of 49. As a consequence of this, and investments in the core estate, the profile and quality of our pub estate have been transformed and, since 2012, the average EBITDAR per managed pub has increased by +30.5% and per tenanted pub by +25.4%.

This has been a year of record investments with total cash invested in new pub acquisitions of £24.8m (2016: £3.3m), in three separate transactions during the year.

First, at the start of the financial year, we announced an acquisition of eight freehold pubs in Kent, Surrey and Sussex from Ei Group plc. All these pubs continue to be operated by their existing licensees, except the Crown and Anchor, Shoreham by Sea which has transferred to the managed estate, and Earls, Maidstone which will transfer in the coming year.

* Tracker for sales trends for pub, bar and restaurant groups.

Simultaneously, we acquired UES and transferred the five pubs operated under tenancy by UES to the managed estate. We invested £12.9m in these two transactions in the year.

Third, at the end of November 2016, we acquired VGR for £11.9m. VGR operated five very successful freehold pub restaurants in and around Maidstone and Ashford in the Company's Kent heartland. All the pub restaurants are operated under the managed pub division.

Since the year end, we have opened a new outlet in Chatham Maritime called Pier Five.

We have realised £5.9m of proceeds (2016: £11.9m) from the disposal of 15 pubs (2016: 13) and two unlicensed properties (2016: seven). We continue to manage our property actively, aiming to dispose of those pubs which no longer fit our long-term strategy and to invest to maximise the potential of those that do.

Driving Footfall to our Pubs

We aim to drive footfall by designing and developing unique pubs and hotels with a 'wow' factor. We believe continuous investment in our facilities will attract and retain customers. In particular we continue to develop our accommodation business and exploit the growth in the local visitor economy.

In addition to the new pub acquisitions we have invested £8.3m (2016: £7.3m) of capital expeniture in improving the look and feel of our pubs and £2.4m (2016: £2.2m) in repairs and decorations.

In the managed estate, major developments during this year have included £1.0m investment at the Minnis Bay Bar and Brasserie, £0.9m at the Ostrich, Colnbrook where 11 bedrooms have been added and the Manor Farm Barn, Southfleet. All these investments have transformed the outlets and the results have been encouraging.

In the tenanted estate we carried out major developments at a number of sites including the East Kent, Whitstable, the Plough, Farnham, the Old House at Home, Dormansland and the Sportsman, Seasalter.

Following the launch of our new brand identity, we have invested an additional £0.4m in the development of a new pub signage scheme and website with enhanced functionality and improved user experience. In conjunction with this we have improved all the photography on our pub microsites to bring out the character and individuality of each outlet. We intend to roll out the new signage scheme over the coming years. By the end of the summer, 45 schemes were completed.

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 spite of intense competition in casual dining. Food sales now represent 33% (2016: 30%) of our managed turnover, with drinks representing 56% (2016: 58%) and accommodation 10% (2016: 11%).

We continue to build the food skills in our business and drive the quality of our offer. The acquisitions of both UES and VGR have brought fresh ideas and we have also enjoyed great success with new food offers at the Minnis Bay Bar and Brasserie and the Ship and Trades, Chatham Maritime.

During the year we have refurbished 37 rooms (2016: 35) and added 11 rooms at the Ostrich (2016: 4 rooms at the Ship & Trades) and now offer a total of 294 (2016: 283), all presented to a high standard.

Occupancy grew again from its record high last year to 79% (2016: 78%) whilst RevPAR continued to grow to £66 (2016: £63).

As the consumer becomes more willing to experiment across the drinks range we are always looking to innovate or introduce new concepts. We are constantly looking to introduce more premium products to strengthen our range and enhance the experience for our customers.

Our beer offer has been greatly developed in the last two years. We are particularly excited about our emerging beer portfolio as we exploit the potential from our heritage brands and recent innovations. We have further expanded our range of premium local products, in particular gin, juices and English sparkling wine, and developed our range of mixers and fresh fruit cocktails. During the year our like-for-like drinks sales were +8.0% (2016: +3.1%).

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 and employees through the professionalism of the support we provide.

I am particularly pleased with the progress we have made in recent years with our tenanted licensees. We again scored highly against a range of measures in an independent survey of

TO DEVELOP OUR OFFER TO ENHANCE THE

CUSTOM EXPERIEN

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.

Accommodation of character
We have created 11 new bedrooms at the Ostrich, Colnbrook, taking the total number in our managed estate to 294. We have also refurbished bedrooms at the Bell Hotel, Sandwich and the Botany Bay Hotel, Kingsgate.

Award-winning pubs
Our pubs continue to be recognised for their excellence. The King's Head, Wye is now listed in the UK's Top 50 Gastropubs, alongside fellow Shepherd Neame pubs the Sportsman, Seasalter and the Compasses, Crundale.

Great fresh food
Our food offer has been enhanced by strengthening head office support and developing a range of new dishes.

ER
CE

Unique wines and spirits
We have listed award-winning local wines and boutique spirits in our pubs, including Dockyard Gin from the Copper Rivet Distillery at Chatham Maritime.

pubs and companies, and, for the second year running, were finalists in the Publican Awards Best Tenanted and Leased Pub Company (201 + sites) and Best Managed Pub Company (51+ sites).

We have made great strides to develop our training and are rated by the BII as one of the top licensed trade training providers. All staff in the managed estate have personal development programmes; 500 offline courses and 1,700 online courses have been delivered against these in the year.

Our Love Beer programme to educate and inform all staff on beer and brewing has proved very successful and has driven an increased awareness and passion for beer across our business.

We continue to enhance the skills at head office in support of our licensees. In the last year we have expanded our food development and field training teams and reduced the number of pubs per district manager in the managed and tenanted estates to bring even more focus to their work.

The Shepherd Neame Pub Awards continue to recognise excellence and achievement. This year Tony and Shirley Pearson of The Belle Vue Tavern, Pegwell Bay won the Pub of the Year. It is particularly pleasing that we now have three pubs listed in the Top 50 Gastropubs in the country. It is also encouraging that we seem able to attract and support innovative licensees with diverse offers.

Tenanted and Managed Pub Performance

We have pursued a consistent strategy to invest in our pubs over a sustained period and this has resulted in a strong trading performance year after year.

Total divisional turnover in the managed estate grew by +26.2% (2016: +9.8%) including the impact of new acquisitions. Divisional underlying operating profit grew by +18.0% to £9.0m (2016 restated: £7.6m). Same outlet like-for-like sales grew by +8.1% (2016: +4.4%) with drinks +8.0% (2016: +3.1%), food +7.7% (2016: +4.2%) and accommodation +10.1% (2016: +11.7%). Average EBITDAR per managed pub grew by +1.8% (2016: +1.0%).

Margins were impacted in the managed estate by the cost pressures affecting all operators in the sector. The total inflation from business rates, national living wage and the apprenticeship levy was £0.2m in the year. Looking forward, these pressures will continue and this area of the business will require like-for-like growth of around +3-4% to cover these additional costs.

Total divisional turnover in the tenanted and leased estate grew by +2.8% to £34.4m (2016: £33.5m) on 14 fewer outlets. Divisional underlying operating profit was £13.0m (2016 restated: £12.7m). Like-for-like EBITDAR per tenanted pub grew by +1.6% (2016: +2.7%). Average EBITDAR per tenanted pub grew by +5.6% (2016: +6.4%).

Brewing and Brands

The brewing and brands division has enjoyed a successful year, some exciting brand launches and the redevelopment of our brewhouse.

The strength of the Shepherd Neame offer is a wide portfolio of high-quality products that suits many different customer needs in an increasingly fragmented market. We have continued to outperform and have achieved impressive volume growth of +3.9% against a market of modest decline of -0.2% (Source: BBPA). The Whitstable Bay Collection has again performed well with growth of +20.5% (2016: +19.5%) and now represents 10% of our own beer excluding contract. The Spitfire range has returned to growth of +2.2% (2016: -3.7%) and represents 22% of own beer excluding contract.

We have invested £0.7m in restoring the fabric and infrastructure of our historic site and completing the installation of the new mash tuns. In the coming year we are planning to instal a new labeller on our bottling line together with associated line improvements.

As previously announced our licence to brew and sell Asahi Super Dry will terminate at the end of February 2018. The brand represented 23% of our total brewed volume at the year end. In anticipation of the end of this contract, we have carried out a strategic review of our beer business and operation on this site so as to mitigate much of its impact. Whilst we have investigated other licence partnerships, we no longer feel that this type of world lager fits our portfolio. Furthermore, we see considerable opportunity from our emerging portfolio as the consumer seeks premium British products.

We anticipate that brewing volumes will reduce in the short-term. We believe it is the best strategy in the long term to allocate more of our limited capacity to build our own brands and focus on those parts of the market where we have a competitive advantage or a strong position. We have determined to modernise our plant, to drive cost efficiency, higher productivity and quality enhancements. We expect turnover in this division to fall in line with volume in the near term. We are taking appropriate action to streamline our management structure, reduce our overheads and operating costs accordingly. As a result of these changes a one-off exceptional cost is expected in 2018. Going forward we are targeting ongoing divisional underlying EBITDA of around £3.5m.

The consequence of these actions, following a period of transition, will be a smaller, higher quality brewing and brands business, producing great beers on an upgraded infrastructure, and creating strong brands that positions the business well for future opportunities.

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, by instilling a passion for quality, and by having a great engagement with our customers.

The brewhouse investment and renovation works have driven greater efficiency and ever higher standards of quality in our beers.

The marketing team have had a busy year as they have developed a very compelling and exciting new portfolio including the introduction of Cinque, Five Grain Premium Lager, and Orchard View, a cider made in collaboration with Aspall.

The new brand identity has been well received by consumers and we received an award for it at the prestigious Mobius Awards. Our products receive many plaudits and we won three gold medals at the British Bottlers Institute Awards, and one gold at the International Brewing Awards.

The Whitstable Bay Collection continues to enjoy great success with increasing distribution and brand awareness. Whitstable Bay Red IPA was added to the range this year. Spitfire Gold and Spitfire Lager, The Lager of Britain, were new extensions to the Spitfire brand last year and have performed above expectations.

We have continued to support a variety of local and customer events such as the Battle of Medway 350th Anniversary commemoration through sponsorship and marketing activity.

To raise awareness of our new brands we opened a pop-up shop at Bluewater for the first time with considerable success. The store was named Store of the Week by Retail Week.

Brewing and Brands Performance
Divisional turnover for the year was +4.4% at £59.8m (2016: £57.3m). Own beer volume excluding contract was 216,000 barrels (2016: 208,000 barrels) and grew by +3.9% (2016: +0.3%). Divisional underlying operating profit was £1.6m (2016 restated: £1.6m), after having absorbed incremental costs of water recovery of £0.3m which we are working to mitigate now that the operation is maturing.

Investment Property
The Company owns £6.8m of investment property, revalued at June 2017. The principal land holding is the residual land at Queen Court, Ospringe. In 2016, 10 acres of this holding were disposed of with planning permission for residential development. During 2017, the Company promoted two further sites in the local plan that we consider suitable for housing. These are complex and expensive sites to develop and both have been rejected at this stage, but we will revisit in due course should circumstances change. The rest of the land holdings will be held as agricultural farm land for the long term. The Company reviews all of its property holdings on a regular basis.

Current Trading
Since the start of the new financial year we have made steady progress, albeit with colder and unsettled weather compared to 2016. In the 10 weeks to 2 September 2017, same outlet like-for-like managed sales were up +1.5% (2016:+8.2%) and total own beer volume excluding contract was up +4.4% (2016: +1.2%). In the 9 weeks to 26 August like-for-like EDITBAR in the tenanted estate was up +0.6% (2016: +2.2%).

Summary
This has been a good year for the Company. The underlying performance has been strong; there has been a high level of pub acquisition and brand activity; the quality of our operations continues to improve.

The profile of our pub assets and brands is stronger than ever. Our investments in recent years have helped to build a high-quality and sustainable platform for the future. But the focus in the coming year is to continue the rate of investment in our core business, to consolidate the recent acquisitions and effect a smooth transition in the brewing and brands business.

We have good reason to be pleased with the strategic and financial performance this year. Our investments in recent years have helped to build a high-quality and sustainable platform for the future. But the next twelve months present new challenges given the unprecedented cost headwinds that the sector is facing and signs that consumer income is being squeezed.

