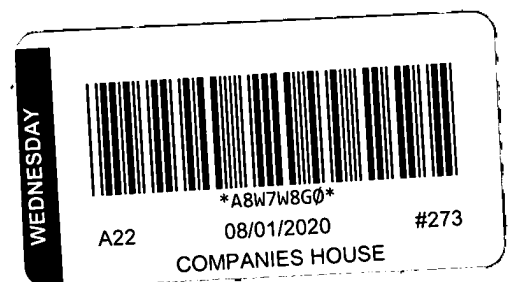


ANNUAL REPORT 2019

SHEPHERD NEAME LIMITED



Co. 138256

ANNUAL REPORT 2019

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

Our vision – is to be a Great British Brewer and run the best pubs.

Our mission – is to give our customers a great and memorable experience to make for a better day!

Bear Island Triple Hopped Lager
launches at Craft Beer Rising,
London in February 2019

CONTENTS

STRATEGIC REPORT

- 2 Financial Highlights
- 3 Our Strategy
- 4 At a Glance
- 6 Chairman's Statement
- 8 Key Strategic Objectives
- 16 Chief Executive's Review
- 21 Financial Commentary
- 24 Principal Risks and Uncertainties
- 28 Our Community

GOVERNANCE

- 30 Board of Directors
- 32 Corporate Governance
- 34 Remuneration Report
- 39 Report of the Directors
- 40 Directors' Responsibilities Statement

FINANCIAL STATEMENTS

- 41 Independent Auditor's Report
- 44 Consolidated Profit and Loss Account
- 44 Consolidated Statement of Comprehensive Income
- 45 Consolidated and Parent Company Balance Sheet
- 46 Consolidated Statement of Changes in Equity
- 47 Consolidated Cash Flow Statement
- 48 Notes to the Accounts

OTHER INFORMATION

- 68 Financial Calendar
- 68 Company Advisors
- 69 Glossary – Alternative Performance Measures
- 71 Five Year Financial Summary



FINANCIAL HIGHLIGHTS

TURNOVER	UNDERLYING OPERATING PROFIT ³	STATUTORY PROFIT BEFORE TAX
2019 ¹ £145.8M	2019 ¹ £15.3M	2019 ¹ £3.5M
2018 ² £156.6M	2018 ² £16.1M	2018 ² £12.1M
UNDERLYING BASIC EARNINGS PER SHARE ⁴	DIVIDEND PER SHARE	NET ASSETS PER SHARE ⁵
2019 ¹ 60.9P	2019 30.08P	2019 £14.01
2018 ² 63.0P	2018 29.20P	2018 £13.53

FINANCIAL HIGHLIGHTS	June 2019 52 weeks	June 2018 53 weeks	52 weeks vs 53 weeks	52 weeks vs 52 weeks ⁶
Turnover	£145.8m	£156.6m	-6.9%	-5.0%
Underlying operating profit	£15.3m	£16.1m	-5.0%	-2.2%
Statutory profit before tax	£3.5m	£12.1m	-71.4%	-70.4%
Underlying basic earnings per share	60.9p	63.0p	-3.3%	0.0%
Net assets per share	£14.01	£13.53	+3.5%	+3.7%

1 2019 was a 52 week year to 29 June 2019.

2 2018 was a 53 week year to 30 June 2018.

3 Profit before net finance costs, any profit or loss on the disposal of properties, investment property fair value movements and operating charges which are either material or infrequent in nature and do not relate to the underlying performance (see note 7).

4 Underlying profit less attributable taxation divided by the weighted average number of ordinary shares in issue during the period (see note 10). The number of shares in issue excludes those held by the Company and not allocated to employees under the Share Incentive Plan which are treated as cancelled.

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

6 For comparative purposes these figures show the change in 2019 relative to the first 52 weeks of 2018, omitting the final week of the latter year.



OUR STRATEGY

We aim to drive shareholder returns from **four key strategic objectives**

TO DRIVE FOOTFALL TO OUR PUBS

- Acquired four new pubs: the Cheshire Cheese, London, the Compton Cross, Soho, the Horse and Groom, Wilmington and the Wheatsheaf, Farnham
- Disposed of three pubs that no longer fit our long-term strategy
- A major upgrade of the Marine Hotel in Whitstable and refurbishments at the Royal Albion, Broadstairs, the Vine, Tenterden, the Shakespeare, Canterbury, the George and Dragon, Thames Ditton and the Albion, Faversham

Performance against our Key Performance Indicators (KPIs)^{1,2}

- Like-for-like ("LFL") sales in managed pubs are up +3.2% (2018: +1.3%)
- Average income per managed pub up +6.6% (2018: -1.8%)
- LFL tenanted pub income was up +2.3% (2018: +2.1%)
- Average income per tenanted pub up +3.3% (2018: +5.8%)

TO DEVELOP OUR OFFER TO ENHANCE THE CUSTOMER EXPERIENCE

- Introduced craft beers and ciders and premium international beers to sit alongside our core range
- Refurbished 31 bedrooms in four managed sites
- Invested in technology to improve speed of service and booking for our customers
- Expanded our range of healthy, lighter, vegan and low calorie options