Jonathan Neame
Chief Executive

Cask racking team at
The Faversham Brewery

OUR STRATEGY

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
The Old House at Home at Dormansland has gone from strength to strength, with new licensees Andy and Samantha Barnett, since refurbishment.

Career development
All staff in our managed estate have personal development programmes and 1,700 online courses have been delivered in the year.

Achieving excellence
Shirley and Tony Pearson at the Belle Vue Tavern, Ramsgate celebrated being crowned Pub of the Year at our annual Pub Awards.

Love Beer
Our brewers have shared their beer passion and knowledge across the business. We have used social media to spread messages to consumers.

TO ATTRACT, RETAIN AND DEVELOP THE BEST

PEOPLE

FINANCIAL REVIEW

MARK RIDER
Finance and IT Director

Summary profit and loss account	2017 £'000	2016 £'000	Change
Turnover	**156,198**	139,890	11.7%
Underlying operating profit	**15,259**	14,235	7.2%
Underlying operating profit margin	**9.8%**	10.2%	-0.4%
Operating items excluded from underlying results	**(469)**	(495)	
Net finance costs	**(4,094)**	(3,898)	-5.0%
Profit on disposal of property	**588**	4,235	
Investment property fair value movements	**496**	282	
Profit before tax	**11,780**	14,359	-18.0%
Underlying profit before tax	**11,165**	10,337	8.0%
Taxation	**(1,568)**	(1,940)	19.2%
Profit after tax	**10,212**	12,419	-17.8%
Underlying basic earnings per share	**59.1p**	54.7p	8.0%
Basic earnings per share	**69.1p**	84.0p	-17.7%

This year's results reflect the continued growth of our managed pub estate which has seen new pubs acquired combined with like-for-like growth ahead of the market. The tenanted and leased operation has again delivered robust turnover and profitability with solid like-for-like growth offset by disposals of pubs that no longer fit our long-term strategy. The brewing and brands division has delivered a level of volume growth ahead of the market underpinned by a strong and diverse brand portfolio.

The Group remains a cash generative business which combined with the strength of its balance sheet has enabled a record level of capital investment as we aim to build a stronger business for the long term benefit of shareholders.

Results Turnover for the 52 weeks ended 24 June 2017 increased by +11.7% (2016: +1.2%) to £156.2m (2016: £139.9m) and underlying operating profit was up +7.2% (2016: +3.5%) at £15.3m (2016: £14.2m).

The managed pub estate continues to be our fastest growing division following the continued investment in this area. As a result, our managed pubs turnover grew by +26.2% on the prior year with like-for-like turnover growth of +8.1%. Underlying operating profit in this division increased by +18.0% to £9.0m (2016 restated: £7.6m). The new sites and like-for-like growth underpinned the profit growth in this area but the operating margin fell by -1.1% following a conscious growth in the mix of food sales following the acquisitions in the year (-0.3%), increased head office support costs as we build our capability in this division for the future (-0.4%) and increased cost inflation offset by mitigating savings (-0.4%).

These inflationary impacts have been offset by cost efficiencies and purchase improvements of +0.4%.

The tenanted and leased division remains our largest division in terms of overall profitability. Turnover was up +2.8% with good growth in trading sites offset by the disposal of 15 pubs. Underlying operating profit in this area was £13.0m (2016 restated: £12.7m) up +2.4% benefiting from the increased turnover, offset by an increase in property repairs and depreciation.

Within the brewing and brands division turnover was up +4.4% on the back of increased volume growth with particular growth in the Whitstable Bay range. Underlying operating profit was £1.6m (2016 restated: £1.6m) on the back of the increased turnover, offset by higher water recovery costs.

Unallocated costs have increased by £0.6m including an additional £0.4m invested in the new brand identity. As a result of the inflation in the managed pubs segment and the strategic investment in the new brand identity total operating margin fell -0.4% from 10.2% to 9.8%.

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 credit of £0.6m (2016: credit of £4.0m). This year's items comprised four elements:

- The annual impairment review resulted in an impairment charge of £0.2m relating to two properties (2016: £0.3m charge in relation to six properties).

- Property profits of £0.6m (2016: £4.2m) on the sale of 15 pubs and two unlicensed properties (2016: 13 pubs, the land at Queen Court outside Faversham and six unlicensed properties) were recognised as the business continues to dispose of predominantly small community wet led pubs and unlicensed assets that no longer fit with the Group's long-term strategy. The prior year property profits further benefited from the one-off disposal of land at Queen Court, outside Faversham.
- The annual revaluation to fair value of investment properties on the balance sheet resulted in an increase in value of £0.5m (2016: £0.3m). The total value of this asset category sits at £6.8m (2016: £6.2m).
- Exceptional costs of £0.3m were incurred in the year in relation to a food safety and hygiene regulation fine and associated legal costs at the Royal Wells Hotel, Tunbridge Wells. In the previous financial year exceptional costs of £0.2m were incurred for legal and professional fees relating to the Company's accounting transition to FRS 102 and regulatory transition to the Financial Conduct Authority regime.

Finance costs Net finance costs increased to £4.1m (2016: £3.9m) following the acquisition of the new pubs in the year and the purchase of VGR in November 2016. A further increase in finance costs is expected in 2018 as the first half of the year is impacted by the VGR purchase.

Summary rates of taxation	2017 Profit £'000	Tax £'000	Rate %	2016 Profit £'000	Tax £'000	Rate %
Profit before tax and tax thereon	**11,780**	**1,568**	**13.3**	14,359	1,940	13.5
Exceptional items	**270**	**-**	**-**	188	38	-
Impairment	**199**	**39**	**-**	307	61	-
Profit on disposal of property	**(588)**	**605**	**-**	(4,235)	(427)	-
Investment property fair value movements	**(496)**	**(98)**	**-**	(282)	(56)	-
Exceptional effect of reduction in corporation tax rate on deferred tax provisions	**-**	**315**	**-**	-	698	-
Underlying profit before tax and underlying tax thereon	**11,165**	**2,429**	**21.8**	10,337	2,254	21.8

Underlying interest cover was 3.7 times (2016: 3.7 times).

Taxation The total tax charge was £1.6m (2016: £1.9m), an effective rate of 13.3% (2016: 13.5%) following reduction in deferred tax balances. The average statutory rate of corporation tax in the UK for the period was 19.75% (2016: 20.00%). The underlying tax rate was 21.8% (2016: 21.8%). The net tax charge on items excluded from underlying results was a credit of £0.9m (2016: credit of £0.3m).

The Group 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 +8.0% to 59.1p (2016: 54.7p) following the increase in underlying operating profits and a lower overall tax rate.

Basic earnings per ordinary share decreased to 69.1p (2016: 84.0p) due to lower property profits.

Dividends Dividend per share paid and proposed in respect of the year increased by +3.1% to 28.35p per ordinary share (2016: 27.50p per ordinary share) to give total dividends of £4.2m (2016: £4.1m). As expected, total dividend cover has fallen to 2.4 times (2016: 3.1 times) due to the lower property profits in the year. Underlying dividend cover increased to 2.1 times (2016: 2.0 times).

Cash Flow
The increase in underlying operating profits meant underlying EBITDA increased by +7.7% to £23.4m (2016: £21.7m). Working capital was again tightly managed with a cash inflow from working capital movements of £1.4m (2016: £1.1m). Tax cash payments increased to £2.7m following higher profits. As a result of these three factors the net cash inflow from operating activities increased by £1.8m to £22.1m (2016: £20.3m).

TO CREATE DEMAND AND BUILD AWARENESS FOR

BRAN O

OUR STRATEGY

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.

Brand identity
We have started to roll out our new brand identity with a mobile friendly website.

Strong demand for our brands
Canned beer is proving popular at the craft end of the market. We are meeting this demand through Whitstable Bay Pale Ale.

UR
DS

Building our portfolio
Orchard View, the Company's first cider brand, is produced in collaboration with Britain's oldest family cider makers, Aspall.

Distinctive beers
Cinque Five Grain Premium Lager has made an encouraging start since launch.

Cash flow and net debt

Summary cash flow statement	2017 £'000	2016 £'000
Underlying EBITDA	**23,352**	21,678
Working capital and other operating cash flows	**1,427**	1,116
Tax	**(2,668)**	(2,313)
Operating exceptional items	**(31)**	(188)
Cash flow from operations	**22,080**	20,293
Dividends	**(4,102)**	(3,977)
Interest	**(3,994)**	(3,904)
Purchase of own shares and share option proceeds	**(610)**	(255)
Issue costs of new loan	**(292)**	(313)
Disposal of fixed assets	**5,876**	11,893
Internally generated free cash flow	**18,958**	23,737
Core capital expenditure	**(13,212)**	(10,718)
Net loans to customers	**82**	224
Cash flow pre acquisitions and debt repayment	**5,828**	13,243
Acquisition of pubs	**(12,456)**	(4,673)
Acquisition of subsidiaries	**(12,378)**	-
Cash acquired on acquisition	**827**	-
Repayment of loan	**-**	(16,000)
New long-term loan	**19,000**	-
Net cash (outflow)/inflow for the year	**821**	(7,430)
Movement in loan issue costs	**172**	140
Closing net debt	**(78,083)**	(60,076)

The total cash cost of interest and dividends increased by £0.2m to £8.1m (2016: £7.9m). Interest payments have risen as a result of the increase in net debt following the acquisition activity in the year. Dividend payments reflect the increase in payment of the final 2016 and interim 2017 dividends.

In order to service the Company's future obligations under employee incentive plans 124,514 shares were purchased (2016: 49,000) at an average market price of £13.22 (2016: £11.92). Within the year £0.3m of this consideration was settled (2016: £0.3m) with the remaining £1.3m falling into the 2018 financial year.

Total disposal proceeds of £5.9m (2016: £11.9m) were realised from the sale of 15 pubs and two unlicensed properties (2016: 13 pubs, the land at Queen Court, outside Faversham and six unlicensed properties).

Taking these items together internally generated free cash flow was lower at £19.0m (2016: £23.7m) due to the lower disposal proceeds. This cash flow has been used for two purposes aligned to our long-term strategy:

- Cash spend on core capital expenditure was £13.2m, up from £10.7m in 2016 as we continue to invest to strengthen the pub and brewery asset base. This was driven by the developments at the Minnis Bay, Birchington, and the Ostrich, Colnbrook, an increase in tenanted developments and brewery infrastructure projects.
- A further £24.8m (2016: £4.7m) of acquisition capital expenditure was invested in three separate transactions. Firstly at the start of the financial year both the purchase of eight freehold pubs from Ei Group plc and the purchase of UES took place at a combined cash cost of £12.9m. Later in the year an additional £11.9m was invested in the purchase of VGR.

Financing and loan facilities

As previously announced, and to support the acquisition activity in the year the revolving credit facility maturing in 2020 was extended to £45m in November 2016. This facility provides the flexibility to support our growth plans with margins above floating rate of between 130 and 260 basis points depending on the Group's leverage ratio of net debt to EBITDA.

The 20-year term loan maturing in 2026 remains unchanged meaning total committed facilities of £105m are in place together with a £2m overdraft facility which is renewable in June 2018.

The floating element of interest on the 20-year term loan was fixed by swap contracts to give an effective rate of interest of 5.78%. These swap contracts are revalued annually to fair value taking into account current prevailing long-term interest rates. The value of these derivatives at 24 June 2017 was a liability of £21.9m (2016: 23.7m). The policy for managing treasury and financial risk is as set out in note 23.

Balance sheet

There was a £26.4m increase in fixed assets (2016: increase of £0.6m) but a rise in net debt of £18.0m to £78.1m (2016: £60.1m). Balance sheet gearing at the year end was 41% (2016: 33%) and the ratio of net debt to EBITDA at the year end was 3.3 times (2016: 2.8 times).

Shareholders funds at 24 June 2017 were £191.1m (2016: £183.9m) meaning net assets per share showed an increase of +3.9% to £12.86 (2016: £12.38).

2018 Financial Year

The 2018 financial year will be a 53 week period to 30 June 2018 and hence will benefit from an additional trading week.