Performance against our KPIs^{1,2}

- Drinks LFL sales up +4.3% (2018: +2.3%)
- Food LFL sales up +1.9% (2018: -1.3%)
- Accommodation LFL sales up +1.5% (2018: +2.9%)
- Occupancy is 77% (2018: 79%)
- RevPAR³ is £68 (2018: £67)

TO ATTRACT, RETAIN AND DEVELOP THE BEST PEOPLE

- Launched an apprentice scheme for chef development throughout their career path and worked more closely with local catering colleges to recruit new young talent
- Regular training workshops in our sites and on-site champions for coffee, customer service and social media
- Improved communication systems across the business to enhance engagement at all levels

- We try to engage pub teams and create a culture of empowerment by running regular training workshops and encouraging social media activity
- We continue to provide excellent support for our tenanted licensees through menu and drinks list development as well as comprehensive training

TO CREATE DEMAND AND BUILD AWARENESS FOR OUR BRANDS

- Modernised our flagship British classic ale, Spitfire, and refreshed our highly successful Whitstable Bay range
- Successfully launched the Bear Island range with Bear Island East Coast Pale Ale and Triple Hopped Lager
- Introduced the Cask Club with a series of collaboration ales with leading craft brewers
- In August 2019 entered a new partnership with Boon Rawd Brewery Company to distribute Singha Beer, Thailand's original premium beer throughout the UK
- Introduced Sam 76, a hazy American IPA, and Angry Orchard Rose Cider, both on trend craft brands from Boston Beer

Performance against our KPIs^{1,2}

- Shepherd Neame own brand beer and cider volume was up +0.5% (2018: -0.9%)
- Total own beer volumes down -23.3% (2018: -10.6%) following exit from Asahi and Lidl contracts

1 All KPI information is on a 52 vs 52 week basis.

2 An explanation of the Group's use of Alternative Performance Measures (APMs), including definitions are on pages 69 to 70 of this annual report.

3 Revenue Per Available Room.



AT A GLANCE

The Horse & Groom,
Wilmington

EXPANDING OUR RANGE

Our consumers are increasingly looking for differentiated taste profiles and beer styles to expand their repertoires and we are proud to partner with **Singha**, Thailand's original beer, to introduce an award-winning premium world lager into our portfolio.

Singha, Thailand's premium lager

INVESTING IN OUR HEARTLAND

Significant population growth is forecast in Kent with substantial new home development by 2030. The recent acquisition of the **Horse & Groom, Wilmington**, as well as our new build project in the evolving Ebbsfleet Garden City development, is an integral part of our strategy to invest in our heartland.

*Lou Davies, GM
at The Market
House, Maidstone*

ACHIEVING EXCELLENCE

Our annual Pub Awards celebrate and recognise our licensees and pub teams across our 322 strong pub estate, with **The Market House, Maidstone** crowned as this year's Pub of the Year.

The Marine,
Whitstable

NEW ICONIC DESIGN FOR A GREAT BRITISH CLASSIC

Spitfire is one of the UK's most well-known ales and following extensive consumer research we have refreshed the design to inject an increased sense of dynamism, character and pride into the brand across **Spitfire Amber, Golden Ale** and the increasingly popular **Spitfire Lager**.

TRANSFORMING OUR FLAGSHIP SITES

Delivering a premium experience is at the heart of our pub strategy and the investment programme in our flagship sites continues with a £500,000 transformation of the conservatory and dining area of **The Marine**, one of the **Whitstable** area's most iconic seafront hotels.



TOTAL NUMBER OF PUBS	TENANTED PUBS	MANAGED PUBS	COMMERCIAL FREE OF TIE
322 PUBS	239 PUBS	70 PUBS	13 PUBS
TOTAL CAPITAL EXPENITURE	NEW PUBS ACQUIRED	PUBS SOLD	FREEHOLD PROPORTION OF ESTATE
£19.3_M	4 PUBS	3 PUBS	85%
LFL MANAGED DRINKS SALES	LFL MANAGED FOOD SALES	LFL MANAGED ACCOMMODATION SALES	
+4.3%	+1.9%	+1.5%	

¹ All KPI information is on
a 52 vs 52 week basis



CHAIRMAN'S STATEMENT

The Albion,
Faversham

"A YEAR OF GOOD STRATEGIC PROGRESS AND A SOLID FINANCIAL PERFORMANCE"

MILES TEMPLEMAN CHAIRMAN

Overview

I am pleased to report a year of good strategic progress and a solid financial performance for the 52 weeks to 29 June 2019, in line with our expectations. In this year, the performance in both managed and tenanted pubs has been excellent and we continue to outperform the market. Our brewing and brands business is in a period of transition and has delivered lower turnover and profits, as anticipated. However, growth in our pub business has largely offset the reduction in brewing profits. In spite of a slight fall in Company turnover and profits, as a result of these combined outcomes, we have delivered a satisfactory overall underlying result. Our aim is to own and operate the best estate of characterful and individual pubs within our Kent and south east heartland, to deliver a great customer experience and to maximise our core strengths as a leading independent brewer with a unique heritage. We are a modern, successful business with a clear vision. We invest in high quality, cash generative assets that will provide good sustainable returns, and look to build the equity of our brands.