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 may be exposed to the consequences of exiting the EU, in particular the regulatory framework we operate in and our ability to recruit and retain key staff.	We monitor changes in the economy and respond 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 alcohol 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 and influenced.
Health and safety Any non-compliance with health and safety legislation, including fire safety and food legislation could have serious consequences for our employees, tenants and customers.	Health and safety procedures and policies are in place. We provide regular training, risk assessments are performed, and all incidents are investigated.
Increased Legislation and regulation The Company is exposed to increasing levels of regulation and legislation across all areas of its operations. Failure to comply with these regulations could lead to financial and reputational impacts.	Full procedures and policies are in place to reflect current legislation and regulation and external legal advice is used to ensure changes to and new legislation are monitored. External training and consulting services are engaged where appropriate to develop training and communication materials for staff and licensees.
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. The Company has specific plans in place to mitigate the exit from the Asahi licence contract centred around new brand development and cost reduction.
Site dependency The Company's operations are managed from its sole brewery site in Faversham. A disaster at this site may seriously disrupt operations and 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 and reliance on suppliers Prolonged disruption to our supply chain could affect the quality and availability of our product. We rely on a number of key suppliers to service both the brewery site and our managed pubs.	We work with established and reliable suppliers wherever possible and maintain good relationships with them to assist with monitoring their stability and performance. In addition we maintain plans for alternative supply where suppliers may come into distress.
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, external support agreements for hardware and software and a disaster recovery plan, which aims to ensure that in the event of any problem normal trading would be restored quickly.
Recruitment, retention and development of employees and licensees The Company's strategy is dependent on employing high quality staff across the business combined with the recruitment and retention of skilful licensees for our tenanted pubs. Failure to recruit or retain key staff could have a detrimental impact on the Company's brand and reputation.	We have a number of internal training and development programmes in place for employees across the organisation. The remuneration policies and packages available to all staff are externally benchmarked regularly to ensure the Company remains competitive. Within the tenanted estate we work actively on, and have built a reputation for, flexibility and support to enable licensees to manage successful businesses.

This strategic report was approved by the Board of Directors on 14 September 2017 and signed on its behalf by:

Jonathan Neame
Chief Executive

AT THE HEART OF

OUR COMMUN

COMMITMENT TO THE 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.

Celebrating crafts
We continue to employ traditional crafts to work on our pubs and brewery, including Master Shipwright Simon Grillet, who reclad our new mash tuns in teak from the original wooden tuns.

Pub signage
Bold new signage is being rolled out across the estate in a variety of guises including oil paintings, striking graphics, bold typography, 3D modelling and iron work.

Engaging consumers
Our pop-up shop in Bluewater proved such a success its run was extended. Customers were given the opportunity to try our new products, buy merchandise and step into a hop garden via our 360HOPS virtual reality experience.

ITY

BOARD OF DIRECTORS

M H TEMPLEMAN (69)
Chairman
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 trustee of The Howard Partnership Trust, Chairman of Chop'd Limited and is a Governor of Brighton College.

J B NEAME DL (53)
Chief Executive
Pension Trustee

Joined the Company in 1991. Was Company Secretary until July 1994 and Tied Trade Director until 1999 when he was appointed Managing Director; he was appointed Chief Executive in 2003. He is a Barrister-at-law and was a Management Consultant with the COBA Group from 1987 to 1991. He is a Non-Executive Director of the St Austell Brewery Company Ltd and a trustee of the Leeds Castle Foundation. He 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.

M J RIDER (41)
Finance & IT Director

Appointed to the Board in February 2012. He joined the Company from J Sainsbury plc, where he held a number of senior finance roles. Prior to joining Sainsbury's he qualified as a chartered accountant at PricewaterhouseCoopers. He is a Fellow of the Institute of Chartered Accountants.

H S RIVA OBE (60)
Non-Executive Director

Appointed to the Board in 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.

R J OLDFIELD (61)
Non-Executive Director
Chairman of the Audit Committee

Appointed to the Board in June 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 Endowment Management Ltd and of Keystone Investment Trust Plc.

W J BRETT (52)
Non-Executive Director
Chairman of the Remuneration Committee

Appointed to the Board in September 2013. He is Executive Chairman of Robert Brett & Sons Ltd and was Chairman of the Mineral Products Association until September 2015.

G H A BARNES (63)
Property & 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.

N J BUNTING (50)
Retail & Tenanted Operations Director

Joined the Company in 1993. He has held various senior management positions including head of tenanted and retail pub operations. He was appointed to the Board as Retail Director in August 2005 and became Retail and Tenanted Operations Director with effect from July 2014. He is a Non-Executive Director of Davy and Co Ltd.

G R CRAIG (46)
Brewing & 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 was Brewing and Brands Director from January 2014 until September 2017.

R H B NEAME CBE DL DCL (83)
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.

R N DUNCAN (61)
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 and Development and a Member of the Institute of Brewing and Distilling.

CORPORATE GOVERNANCE

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

As a NEX 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 Group.

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 26 and 27 show the broad range of experience and skills the Directors bring to the Board.

Each Director is subject to re-election at the third Annual General Meeting after the meeting at which he or she was previously elected or re-elected. 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 Group'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 Group's succession plans for Board members, and determining what skills, knowledge and experience will be necessary. Other matters considered during the year included the re-election of directors.

Before any appointment is made, the Committee evaluates the balance of skills, knowledge and experience on the Board, and, in the light of this evaluation prepares 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.

Disclosure
The disclosure committee comprises the Chairman; the Chief Executive and the Finance and IT Director. The committee meets by exception to consider legal and regulatory requirements and makes recommendations to the Board accordingly.

Audit
The Audit Committee was chaired by James Leigh-Pemberton until September 2016 and by Richard Oldfield since this date. It comprises the Non-Executive Directors. The Executive Directors and external auditor attend its

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings	**9**	**2**	**8**	**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				
W J Brett	9	1	8	2
J H Leigh-Pemberton[1]	2	1	1	-
R J Oldfield	9	2	8	2
H S Riva	9	2	8	2
M H Templeman	9	1	6	1

1 James Leigh-Pemberton resigned from the Board on 8 September 2016.
* These Directors are not members of the Committees but are invited to be in attendance at meetings as appropriate.

meetings by invitation. The Committee has defined terms of reference, reviews the audit appointment periodically, discusses the audit plan with the auditor and agrees the scope of work, and also recommends approval of the financial statements to the Board. It is responsible for reviewing internal financial controls and risk management systems. The Committee had two meetings during the year. On both occasions the Chief Executive and Finance and IT Director attended.

The Audit Committee receives reports from the Finance and IT Director and external auditor on the key accounting issues and areas of significant judgement. The key matters for this financial year were the acquisitions of UES and VGR 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 Group. 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 start of 2017.

The auditor provides taxation advisory services in addition to audit services and from time to time may provide non-audit services to the Group. In relation to 2017 Deloitte provided audit services in respect of the Group accounts and pension scheme of £128,000 and tax services of £38,000.

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 Group 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 30 to 34.

Internal control
The Board acknowledges its ultimate responsibility for the system of internal control within the Group 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 Group, 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 Group 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 Group'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 and twice a year meets with the Family Council, which was established in 2014 to improve communications with major family shareholders, to make presentations on the Company's performance. 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 Group's performance and progress.

Panmure Gordon (UK) Limited and JP Morgan Cazenove provided broking and advisory services during the year and the former was replaced by Peel Hunt LLP on 1 August 2017.

The Company's shares are traded on the CREST trading platform.

All formal Group announcements are posted on the Company's website and on the NEX Exchange Growth Market website (www.nexexchange.com).

Employees and pensioners
The health and wellbeing of our employees are 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 Group's community involvement. We are supportive of their participation in local government, and in other voluntary services and we support various sporting and social activities for employees. We place an emphasis on longevity of service and loyalty and reward it.

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

REMUNERATION REPORT

Overview

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

The Remuneration Committee is chaired by Bill Brett. It comprises the Non-Executive Directors. The Chief Executive attends the meetings by invitation. 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 Group 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. In the last year the Remuneration Committee have engaged the services of Aon Hewitt Limited to conduct a review which is ongoing.

The Group 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 Group has been evaluated.
- Secondary options over ordinary shares granted annually 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.

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 Group pay review process.

Directors' emoluments

For the highest paid Director the increase in annual salary for the 2017 financial year was 2%. The figures for annual bonus for the highest paid Director relate to performance in the 2017 and 2016 financial years respectively. The bonus for the highest paid Director under the cash bonus scheme will be £31,000, or 12.3% of salary, for the 2017 financial year.

Bonuses totalling £123,000, or 12.3% of salary, will be paid to Executive Directors in relation to the 2017 financial year.

The average salary increase for Executive Directors was 2.5% in the 2017 financial year and the aggregate bonus paid to Executive Directors in the 2017 financial year, relating to the 2016 financial year was £112,000 or 11.5% as a percentage of the 2016 executive salaries.

No primary options were granted in October 2013, and as such no primary options vested in October 2016 (2016: 8,618 primary options granted in October 2012 to all Executive Directors vested in October 2015). Of the secondary options granted in October 2013 to all Executive Directors, it was agreed at the Remuneration Committee meeting held in October 2016, that in relation to performance measured against criteria set at the time these options were granted, 52% would vest (2016: 52% of the secondary options granted in October 2012 vested in October 2015).

In October 2016, 10,918 primary options were granted to Executive Directors in respect of the 2016 financial year (2016: 13,136 options granted in respect of the 2015 financial year). The options granted to each Director will vest if the Director remains in employment until October 2019. The aggregate number of secondary options granted to Executive Directors in October 2016, for the reference period 2016 to 2019 was 19,498 (2016: 20,525 for the reference period 2015 to 2018). These options will vest by reference to performance criteria to be measured against the 2019 results.

No options were exercised by the highest paid Director during the year. The aggregate gain, subject to tax, made by the highest paid Director on the exercise of share options in 2016 was £86,000.

Subject to the approval of the accounts the Remuneration Committee will consider secondary option awards for the reference period to 2017 in October 2017 and primary options for the 2017 financial year.

Due to changes in legislation the highest paid Director and one other Executive Director are no longer contributing members of the Company pension scheme. In addition, the pension contributions for the three remaining executives are capped. The highest paid Director received payments in lieu of pension in the year ended 24 June 2017 which total £55,000 and are included within emoluments (2016: £54,000).

Directors' emoluments

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

	52 weeks ended 24 June 2017 £'000	52 weeks ended 25 June 2016 £'000
Aggregate amount:		
Salary	**1,200**	1,180
Salary in lieu of pension contributions	**183**	95
Taxable benefits	**109**	107
Annual bonus	**123**	112
Share Incentive Plan	**18**	18
Directors' emoluments	**1,633**	1,512
Primary and secondary share options vesting in the year	**163**	267
Pension contributions	**30**	115
	1,826	1,894
The number of Directors who:		
Had pensions benefit accruing under money purchase schemes	**5**	5
Exercised options over shares in the Company	**4**	5
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 34		
Highest paid Director:		
Salary	**250**	245
Salary in lieu of pension contributions	**55**	54
Taxable benefits	**34**	35
Annual bonus	**31**	28
Primary and secondary share options vesting in the year	**43**	73
Share Incentive Plan	**4**	4
	417	439

In 2017 the highest paid Director was granted primary options over 2,751 ordinary shares and secondary options, subject to performance criteria at the end of the three year reference period, over 4,913 ordinary shares under the long-term incentive plan (2016: 3,315 and 5,180 respectively). He did not exercise any options in the year (2016: 8,050).

The aggregate gain, not included above, made by the highest paid Director on the exercise of share options was £nil (2016: £86,000).

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. This benefit is subject to taxation.

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 31.

The interests of the current Directors and those who held office during the financial year in the Company's shares at 24 June 2017 (25 June 2016) are as follows:

			Ordinary shares	
		Beneficial	As trustees	Under SIP
George Barnes	**2017**	**40,407**	**-**	**2,622**
	2016	38,043	-	2,349
Nigel Bunting	**2017**	**14,100**	**-**	**1,752**
	2016	12,864	-	1,479
Bill Brett	**2017**	**15,810**	**-**	**-**
	2016	15,735	-	-
Graeme Craig	**2017**	**5,057**	**-**	**1,648**
	2016	3,924	-	1,389
Jonathan Neame	**2017**	**146,026**	**81,790**	**2,257**
	2016	147,001	81,790	1,973
Richard Oldfield	**2017**	**2,000**	**-**	**-**
	2016	2,000	-	-
Mark Rider	**2017**	**2,873**	**-**	**1,099**
	2016	2,119	-	826
Miles Templeman	**2017**	**8,905**	**-**	**-**
	2016	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 all years from 2003 to 2016 with the exception of 2009 and are held in trust for a qualifying period of three years before ownership vests unconditionally (see note 32a).

The information in this table is subject to audit and as required to be disclosed in note 31.

Subject to performance conditions being met, options over the Company's ordinary shares held by Directors at 24 June 2017 (25 June 2016) are as follows:

	At 2016	Granted	Exercised	Forfeited	At 2017		Exercise price £	Date from which exercisable	Expiry date
George Barnes	4,547	-	(2,364)	(2,183)	**-**	**	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
	-	1,843	-	-	**1,843**	***	0.50	14/10/19	14/10/26
	-	3,291	-	-	**3,291**	****	0.50	14/10/19	14/10/26
	15,425	5,134	(2,364)	(2,183)	**16,012**				
Nigel Bunting	4,484	-	(2,332)	(2,152)	-	**	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
	-	2,020	-	-	**2,020**	***	0.50	14/10/19	14/10/26
	-	3,607	-	-	**3,607**	****	0.50	14/10/19	14/10/26
	15,785	5,627	(2,332)	(2,152)	**16,928**				
Graeme Craig	4,484	-	(2,332)	(2,152)	-	**	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
	-	2,060	-	-	**2,060**	***	0.50	14/10/19	14/10/26
	-	3,679	-	-	**3,679**	****	0.50	14/10/19	14/10/26
	16,308	5,739	(2,332)	(2,152)	**17,563**				
Jonathan Neame	2,501	-	-	-	**2,501**	*	1.00	19/10/15	19/10/22
	6,805	-	-	(3,266)	**3,539**	**	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
	-	2,751	-	-	**2,751**	***	0.50	14/10/19	14/10/26
	-	4,913	-	-	**4,913**	****	0.50	14/10/19	14/10/26
	25,565	7,664	-	(3,266)	**29,963**				
Mark Rider	5,365	-	(2,790)	(2,575)	**-**	**	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
	-	2,244	-	-	**2,244**	***	0.50	14/10/19	14/10/26
	-	4,008	-	-	**4,008**	****	0.50	14/10/19	14/10/26
	18,599	6,252	(2,790)	(2,575)	**19,486**				
Total	**91,682**	**30,416**	**(9,818)**	**(12,328)**	**99,952**				

* Primary share option rights under the Shepherd Neame 2005 Restricted Share Scheme (see note 32b).

** Secondary share option rights under the Shepherd Neame 2005 Restricted Share Scheme (see note 32b).

*** Primary share option rights under the Shepherd Neame 2015 Restricted Share Scheme (see note 32c).

**** Secondary share option rights under the Shepherd Neame 2015 Restricted Share Scheme (see note 32c).

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 24 June 2017 was £13.20 (25 June 2016: £11.88) and the range during the year was £11.55 to £13.60 (2016: £11.10 to £12.20).

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their Annual Report and Accounts for the 52 weeks ended 24 June 2017.

Activities and review of business
The principal activities of the Group 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 Group's performance for the 52 weeks ended 24 June 2017 and likely future developments.

Dividends
The Company paid an interim dividend of 5.62p per ordinary share of 50p (2016: 5.45p). The Directors now recommend a final dividend of 22.73p per ordinary share of 50p (2016: 22.05p). This makes a total dividend for the year of 28.35p per ordinary share of 50p (2016: 27.50p).

The total proposed final dividend on ordinary shares of 50p will be £3,348,000 (2016: £3,268,000) which together with the 2017 interim dividend paid of £834,000 (2016: £809,000) will make total dividends of £4,182,000 (2016: £4,077,000).

Directors
The names of the Directors who served during the year are set out on pages 26 and 27. Changes in Directors during the year include the resignation of James Leigh-Pemberton on 8 September 2016. Details of all Directors' interests are set out in the Remuneration Report on pages 30–34.

Nigel Bunting retires from the Board by rotation and will be offering himself 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 the Company purchased a total of 124,514 ordinary shares of 50p at a total cost of £1,647,000 representing 0.84% of the Company's issued share capital (2016: 49,000 ordinary shares of 50p at a total cost of £584,000 being 0.33% of the Company's issued share capital). Of the consideration £1,321,000 was settled after the year end (2016: £297,000). The shares were acquired in connection with the Company's future 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 Group is given in note 23 to the accounts.

Employees
It is the Group'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 Group's employment.

The Group 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 Group made no political contributions during the year (2016: £nil).

Auditor
A resolution to reappoint Deloitte LLP 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 2017

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 and profit or loss of the Group and 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 Group's transactions and disclose with reasonable accuracy at any time, the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 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 23; and, on the basis of reasonable expectation, have concluded that the Group and Company have adequate resources to continue in operational existence for the foreseeable future and accordingly consider that it is appropriate to continue to adopt the going concern basis 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

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the Parent Company's affairs as at 24 June 2017 and of the group's profit for the 52 weeks then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Shepherd Neame Limited (the 'Parent Company') and its subsidiary (the 'group') which comprise:

- the Consolidated Profit and Loss Account;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Balance Sheet;
- the Company Balance Sheet
- the Statement of Changes in Equity;
- the Consolidated Cash Flow Statement;
- the statement of accounting policies; 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, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- The fair value of the assets and liabilities acquired under FRS 102 Section 19, Business Combinations
- The discount rate and forecast growth rates used as part of the tangible fixed assets impairment review

Materiality

The materiality used in the current year was £589,000 which was determined on the basis of 5% of profit before taxation.

Scoping

We performed full scope audit procedures over the entire group. This is the first year that a group audit has been performed due to the acquisition of Village Green Restaurants Limited that took place in the period.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The fair value of the assets and liabilities acquired under FRS 102 Section 19, Business Combinations

Key audit matter description

During the year the Group acquired Village Green Restaurants for a total consideration of £11.9m. The acquisition is accounted for as a business combination. There are a number of significant judgements involved in the determination of the fair value of the assets acquired and liabilities assumed, which also gives rise to a potential fraud risk. We have therefore identified the valuation of the assets acquired and the liabilities assumed as a significant risk of material misstatement.

A purchase price allocation exercise has been performed by Management. The primary element of the valuation exercise assessed the fair value of the tangible fixed assets acquired as part of the combination (£13.3m) and the resulting goodwill (£506,000). The allocation also considered the fair values of other assets and liabilities acquired.

Refer to the accounting policies (page 44) and note 16 of the group financial statements (page 57).

How the scope of our audit responded to the key audit matter

We verified the appropriateness of the group's accounting for the acquisition of Village Green Restaurants through use of the following key procedures:

1. Challenged the group's preliminary estimates of fair value to test their robustness, by checking completeness of the Company's process to identify the assets acquired and liabilities assumed, and checking internal consistency of the assumptions used in the valuations;
2. Obtained the group's internal expert's reports supporting the value of the properties acquired and used our real estate specialists to verify the appropriateness of the valuation methodologies and the reasonableness of key assumptions and judgements made;
3. Evaluated the competence of the experts used by the group and our in-house experts by reference to their qualifications and experience;
4. Assessed and challenged key assumptions and judgements used in the valuation of the property assets acquired including the valuation multiples and EBITDAs used for each property acquired. These were challenged through use of our real estate specialists engaging with management in detailed discussions around each property valuation;

5. Engaged with our audit specialists to assess the reasonableness of the deferred tax liabilities calculated on the fair value of the assets and liabilities acquired;
6. Reviewed the disclosures in the financial statements around the acquisitions to confirm the fair values of the assets and liabilities have been correctly recorded;
7. Challenged that the Management judgements underpinning the goodwill amortisation periods were appropriate; and
8. Reviewed sale and purchase agreements to identify any contingent or deferred consideration.

Key observations
On the basis of the assessment we have carried out in respect of the valuations, we are satisfied with the approach and methodology adopted by the Directors in the preparation of the valuations of their estate as at 24 June 2017. We believe that the valuations are a fair and reasonable reflection of the business combination as at that date.

The discount rate and forecast growth rates used as part of the tangible fixed assets impairment review

Key audit matter description
The Group has property, plant and equipment with a net book value of £299m as at 24 June 2017.

In assessing impairment, Management estimates the recoverable amount of each cash-generating unit (CGU) by reference to the higher of its value in use (based on the group's key assumptions in relation to future profits and a discount rate) and fair value less costs of disposal. The recoverable amount is compared to the carrying value of each CGU to determine whether any impairment is required. A CGU is defined as an individual tenanted or managed public house because this is the lowest level at which a group of assets (in this case, the land, buildings and fixtures and fittings) generate independent cash inflows.

There is a significant element of judgement in determining the recoverable amount of assets, specifically the assumptions used by Management in the value in use calculations, which also gives rise to a potential fraud risk. The discount rate and EBITDA growth rates are impacted by various factors, both internal as well as wider external economic factors (inflationary pressures, tax levies, consumer demand).

The discount rate and forecast profit calculations therefore have a high degree of judgement and carry a higher level of inherent risk of material error. These areas therefore formed a significant risk for our audit purposes.

Refer to accounting policies (page 44) and note 14 of the group financial statements (page 54).

How the scope of our audit responded to the key audit matter
We obtained an understanding of the group's process employed to identify impairment indicators and to calculate appropriate impairments of property, plant and equipment at a cash-generating unit level. We then performed the following procedures in order to address the above significant risk:

1. Engaged our valuation specialists to benchmark discount rates against market data and competitors and also performed sensitivity analysis using our specialist's discount rate thresholds;
2. Tested the arithmetical accuracy and integrity of the model;
3. Challenged Management's growth forecasts and assumptions used through detailed discussions with Management and a retrospective review of budget accuracy and historic growth;
4. Reviewed and challenged Management's assessment of where impairment indicators trigger the need for impairment testing, while challenging Management's value in use calculations and assumptions for pubs requiring impairment tests. This included those deemed "at risk", which are those pubs that have had three years of decreasing EBITDA and/or three years where the ROCE falls below 8%;
5. Reviewed and followed up the "at risk" properties identified as part of the 2016 impairment review to note whether these were still deemed to be at risk of impairment; and
6. Evaluated the appropriateness, sufficiency and clarity of any impairment-related disclosures provided in the group financial statements, including the disclosure of key sensitivities.

Key observations
We are satisfied Management's assumptions in growth rates, discount rate and the overall impairment review performed are reasonable.

Our application of materiality
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality
£589,000

Basis for determining materiality
5% of profit before taxation

Rationale for the benchmark applied
We judged profit before taxation to be the most appropriate benchmark for determining materiality as it is a key performance indicator for various stakeholders including shareholders.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £20,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit
The Group's operations are all conducted in the United Kingdom. The audit was performed by one audit team based in the head office location in Faversham. The Group is made up of Shepherd Neame Limited (the Parent Company) and Village Green Restaurants Limited which is a wholly owned subsidiary. We also attended a sample of stock counts as at the year end.

During the year, the Parent Company acquired control of Village Green Restaurants.

We obtained a thorough understanding of the entity-level controls of the Group. This assisted us in identifying and assessing the risks of material misstatement due to fraud or error and supported us in determining the most appropriate audit strategy.

We performed an audit of the complete financial information of all trading components which represented 100% of the Group's results for the year.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors
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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit for the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Report on other legal and regulatory requirements
Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and or the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception
Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Ian J Smith

Ian James Smith FCA
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
14 September 2017

CONSOLIDATED PROFIT AND LOSS ACCOUNT 52 WEEKS ENDED 24 JUNE 2017

	note	52 weeks to 24 June 2017 Underlying results £'000	Items excluded from underlying results £'000	Total statutory £'000	52 weeks to 25 June 2016 Underlying results £'000	Items excluded from underlying results £'000	Total statutory £'000
Turnover	3, 4	**156,198**	**-**	**156,198**	139,890	-	139,890
Operating charges	5, 7	**(140,939)**	**(469)**	**(141,408)**	(125,655)	(495)	(126,150)
Operating Profit	3	**15,259**	**(469)**	**14,790**	14,235	(495)	13,740
Net finance costs	6	**(4,094)**	**-**	**(4,094)**	(3,898)	-	(3,898)
Profit on disposal of property	7	**-**	**588**	**588**	-	4,235	4,235
Investment property fair value movements	7	**-**	**496**	**496**	-	282	282
Profit on ordinary activities before taxation		**11,165**	**615**	**11,780**	10,337	4,022	14,359
Taxation	8	**(2,429)**	**861**	**(1,568)**	(2,254)	314	(1,940)
Profit after taxation		**8,736**	**1,476**	**10,212**	8,083	4,336	12,419
Earnings per 50p ordinary share	10						
Basic				**69.1p**			84.0p
Underlying basic				**59.1p**			54.7p
Diluted				**68.5p**			83.4p

All results are derived from continuing activities.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
52 WEEKS ENDED 24 JUNE 2017

	note	52 weeks ended 24 June 2017 £'000	52 weeks ended 25 June 2016 £'000
Profit after taxation		**10,212**	12,419
Gains/(losses) arising on cash flow hedges during the period	21	**2,460**	(5,887)
Tax relating to components of other comprehensive income	8	**(321)**	1,521
Other comprehensive gains/(losses)		**2,139**	(4,366)
Total comprehensive income		**12,351**	8,053

CONSOLIDATED AND PARENT COMPANY BALANCE SHEET AS AT 24 JUNE 2017

	note	**Group 24 June 2017 £'000**	Group 25 June 2016 £'000	**Company 24 June 2017 £'000**	Company 25 June 2016 £'000
Fixed assets					
Goodwill	13	**735**	-	**735**	-
Tangible fixed assets	14	**305,670**	279,872	**305,670**	279,872
Investments and loans	15	**194**	333	**11,777**	333
		306,599	280,205	**318,182**	280,205
Current assets					
Stocks	17	**7,063**	6,580	**7,063**	6,580
Debtors	18	**19,986**	18,114	**19,986**	18,114
Deferred tax asset due after one year	24	**3,787**	4,409	**3,787**	4,409
Cash		**184**	90	**158**	90
		31,020	29,193	**30,994**	29,193
Creditors: amounts falling due within one year					
Bank loans and overdrafts	20	**-**	(727)	**-**	(727)
Creditors	19	**(31,145)**	(26,703)	**(42,985)**	(26,703)
		(31,145)	(27,430)	**(42,985)**	(27,430)
Net current (liabilities)/assets		**(125)**	1,763	**(11,991)**	1,763
Total assets less current liabilities		**306,474**	281,968	**306,191**	281,968
Creditors: amounts falling due after more than one year					
Bank loans	20	**(78,267)**	(59,439)	**(78,267)**	(59,439)
Derivative financial instruments	22	**(21,887)**	(23,670)	**(21,887)**	(23,670)
Deferred lease liability		**(2,027)**	(1,831)	**(2,027)**	(1,831)
Provisions for liabilities	24	**(13,182)**	(13,151)	**(13,182)**	(13,151)
Net assets		**191,111**	183,877	**190,828**	183,877
Capital and reserves					
Called-up share capital	25	**7,429**	7,429	**7,429**	7,429
Share premium account	26	**1,099**	1,099	**1,099**	1,099
Revaluation reserve	26	**73,579**	73,253	**73,579**	73,253
Reserve for own shares held	26	**(2,277)**	(915)	**(2,277)**	(915)
Hedging reserve	26	**(17,446)**	(19,288)	**(17,446)**	(19,288)
Profit and loss account	26	**128,727**	122,299	**128,444**	122,299
Equity shareholders' funds		**191,111**	183,877	**190,828**	183,877

These accounts for Shepherd Neame Limited (Registered in England number 138256) were approved by the Board of Directors on 14 September 2017 and were signed on its behalf by:

Miles Templeman
Jonathan Neame
Directors

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 52 WEEKS ENDED 24 JUNE 2017

	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 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**
Profit for the financial year	-	-	-	-	-	10,212	10,212
Gains arising on cash flow hedges during the year	-	-	-	-	2,460	-	2,460
Tax relating to components of other comprehensive income	-	-	297	-	(618)	-	(321)
Total comprehensive income	**-**	**-**	**297**	**-**	**1,842**	**10,212**	**12,351**
Ordinary dividends paid	-	-	-	-	-	(4,102)	(4,102)
Transfer of realised revaluation	-	-	29	-	-	(29)	-
Accrued share-based payments	-	-	-	-	-	619	619
Purchase of own shares	-	-	-	(1,647)	-	-	(1,647)
Distribution of own shares	-	-	-	178	-	(165)	13
Unconditionally vested share awards	-	-	-	107	-	(107)	-
Balance at 24 June 2017	**7,429**	**1,099**	**73,579**	**(2,277)**	**(17,446)**	**128,727**	**191,111**

There are no differences in the Parent Company Statement of Changes in Equity and the Consolidated Statement of Changes in Equity above other than the Parent Company Profit for the financial year of £9,944,000 and goodwill amortisation of £15,000 charged to the profit and loss reserve.

CONSOLIDATED CASH FLOW STATEMENT 52 WEEKS ENDED 24 JUNE 2017

	£'000	52 weeks ended 24 June 2017 £'000	£'000	52 weeks ended 25 June 2016 £'000
Net cash flows from operating activities (note 27)		**22,080**		20,293
Cash flows from investing activities				
Proceeds of sale of tangible fixed assets	**5,876**		11,893	
Purchase of tangible fixed assets	**(25,668)**		(15,391)	
Additional loans to customers	**(48)**		(21)	
Customer loan redemptions	**130**		245	
Acquisition of subsidiaries	**(12,378)**		-	
Cash acquired on acquisition	**827**		-	
Net cash flows from investing activities		**(31,261)**		(3,274)
Cash flows from financing activities				
Dividends paid	**(4,102)**		(3,977)	
Interest paid	**(3,994)**		(3,904)	
Repayment of long-term loan	**-**		(16,000)	
New long-term loan	**19,000**		-	
Issue costs of new long-term loan facility	**(292)**		(313)	
Purchase of own shares	**(622)**		(287)	
Share option proceeds	**12**		32	
Net cash flows from financing activities		**10,002**		(24,449)
Net increase/(decrease) in cash and cash equivalents		**821**		(7,430)
Cash and cash equivalents at beginning of the period		**(637)**		6,793
Cash and cash equivalents at end of the period		**184**		(637)

NOTES TO THE ACCOUNTS 24 JUNE 2017

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 (the Company) 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 principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the Directors' report on page 35.

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 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.

b Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings made up to 24 June 2017. A subsidiary is an entity that is controlled by the parent. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Business combinations are accounted for under the purchase method. Where necessary, adjustments are made to the financial statements of subsidiaries to bring accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In the parent financial statements, investments in subsidiaries are carried at cost less impairment.

c Intangible assets – goodwill

Goodwill arising on acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, which is five to ten years. Provision is made for any impairment.

d 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.

e 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.

f 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.

g Financial instruments

Financial assets and financial liabilities are recognised when the Group 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 Group 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 Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, 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 Group uses derivative financial instruments (interest rate swaps) to adjust interest rate exposures. The Group 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 Group 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.

h 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.

i 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.

j 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.

1 Accounting Policies continued

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.

k 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.

l 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.

m Exceptional items

Items which are either material or infrequent in nature are described as exceptional items and are excluded from underlying results.

n Retirement benefits

The Group 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.

o 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.

p Dividends

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

q 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 Group (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.

r 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 Group'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 14.

Critical judgements
There have been no critical judgements made in the current or prior financial years.

3 Segmental reporting

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

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

52 weeks ended 24 June 2017	Brewing and Brands £'000	Managed Pubs and Hotels £'000	Tenanted and Leased Pubs £'000	Unallocated £'000	Total £'000
Turnover	**59,760**	**60,671**	**34,434**	**1,333**	**156,198**
Underlying operating profit	1,566	9,005	12,973	(8,285)	15,259
Exceptional items	-	(421)	(48)	-	(469)
Divisional operating profit	**1,566**	**8,584**	**12,925**	**(8,285)**	**14,790**
Net finance costs					**(4,094)**
Profit on disposal of property					**588**
Investment property fair value movements					**496**
Profit on ordinary activities before taxation					**11,780**
Other segment information					
Capital expenditure - tangible fixed assets and goodwill	1,399	21,529	15,506	1,120	**39,554**
Depreciation and amortisation	2,113	2,569	2,174	990	**7,846**
Underlying divisional EBITDA	3,857	11,604	15,166	(7,275)	**23,352**
Number of pubs	-	66	253	8	**327**

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	1,588	7,631	12,675	(7,659)	14,235
Exceptional items	-	-	(307)	(188)	(495)
Divisional operating profit	**1,588**	**7,631**	**12,368**	**(7,847)**	**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 and goodwill	2,374	6,055	6,774	436	**15,639**
Depreciation and amortisation	2,172	2,016	2,028	899	**7,115**
Underlying divisional EBITDA	3,989	9,727	14,719	(6,757)	**21,678**
Number of pubs	-	54	267	7	**328**

The segmental disclosure reflects how management now monitor the performance of each division, which has resulted in a re-statement of the 2016 disclosure.

Geographical information

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

	52 weeks ended 24 June 2017 £'000	52 weeks ended 25 June 2016 £'000
Turnover		
UK	**153,529**	137,424
Rest of the World	**2,669**	2,466
	156,198	139,890

4 Turnover

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

	52 weeks ended 24 June 2017 £'000	52 weeks ended 25 June 2016 £'000
Sale of goods and services	**147,223**	131,253
Rental income	**8,975**	8,637
	156,198	139,890

5 Operating charges

	Before exceptional items 52 weeks ended 24 June 2017 £'000	Exceptional items 52 weeks ended 24 June 2017 £'000	Total 52 weeks ended 24 June 2017 £'000	52 weeks ended 25 June 2016 £'000
Production costs and costs of goods used in retailing	**67,525**	-	**67,525**	60,141
Change in stocks of finished goods and work in progress	**(483)**	-	**(483)**	421
Staff costs:				
Wages and salaries	**28,859**	-	**28,859**	24,543
Social security costs	**2,491**	-	**2,491**	2,043
Other pension costs	**907**	-	**907**	959
Amortisation of goodwill (note 13)	**81**	-	**81**	-
Depreciation of tangible fixed assets (note 14)	**7,765**	-	**7,765**	7,115
Impairment of tangible fixed assets (note 14)	-	**199**	**199**	307
Loss on sale of fixed assets (excluding properties)	**184**	-	**184**	215
Property repairs	**2,907**	-	**2,907**	2,443
Operating lease rentals - land, buildings, vehicles and equipment	**3,749**	-	**3,749**	3,672
Foreign exchange (gain)/loss	**(5)**	-	**(5)**	29
Impairment of stock recognised as an expense	**446**	-	**446**	419
Other operating charges	**26,513**	**270**	**26,783**	23,843
Total operating charges	**140,939**	**469**	**141,408**	126,150

The analysis of auditor's remuneration is as follows:

	52 weeks ended 24 June 2017 £'000	52 weeks ended 25 June 2016 £'000
Fees payable to Deloitte LLP for the audit of the Group's annual accounts	**99**	167
Fees payable to Deloitte LLP for other services to the Group		
Audit of the Company's subsidiaries	**17**	-
Total audit fees	**116**	167
Tax services	**38**	21
Other services	-	29
Total non-audit fees	**38**	50
Fees payable to Deloitte LLP for the audit of associated pension schemes	**12**	8
Total fees payable to Deloitte LLP	**166**	225

The total fee payable for the audit of the Company's subsidiaries included £17,000 in respect of Village Green Restaurants Limited.

6 Net finance costs

	52 weeks ended 24 June 2017 £'000	52 weeks ended 25 June 2016 £'000
Interest payable: Bank loans and overdrafts	**4,103**	4,004
Interest payable: other	**7**	-
Investment income: Income from fixed asset investments	**(6)**	(14)
Other finance income: Unwinding of discounts on provisions	**(10)**	(92)
Net finance costs	**4,094**	3,898

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 Group. 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 24 June 2017 £'000	52 weeks ended 25 June 2016 £'000
Underlying EBITDA	**23,352**	21,678
Depreciation and amortisation	**(7,846)**	(7,115)
Free trade loan discounts	**(63)**	(113)
Loss on sale of assets (excluding property)	**(184)**	(215)
Underlying operating profit	**15,259**	14,235
Net finance costs	**(4,094)**	(3,898)
Underlying profit before taxation	**11,165**	10,337
Profit on disposal of properties	**588**	4,235
Investment property fair value movements	**496**	282
Exceptional items	**(469)**	(495)
Profit on ordinary activities before taxation	**11,780**	14,359

Exceptional items of £469,000 comprised an impairment charge of £199,000 (note 14) and £270,000 in relation to a fine together with legal fees in respect of the Royal Wells Hotel, Tunbridge Wells. Exceptional items of £495,000 for the 52 weeks ended 25 June 2016 comprised an impairment charge of £307,000 (note 14), 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.

8 Taxation

a Tax on profit on ordinary activities

Tax charged to profit and loss	52 weeks ended 24 June 2017 £'000	52 weeks 25 June 2016 £'000
Current tax		
UK Corporation tax at 19.75% (2016: 20.0%)	**2,731**	2,573
Prior year (over)/under provision	**(17)**	25
Total current tax	**2,714**	2,598
Deferred tax		
Origination and reversal of timing differences	**(831)**	40
Effect of reduction in the rate of corporation tax	**(315)**	(698)
Adjustments in respect of prior years	**-**	-
Total deferred tax	**(1,146)**	(658)
Total tax charged to profit and loss	**1,568**	1,940

Tax charged to other comprehensive income		
Deferred tax		
Gains/(losses) arising on cash flow hedges in the period	**467**	(1,177)
Effect of reduction in the rate of corporation tax	**(146)**	(344)
Total tax charged/(credited) to other comprehensive income	**321**	(1,521)

b Reconciliation of the total tax charge

	52 weeks ended 24 June 2017 £'000	52 weeks ended 25 June 2016 £'000
Group profit on ordinary activities before taxation	**11,780**	14,359
Tax on Group profit at average UK corporation tax rate of 19.75% (2016: 20.0%)	**2,327**	2,872
Expenses not deductible for tax purposes	**140**	7
Profit on sale of property less chargeable gains	**(567)**	(266)
Effect of reduction in the rate of corporation tax	**(315)**	(698)
Prior year (over)/under provision	**(17)**	25
Total tax charged to profit and loss	**1,568**	1,940

c Factors that may affect future tax charges

During the period the Finance Act 2016 received Royal Assent. The main impact was the reduction of the UK Corporation tax rate from 18% to 17% (effective from 1 April 2020). To the extent that this rate change will affect the amount of future tax cash tax payments to be made by the Group, this will reduce the size of both the Group's deferred tax liability and tax asset. The impact in the 52 weeks to 24 June 2017 was an exceptional credit to profit and loss of £315,000 and a credit to other comprehensive income of £146,000.

During the 53 weeks beginning 25 June 2017, the net reduction of deferred tax liabilities expected to be credited to the profit and loss account is estimated at £800,000 due to the reversal of accelerated capital allowances and reduction in the deferred tax liability on the revaluation of freehold pubs. This estimate is based upon a number of assumptions, including the level of capital expenditure qualifying for capital allowances, properties that are to be sold and increases in the Retail Price Index, which are uncertain and could result in a significantly different actual movement.

There is no expiry date on timing differences.

9 Dividends

	52 weeks ended 24 June 2017 £'000	52 weeks ended 25 June 2016 £'000
Declared and paid during the year		
Final dividend for 2016: 22.05p (2015: 21.40p) per ordinary share	**3,268**	3,168
Interim dividend for 2017: 5.62p (2016: 5.45p) per ordinary share	**834**	809
Dividends paid	**4,102**	3,977

The Directors propose a final dividend of 22.73p (2016: 22.05p) per 50p ordinary share totalling £3,348,000 (2016: £3,268,000) for the year ended 24 June 2017. The dividend is subject to approval by the shareholders at the Annual General Meeting, to be held on 13 October 2017 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 24 June 2017 £'000	52 weeks ended 25 June 2016 £'000
Profit attributable to equity shareholders	**10,212**	12,419
Items excluded from underlying results	**(1,476)**	(4,336)
Underlying earnings attributable to equity shareholders	**8,736**	8,083
	Number	Number
Weighted average number of shares in issue	**14,780**	14,779
Dilutive outstanding options	**121**	113
Diluted weighted average share capital	**14,901**	14,892
Basic	**69.1p**	84.0p
Underlying basic	**59.1p**	54.7p
Diluted	**68.5p**	83.4p

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 32.

12 Employees

The average monthly number of persons employed by the Group (including executive directors), during the year, was as follows:

	52 weeks ended 24 June 2017 Number	52 weeks ended 25 June 2016 Number
Brewery, head office and visitor centre	**276**	278
Managed pubs	**1,217**	1,040
	1,493	1,318

13 Intangible fixed assets

	Group Goodwill £'000	Group Total £'000	Company Total £'000
Cost			
At 25 June 2016	-	-	-
Acquisitions (note 16)	816	816	816
At 24 June 2017	**816**	**816**	**816**
Amortisation			
At 25 June 2016	-	-	-
Charge for the year	81	81	66
Charge pre hive up taken to reserves	-	-	15
At 24 June 2017	**81**	**81**	**81**
Net book value			
At 24 June 2017	**735**	**735**	**735**
At 25 June 2016	-	-	-

Goodwill acquired through business combinations has been allocated for impairment testing on an individual cash-generating unit level. This represents the lowest level within the Group at which goodwill is monitored for internal management purposes. Recoverable amount is based on a calculation of value in use based upon the budget for the forthcoming financial year approved by the Directors. Cash flows beyond the budget period are extrapolated in perpetuity. The long-term growth rate applied is 2.5%. The pre-tax discount rate used in this review was 8.13%.

14 Tangible fixed assets

Group and Company	2017 £'000	2016 £'000
Property, plant and equipment	**298,913**	273,643
Investment properties	**6,757**	6,229
Total tangible fixed assets	**305,670**	279,872

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 25 June 2016	233,399	942	6,365	34,228	64,420	1,776	341,130
Additions	26,652	-	38	410	10,539	1,057	38,696
Disposals	(4,229)	-	-	(36)	(2,222)	-	(6,487)
Transfers	(512)	-	-	1,015	436	(1,491)	(552)
At 24 June 2017	**255,310**	**942**	**6,403**	**35,617**	**73,173**	**1,342**	**372,787**
Accumulated depreciation							
At 25 June 2016	3,360	131	3,585	26,020	34,391	-	67,487
Charge for year	565	17	198	1,565	5,420	-	7,765
Impairment	156	-	3	-	38	2	199
On disposals	(181)	-	-	(35)	(1,359)	-	(1,575)
Transfers	9	-	(13)	-	2	-	(2)
At 24 June 2017	**3,909**	**148**	**3,773**	**27,550**	**38,492**	**2**	**73,874**
Net book values							
At 24 June 2017	**251,401**	**794**	**2,630**	**8,067**	**34,681**	**1,340**	**298,913**
At 25 June 2016	230,039	811	2,780	8,208	30,029	1,776	273,643

Included in additions is £78,000 (2016: £98,000) of own labour capitalised.

Disposals includes an amount of £658,000 (2016: £308,000) 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 £210,695,000 are included in the valuation or cost of the freehold properties at 24 June 2017 (2016: £215,400,000).

If they had not been revalued, freehold properties would have been included at the following amounts:

Group and Company	2017 £'000	2016 £'000
Cost	**168,945**	147,589
Accumulated depreciation	**(5,761)**	(5,792)
Net book amount	**163,184**	141,797

The Group has entered into certain operating leases as lessor. The gross cost of assets held for use under these leases amounted to £28,974,000 (2016: £19,132,000) and the related accumulated depreciation charges amounted to £410,000 (2016: £336,000) and the aggregate rentals receivable amounted to £1,279,000 (2016: £912,000).

A net impairment loss of £199,000 was recognised in the year in respect of two licensed properties to write them down to their recoverable amount (2016: £307,000 in respect of six licensed properties). The loss arose as a result of a decline in performance at these properties.

Impairment was assessed at the income-generating unit level, considered to be on the basis of each individual pub. Whether an asset was impaired or not was determined by comparing the carrying value against its estimated 'recoverable amount'. The recoverable amount was taken as the higher of either the net realisable value or its value in use. The value in use was determined by conducting a net present value review of all relevant cash flows from the asset based upon the budget for the forthcoming financial year approved by the Directors. Cash flows beyond the budget period are extrapolated in perpetuity for freehold properties and over the length of the remaining lease for leasehold properties. The long-term growth rates applied are 2.5% for managed pubs and 1.5% for tenanted pubs. The pre-tax discount rate used in this review was 8.13% (2016: 8.16%).

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 24 June 2017 by reference to transactions in the market place.

Group and Company	2017 £'000	2016 £'000
Valuation:		
At start of year	**6,229**	10,071
Additions	**42**	-
Disposals	**(560)**	(4,555)
Transfers	**550**	431
Fair value movement	**496**	282
At end of year	**6,757**	6,229

The investment property rental income during the year was £229,000 (2016: £177,000).

If the investment properties had not been revalued, they would have been carried in the balance sheet at 24 June 2017 at a cost of £2,215,000 (2016: £2,422,000).

15 *Investments and loans*

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Investment in subsidiaries	-	-	11,583	-
Loans to customers	194	333	194	333
Carrying value	194	333	11,777	333

a Investment in subsidiaries

The parent Company and the Group have investments in the following subsidiary undertakings:

Subsidiary undertakings	Holding	Proportion held
Invicta Inns Limited	£1 Ordinary shares	50%
Shepherd Neame (Trustees) Limited	£1 Ordinary shares	100%
SN Finance plc	£1 Ordinary shares	50%
	£0.25 Ordinary shares	100%
Thomas Grant & Sons Limited	£1 Preference shares	100%
	£1 Ordinary shares	99.9%
Todd Vintners Limited	£1 Ordinary shares	50%
Ultimate Entertainment Services Limited	£1 Ordinary shares	100%
Village Green Restaurants Limited	£1 Ordinary shares	100%
Mexxa Mexxa Limited	£1 Ordinary shares	100%

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. All subsidiary undertakings have been included in the consolidation.

Investment in principal subsidiaries

Company	2017 £'000	2016 £'000
Cost		
At beginning of year	-	4,109
Additions	11,561	-
Subsidiaries previously excluded on the grounds of immateriality	22	-
Disposals	-	(4,109)
	11,583	-
Provisions for impairment		
At beginning of year	-	(4,008)
Disposals	-	4,008
	-	-
Carrying value at end of year	11,583	-

On 4 July 2016, the Company acquired 100% of the issued share capital of Ultimate Entertainment Services Limited for £452,000 as detailed in note 16. On 29 November 2016, the Company acquired 100% of the issued share capital of Village Green Restaurants Limited for £11,926,000 as detailed in note 16.

b Loans to customers

Group and Company	2017 £'000	2016 £'000
Carrying value at start of year	333	612
Additions	48	21
Redemptions	(130)	(245)
Loan discounts awarded	(63)	(113)
Unwinding of discounts on loans receivable	6	58
Carrying value at end of year	194	333

c The maturity profile of the loans is:

Group and Company	2017 £'000	2016 £'000
Recoverable within one year	**27**	18
Recoverable between one and five years	**87**	211
Recoverable after five years	**80**	104
	194	333

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 £86,000 is expected to be repaid in cash and £108,000 is expected to be repaid by offset against discounts to be earned but not received by customers (2016: £142,000 and £191,000 respectively). The level of discounts awarded and the interest and fees charged depends on the trading performance of each customer against individual targets.

16 Acquisition of subsidiary undertaking

a Ultimate Entertainment Services Limited

On 4 July 2016, the Company acquired 100% of the issued share capital of Ultimate Entertainment Services Limited, a company which operated five Shepherd Neame tenancies in and around Faversham and Canterbury, Kent, for cash consideration of £452,000. The fair value of assets acquired at that date was £142,000, which was less than the fair value of the consideration by £310,000, which has been treated as goodwill. This goodwill will be amortised over its useful economic life of five years.

The acquisition has been accounted for under the purchase method. The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the Group:

	Book value £'000	Revaluation £'000	Accounting policy alignment £'000	Provisional fair value to Group £'000
Fixed assets				
Tangible assets	**142**	22	-	**164**
Current assets				
Stocks	**64**	-	-	**64**
Cash	**14**	-	-	**14**
Total assets	**220**	22	-	**242**
Creditors: amounts falling due within one year	**(71)**	-		**(71)**
Provisions for liabilities - deferred tax	**-**	(4)	(25)	**(29)**
Total liabilities	**(71)**	(4)	(25)	**(100)**
Net assets	**149**	18	(25)	**142**
Goodwill arising on acquisition				**310**
				452
Satisfied by:				
Cash				**452**

The business of Ultimate Entertainment Services Limited was hived up to Shepherd Neame Limited at the date of acquisition, and results since this date have been recognised in this company.

16 Acquisition of subsidiary undertaking continued

b Village Green Restaurants Limited

On 29 November 2016, the Company acquired 100% of the issued share capital of Village Green Restaurants Limited, a company which owns and operates freehold pub restaurants in and around Maidstone and Ashford, Kent, for cash consideration of £11,926,000. The fair value of assets acquired at that date was £11,420,000, which was less than the fair value of the consideration by £506,000, which has been treated as goodwill. This goodwill will be amortised over its useful economic life of ten years.

The acquisition has been accounted for under the purchase method. The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the Group:

	Book value £'000	Revaluation £'000	Provisional fair value to Group £'000
Fixed assets			
Tangible assets	**3,962**	9,338	**13,300**
Current assets			
Stocks	**70**	-	**70**
Debtors	**42**	-	**42**
Cash	**812**	-	**812**
Total assets	**4,886**	9,338	**14,224**
Creditors: amounts falling due within one year	**(1,268)**	-	**(1,268)**
Provisions for liabilities - deferred tax	**(129)**	(1,407)	**(1,536)**
Total liabilities	**(1,397)**	(1,407)	**(2,804)**
Net assets	**3,489**	7,931	**11,420**
Goodwill arising on acquisition			**506**
			11,926
Satisfied by:			
Cash			**11,926**

The businesses of Village Green Restaurants Limited were hived up to Shepherd Neame between March and May 2017 and the results of these businesses since that date have been recognised in the parent Company.

In the 52 weeks ended 24 June 2017, turnover of £2,573,000 and underlying operating profit of £317,000 was included in the consolidated profit and loss account in respect of Village Green Restaurants Limited since the acquisition date. This reflects the trade within those pubs from the date of acquisition to the date at which the assets and trade were hived up to Shepherd Neame.

17 Stock

Group and Company	2017 £'000	2016 £'000
Raw materials and consumables	**2,197**	2,021
Work in progress	**366**	293
Finished goods including goods for resale	**4,500**	4,266
	7,063	6,580

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

18 Debtors

Group and Company	2017 £'000	2016 £'000
Amounts falling due within one year:		
Trade debtors	**16,493**	14,464
Other debtors	**375**	397
Prepayments	**3,118**	3,253
	19,986	18,114

Amounts due after more than one year comprised £376,000 (2016: £285,000) 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 £282,000 (2016: £289,000) was recognised in profit and loss during the year.

19 Creditors: Amounts falling due within one year

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Trade creditors	**8,541**	7,994	**8,537**	7,994
Amounts owed to subsidiary undertakings	**-**	-	**12,159**	-
Corporation tax	**1,749**	1,472	**1,456**	1,472
Other tax and social security	**7,958**	6,609	**7,942**	6,609
Accruals and deferred Income	**8,779**	7,767	**8,777**	7,767
Trade deposits	**1,861**	1,831	**1,861**	1,831
Other creditors	**2,257**	1,030	**2,253**	1,030
	31,145	26,703	**42,985**	26,703

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

Group and Company	2017 £'000	2016 £'000
Bank loans	**79,000**	60,000
Less: loan issue costs	**(733)**	(561)
	78,267	59,439

The bank loans at the year end comprise a 20-year term loan of £60m arranged in April 2007 and drawings of £19m on the revolving credit facility. The 20-year term loan is hedged by interest rate swap contracts which are referred to in note 22. 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 facilities were refinanced by increasing the revolving credit facility from £20m to £45m, which expires in September 2020. At the year end, £26m (2016: £20m) of the total £45m (2016: £20m) committed bank facility was available and undrawn.

The bank loans and overdraft were repayable as follows:

	2017 £'000	2016 £'000
Amounts payable on demand or within one year	**-**	727
Amounts payable between one and five years	**19,000**	-
Amounts payable after five years	**60,000**	60,000
	79,000	60,727

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

21 Financial Instruments
The interest rate profile of the Group and Company's borrowings was as follows:

	2017 Notional principal £'000	2017 Weighted average interest rate %	2017 Weighted average period for which rate fixed (years)	2016 Notional principal £'000	2016 Weighted average interest rate (%)	2016 Weighted average period for which rate fixed (years)
Bank loan	**60,000**	**5.78**	**9.75**	60,000	5.78	10.75
Revolving credit facility	**19,000**	**2.04**	**-**	-	-	-

Three-month LIBOR was 0.303% at 24 June 2017 (25 June 2016: 0.56%). The overdraft facility bears interest at 2.5% (2016: 2.5%) above National Westminster Bank base rate which was 0.25% at 24 June 2017 (2016: 0.5%).

Categories of financial assets and liabilities
The carrying values of the primary financial instruments are as follows:

	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Financial assets				
Debt instruments measured at amortised cost				
• Loans receivable from customers	**570**	734	**570**	734
Measured at undiscounted amount receivable				
• Cash	**184**	90	**158**	90
Financial liabilities				
Measured at fair value and designated in an effective hedge relationship				
• Derivative financial liabilities	**(21,887)**	(23,670)	**(21,887)**	(23,670)
Measured at amortised cost				
• Variable rate bank loan	**(78,267)**	(59,439)	**(78,267)**	(59,439)
Measured at undiscounted amount payable				
• Bank overdraft	**-**	(727)	**-**	(727)

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

	2017 £'000	2016 £'000
Interest income and expense		
Total interest income for financial assets at amortised cost	**12**	91
Total interest expense for financial liabilities at amortised cost	**(3,488)**	(3,809)
Fair value gains and losses		
On derivative financial liabilities designated in an effective hedging relationship	**2,460**	(5,887)

22 Derivative financial instruments
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 Group 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 Group. If forward interest rates are above the swap rate then there will be a positive fair value for the Group.

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	
	2017 %	2016 %	2017 £'000	2016 £'000	2017 £'000	2016 £'000
5 years+	**5.1**	5.1	**60,000**	60,000	**21,887**	23,670

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

A gain of £2,460,000 (2016: loss of £5,887,000) 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.

23 Financial Risk Management

a Financial risks

The main risks associated with the Group'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 Group uses derivative instruments to change the economic characteristics of its financial instruments. It is Group policy not to enter into or trade in financial instruments for speculative purposes.

Interest rate risk

Currently it is Group policy to manage the cost of its borrowings by using a mixture of fixed and variable interest rates 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 Group. 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 21 and 22. Interest on drawings on the revolving credit facility and short-term overdraft facility are not fixed as it is Group policy to have short-term borrowing on a variable rate basis.

Liquidity risk

The Group manages its liquidity risk by monitoring cash receipts and payments and preparing rolling cash flow forecasts from which to predict short- and long-term funding requirements and ensure that borrowing facilities are available, if required, and that covenants in respect of bank loans are not contravened. Capital expenditure is approved by the Board and investment appraisal models used to evaluate proposed expenditure. It is currently the Group's policy to finance the majority of its business need by means of long-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 £45m, which is due to mature in September 2020 and a committed overdraft facility of £2m, which matures in June 2018. The size of the facility is regularly reviewed and the overdraft facility is renewed annually. At the year end £19m (2016: nil) of the revolving credit loan facility and £nil (2016: £0.7m) of the overdraft facility was being utilised.

Counterparty credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and are subject to credit limits to control debt exposure. It has not been possible to maintain credit insurance at appropriate cost in the current market. In addition, receivable balances are monitored on an ongoing basis. The growth of the Group'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 Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from the default of a counterparty, with a maximum exposure equal to the carrying value amount of these instruments.

Foreign currency risk

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

b Capital management

The capital structure of the Group consists of bank loans (see note 20), cash and shareholders' equity, comprising share capital, reserves and retained earnings (see notes 25 and 26). In managing its capital the Group's main objectives are to ensure that it is able to continue to operate as a going concern as noted in the Report of the Directors and to maximise its return to its shareholders through a combination of capital growth and distributions. The Group seeks to maintain a ratio of debt to equity that balances the risk and returns at an acceptable level and maintains sufficient funds to meet its working capital and investment requirements and comply with bank-lending covenants.

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

24 Provisions for liabilities

Group and Company	2017 £'000	2016 £'000
Onerous lease provisions	**(54)**	(140)
Deferred taxation	**(13,128)**	(13,011)
	(13,182)	(13,151)

a Onerous lease provisions

Group and Company	2017 £'000	2016 £'000
As at start of year	**(140)**	(92)
Credited/(charged) to profit and loss	**86**	(48)
As at end of year	**(54)**	(140)

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

b Deferred tax

Group and Company	Asset 2017 £'000	Liability 2017 £'000	Net 2017 £'000	Asset 2016 £'000	Liability 2016 £'000	Net 2016 £'000
As at start of year	**4,409**	**(13,011)**	**(8,602)**	3,965	(14,746)	(10,781)
(Charged)/credited to profit and loss	**(4)**	**1,150**	**1,146**	(381)	1,039	658
Credited to other comprehensive income	**(618)**	**297**	**(321)**	825	696	1,521
Acquired in the year (note 16)	**-**	**(1,564)**	**(1,564)**	-	-	-
As at end of year	**3,787**	**(13,128)**	**(9,341)**	4,409	(13,011)	(8,602)

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

	Asset 2017 £'000	Liability 2017 £'000	Net 2017 £'000	Asset 2016 £'000	Liability 2016 £'000	Net 2016 £'000
Derivative financial instruments	**3,765**	**-**	**3,765**	4,383	-	4,383
Accelerated capital allowances	**-**	**(2,798)**	**(2,798)**	-	(3,015)	(3,015)
Revaluation of freehold pubs	**-**	**(6,989)**	**(6,989)**	-	(6,258)	(6,258)
Rolled over capital gains	**-**	**(3,114)**	**(3,114)**	-	(3,492)	(3,492)
Others	**22**	**(227)**	**(205)**	26	(246)	(220)
Total deferred tax asset/(liability)	**3,787**	**(13,128)**	**(9,341)**	4,409	(13,011)	(8,602)

25 Called-up share capital

	2017 £'000	2016 £'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.

26 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. At 24 June 2017 the Company held 181,199 50p ordinary shares at 24 June 2017 with a market value of £2,392,000 (2016: 88,069 and £1,046,000). During the year, the Group purchased 124,514 ordinary shares at an average cost of £13.224 per share (2016: 49,000 shares at an average cost of £11.922). £1,321,000 of the purchase consideration was settled after the year end (2016: £297,000 settled after the year end).

Of the own shares held 52,737 are allocated to employees under the Share Incentive Plan but have not yet vested.

A further 78,883 shares, held by the Trustees of the Share Incentive Plan, have vested unconditionally and as such are no longer treated as own shares held (2016: 56,558 and 79,931 respectively). Of these shares 51,026 can be distributed to employees free of tax (2016: 47,290).

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.

27 Notes to the cash flow statement

a Reconciliation of operating profit to cash generated by operations

	52 weeks ended 24 June 2017			52 weeks ended 25 June 2016		
	Underlying results £'000	Excluded from underlying results £'000	Total £'000	Underlying results £'000	Excluded from underlying results £'000	Total £'000
Operating profit	**15,259**	**(469)**	**14,790**	14,235	(495)	13,740
Adjustment for:						
Depreciation and amortisation	**7,846**	**-**	**7,846**	7,115	-	7,115
Impairment provision	**-**	**199**	**199**	-	307	307
Charge for share-based payments credited to reserves	**619**	**-**	**619**	528	-	528
(Increase)/decrease in stocks	**(349)**	**-**	**(349)**	421	-	421
Increase in debtors and prepayments	**(1,826)**	**-**	**(1,826)**	(1,978)	-	(1,978)
Increase in creditors and accruals	**2,977**	**239**	**3,216**	2,131	-	2,131
Free trade loan discounts	**63**	**-**	**63**	113	-	113
Loss on sale of assets (excluding property)	**184**	**-**	**184**	215	-	215
Interest received	**6**	**-**	**6**	14	-	14
Income tax paid	**(2,668)**	**-**	**(2,668)**	(2,313)	-	(2,313)
Net cash inflow/(outflow) from operating activities	**22,111**	**(31)**	**22,080**	20,481	(188)	20,293

b Analysis of net debt

Group	2016 £'000	Cash flow £'000	Repayment of long-term loan £'000	Issue costs of new loan £'000	Amortisation of issue costs £'000	**2017 £'000**
Cash	90	94	-	-	-	**184**
Bank overdraft	(727)	727	-	-	-	**-**
Cash and cash equivalents	(637)	821	-	-	-	**184**
Debt due within one year	-	-	-	-	-	**-**
	(637)	821	-	-	-	**184**
Debt due after more than one year	(59,439)	-	(19,000)	292	(120)	**(78,267)**
Total	(60,076)	821	(19,000)	292	(120)	**(78,083)**

28 Capital commitments - Group and Company

Contracts for capital expenditure not provided for in the accounts amounted to £645,000 (2016: £212,000).

29 Operating lease commitments

a Operating lease commitments where the Group is the lessee

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

Group and Company	**Land and buildings 2017 £'000**	**Plant and machinery 2017 £'000**	Land and buildings 2016 £'000	Plant and machinery 2016 £'000
Within one year	**2,995**	**388**	2,671	372
Between one and five years	**11,855**	**505**	10,321	596
After five years	**39,402**	**-**	38,446	-
	54,252	**893**	51,438	968

b Operating lease commitments where the Group is the lessor

The Group 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 Group. Additionally there are a smaller number of agreements in respect of investment properties where there is no requirement for the lessee to purchase goods. At the balance sheet date, future minimum rentals receivable by the Group are as follows:

Group and Company	**Investment properties 2017 £'000**	Investment properties 2016 £'000	**Other property, plant and equipment 2017 £'000**	Other property, plant and equipment 2016 £'000
Within one year	**147**	103	**989**	764
Between one and five years	**251**	331	**2,334**	1,032
After five years	**-**	-	**75**	8
	398	434	**3,398**	1,804

30 Contingent liabilities

The Company has guaranteed a mortgage totalling £43,000 (2016: £43,000) advanced by a building society to a free trade customer. 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 Group 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 Group 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 Group's legal and associated costs of an arbitration case could be up to £750,000. The Group would seek to reclaim these costs as part of the arbitration process.

31 Directors' interests

The interests of the Directors in the Company's shares and options over the Company's ordinary shares held by Directors at 24 June 2017 and 25 June 2016 are included in the tables and footnotes on pages 33 and 34.

32 Share-based payment

The key points of the Group's share schemes are summarised below. All schemes are equity-settled. All disclosure relates to both Group and Company.

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 all years from 2003 to 2016 with the exception of 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 2017 or 2016.

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

	2017 Number	2016 Number
Outstanding shares at start of year	**134,271**	129,026
Granted during the year	**19,765**	21,420
Forfeited during the year	**(3,316)**	(2,498)
Distributed during the year	**(19,100)**	(13,677)
Outstanding shares at end of year	**131,620**	134,271
Distributable at end of year	**78,883**	79,931

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 £12.954 (2016: £11.740).

The weighted average fair value of the shares granted in November 2016 was £12.650 (November 2015: £11.950). 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 24 June 2017 was £237,000 (2016: £200,000).

b The Shepherd Neame 2005 Restricted Share Scheme

This is a restricted share scheme for Senior Managers and Executive Directors, including the highest paid Director and four other Directors. The scheme ended in 2015.

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 Group achieves certain financial performance criteria and, normally, provided that the Director remains in the Company's employment.

The contractual life of each option granted is ten years and the options outstanding at 24 June 2017 had a remaining contractual life of 6.97 years.

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

	2017 Number	2017 Weighted average exercise price	2016 Number	2016 Weighted average exercise price
Outstanding at start of year	**74,689**	**£0.72**	120,917	£0.83
Granted during the year	**-**	**-**	-	-
Exercised	**(12,334)**	**£1.00**	(32,067)	£1.00
Forfeited during the year	**(12,328)**	**£1.00**	(14,161)	£1.00
Outstanding options at end of year	**50,027**	**£0.60**	74,689	£0.72
Exercisable at end of year	**9,558**	**£1.00**	7,695	£1.00

The weighted average fair value of the options granted during the year ended 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.

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).

A charge of £158,000 was recognised for share-based payments made under this scheme in respect of employee service during the year to 24 June 2017 (2016: £215,000).

c The Shepherd Neame 2015 Restricted Share Scheme

This is a restricted share scheme for Senior Managers and Executive 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 Group achieves certain financial performance criteria and, normally, provided that the Director remains in the Company's employment.

The contractual life of each option granted is ten years and the options outstanding at 24 June 2017 had a remaining contractual life of 8.78 years.

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

	2017 Number	**2017 Weighted average exercise price**	2016 Number	2016 Weighted average exercise price
Outstanding at start of year	**47,512**	**£0.50**	-	-
Granted during the year	**41,161**	**£0.50**	47,512	£0.50
Exercised	**(998)**	**£0.50**	-	-
Outstanding options at end of year	**87,675**	**£0.50**	47,512	£0.50

None of these options were exercisable at 24 June 2017.

The weighted average fair value of the options granted during the year was £12.516 (2016: 11.689). The exercise price for all options outstanding at the end of the year was £0.50.

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 years ended 24 June 2017 and 25 June 2016:

	2017	2016
Expected share price volatility	**34%**	47%
Risk-free interest rate	**4.754%**	4.884%
Expected life of option (years)	**4.0**	4.0
Weighted average share price	**£12.98**	£12.10

A charge of £224,000 was recognised for share-based payments made under the Shepherd Neame 2015 Restricted Share Scheme in respect of employee service during the year to 24 June 2017 (2016: £113,000).

33 Pension commitments

The Group operates two defined contribution schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The total expense charged to profit or loss in the period for pension costs in respect of the schemes amounts to £907,000 (2016: £959,000). Contributions of £132,000 (2016: £118,000) were payable to the schemes at the year end. Three of the executive Directors (2016: 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.

34 Related party transactions

The key management personnel of the Group are considered to be the Executive Directors, the total remuneration for whom was £1,826,000 for the year (2016: £1,894,000) being remuneration of £1,645,000 (2016: £1,609,000) and share-based payment expenses of £181,000 (2016: £285,000) as disclosed in the Remuneration Report on pages 30 to 34. 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 £57,000 were paid to four 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 £16,000 (2016: £25,000) including VAT and made sales of £110,000 (2016: £139,000) 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 £10,000 (2016: £25,000), including VAT, by St Austell Brewery Company Limited. Shepherd Neame Limited owed a balance of £1,000 to St Austell Brewery Company Limited at the year end (2016: £2,000).

Mr J B Neame is Chairman of Visit Kent. Fees and sponsorship activity paid to Visit Kent amounted to £24,000 including VAT (2016: £22,000).

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 24 June 2017 at a cost of £24,000 including VAT and disbursements to third parties (2016: £41,000). At the year end there was no balance owed to the partnership by Shepherd Neame Limited (2016: 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 £196,000 (2016: £203,000) 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 £13,000 (2016: £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.

FINANCIAL CALENDAR AND COMPANY ADVISORS

Financial Calendar

2017

28 September	Ex-dividend date
29 September	Record date*
13 October	Annual General Meeting and payment of final dividend

2018

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

Corporate Broker

Peel Hunt LLP
Moor House
120 London Wall
London
EC2Y 5ET

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

Peel Hunt LLP
Moor House
120 London Wall
London
EC2Y 5ET

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 13 October 2017 at 12.00 noon for the following purposes:

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

Resolution 1 - To receive the Annual Report and Accounts for the 52 weeks ended 24 June 2017, together with the reports of the Directors and Auditor thereon.

Resolution 2 - To declare a final dividend of 22.73p per ordinary share for the 52 weeks ended 24 June 2017, payable on 13 October 2017 to holders of ordinary shares registered at the close of business on 29 September 2017.

Resolution 3 - To re-elect Mr N J Bunting as a Director.

Resolution 4 - To re-elect Mr M H Templeman as a Director.

Resolution 5 - 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 6 - 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 NEX Exchange 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 13 January 2019 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.

Notes to the Resolutions

Resolutions 3 and 4 - 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 N J Bunting and Mr M H Templeman will retire and are each offering themselves for re-election. Brief biographies of the Directors are set out on pages 26 to 27 of the Annual Report and Accounts 2017.

Resolution 6 - Authority to make market purchases of ordinary shares

Resolution 6 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 18 September 2017. 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.

By Order of the Board
R N Duncan
Company Secretary
17 Court Street
Faversham
Kent
19 September 2017

Explanatory notes

1. Members entitled to attend and vote at the Annual General Meeting (the "**Meeting**") are entitled to appoint a proxy to exercise all or any of their rights to attend, speak and vote on their behalf at the Meeting and that proxy need not also be a member. Members may appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member.
2. **You may appoint a proxy in one of the following ways:**

(i) by using the enclosed form of proxy. In order to be valid, the form of proxy should be completed and returned, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of the same, to the Company's Registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY as soon as possible and in any event, so as to arrive by no later than 12.00 noon on Wednesday 11 October 2017;

(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 11 October 2017; 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 Wednesday 11 October 2017 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 Act, each such representative may exercise (on behalf of the corporation) 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.

FIVE YEAR FINANCIAL SUMMARY

	Group 2017 FRS 102 £'000	Company 2016 FRS 102 £'000	Company 2015 FRS 102 £'000	Company 2014 UK GAAP £'000	Group 2013 UK GAAP £'000
Profit and loss					
Turnover	**156,198**	139,890	138,237	138,679	134,906
Underlying operating profit	**15,259**	14,235	13,758	-	-
Operating profit before exceptional items	**-**	-	-	13,401	12,708
Operating items excluded from underlying results	**(469)**	(495)	(63)	-	-
Net finance costs	**(4,094)**	(3,898)	(4,424)	(4,622)	(4,675)
Exceptional charges	**-**	-	-	(1,279)	(1,243)
Profit on disposal of property	**588**	4,235	354	224	317
Investment property fair value movements	**496**	282	4,086	-	-
Profit on ordinary activities before taxation	**11,780**	14,359	13,711	7,724	7,107
Taxation	**(1,568)**	(1,940)	(2,734)	(1,546)	(1,637)
Earnings available to shareholders	**10,212**	12,419	10,977	6,178	5,470
Dividends					
Interim and finals for the year	**4,182**	4,077	3,955	3,734	3,215
Dividend - pence per share*	**28.35**	27.50	26.70	25.90	25.15
Dividend cover**	**2.4**	3.1	2.8	1.6	1.5
Underlying dividend cover	**2.1**	2.0	1.8	-	-
Dividend cover (excluding exceptional items)**	**-**	-	-	1.9	1.7
Earnings per 50p nominal share value (p) based on:**					
Earnings available to shareholders	**69.1p**	84.0p	74.3p	41.9p	37.1p
Earnings (excluding exceptional items)	**-**	-	-	48.5p	41.5p
Underlying earnings available to shareholders	**59.1p**	54.7p	48.7p	-	-
Shareholders' funds employed					
Share capital	**7,429**	7,429	7,429	7,429	12,818
Share premium	**1,099**	1,099	1,099	1,099	1,439
Revaluation reserve	**73,579**	73,253	72,430	13,125	13,228
Hedging reserve	**(17,446)**	(19,288)	(14,226)	-	-
Revenue reserves	**126,450**	121,384	113,094	107,098	98,317
	191,111	183,877	179,826	128,751	125,802
Represented by assets					
Fixed assets	**306,599**	280,205	279,960	202,664	202,505
Current assets	**31,020**	29,193	33,862	30,600	24,643
	337,619	309,398	313,822	233,264	227,148
Liabilities					
Short-term creditors	**31,145**	27,430	26,143	25,464	19,900
Long-term creditors	**78,267**	59,439	73,592	75,463	77,302
Derivative financial instruments	**21,887**	23,670	17,783	-	-
Deferred lease liability	**2,027**	1,831	1,640	-	-
Provision for liabilities	**13,182**	13,151	14,838	3,586	4,144
	146,508	125,521	133,996	104,513	101,346
Net assets	**191,111**	183,877	179,826	128,751	125,802
Net assets per share (£)***	**12.86**	12.38	12.10	8.67	8.47

* 2013 dividend per £1 share.

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

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

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