The company is financed for the long term backed by a high quality freehold property base which delivers consistent long term growth in dividend and net asset value per share. We sustain the long term success of the business by achieving a balance between the different market and financial characteristics of each division. This year, we have met some important objectives to position the Company for the long term:

- acquired some great new managed pubs in those areas of North Kent due for major economic development over the next decade;
 - expanded and positioned our beer portfolio to meet increasing demand in world lager and craft beers and since the year end, entered an important new partnership for distributing the leading Thai beer, Singha. We believe this will be a good medium term platform for growth. We continue to pursue other opportunities;
 - entered into a new financing structure that provides certainty of funds, at a lower cost of debt and with an improved maturity profile, which enables us to continue to invest for the long term; and
 - agreed future changes to the Board of Directors.
- These steps, and our long-term strategy, give me great confidence that Shepherd Neame has an exciting future ahead.

Financial Results

The results are in line with our expectations. Key factors to note are:

- 2019 was a 52 week year vs 53 weeks in 2018. All commentary throughout this report is on that basis, unless otherwise stated;
- the refinancing and cancellation of the swap contracts resulted in a one-off total charge of £10.8m; and
- the headline reduction in revenue and operating profit is largely as a result of the transition out of the Asahi and Lidl own brand contracts.

Total revenue for the 52 week period (2018: 53 weeks) reduced by -6.9% to £145.8m (2018: £156.6m). Managed pubs is our key area of investment and continued to grow and perform well. Tenanted pubs maintained their strong like-for-like performance and brewing and brands for the reasons outlined in the Chief Executive's report, saw a reduction in sales. Underlying profit before tax was £11.4m (2018: £11.8m), or -0.3% on an adjusted 52 week basis. Statutory profit before tax was £3.5m (2018: £12.1m) after the charge of £10.8m related to the refinancing. The business is strongly cash generative and underlying EBITDA was robust. Margins in the business as a whole have continued to increase, as the mix of our business changes, with underlying operating profit margin at 10.5% (2018: 10.3%) and underlying EBITDA margin at 16.2% (2018: 15.7%).



Underlying basic earnings per share are 60.9p (2018: 63.0p), or level on an adjusted 52 week basis, and basic earnings per share are 17.6p (2018: 68.1p).

Dividend

The Board is proposing a final dividend of 24.21p (2018: 23.45p) making the total dividend for the year of 30.08p (2018: 29.20p), an increase of +3.0%. This represents underlying dividend cover of 2.0 times (2018: 2.2 times). We will continue to target our dividend cover at or around this level in the future, consistent with our dividend policy. The final dividend will be paid on 18 October 2019 to shareholders on the register at the close of business on 4 October 2019.

New Financing Structure

In October 2018, the Company put in place a new financing structure with £107.5m of committed long term facilities. The key features of this financing structure are a private placement with BAE Systems Pensions Funds Investment Management Ltd raising £35m at 3.99% for 20 years and a new five-year revolving credit facility of £50m with Lloyds Bank plc and Santander UK plc.

We have seen the underlying finance charge reduce against the prior year, despite higher debt levels, as we are now on new and better terms.

In conjunction with the new financing structure, an off-balance sheet Directors' valuation of our licensed property assets has been undertaken which showed a surplus over current book value of £24m as at 30 June 2018. In future, the Board intends to carry out Directors' valuations of our managed and tenanted pub estates every four years.

Our new financing structure provides us with an excellent platform to take advantage of the opportunities we anticipate will exist in the market in the coming years.

Capital and Investment

Capital expenditure was £19.3m (2018: £14.7m) including £9.0m in new site acquisitions and £10.3m on investing in our pub estate and brewery.

We continue to manage our property assets actively and have realised £7.8m (2018: £6.0m) from property disposals.

The cancellation of the previous swap contracts was a cash cost of £9.4m (£7.6m net of tax).

Net debt has consequently risen to £82.0m (2018: £74.8m) as at June 2019 and net debt to EBITDA has increased to 3.5 times (2018: 3.0 times). Unlike many companies we have no outstanding final salary pension liabilities and a low proportion of lease liabilities.

Board of Directors

After what will have been 15 years as Chairman and 18 years as a Director, I feel that it is appropriate for me to step down at the AGM in October 2020.

I am delighted to announce that Richard Oldfield will become Chairman at that time. Richard currently is a Non-Executive Director, a position he has held since 2016. Richard brings significant skills and expertise in finance, investment and governance to complement the wide range of skills and experience of the Board.

He is the Founder and Chairman of Oldfield Partners LLP, an investment management firm with a global client base, a Director of Witan Investment Trust plc and former Chairman of Keystone Investment Trust plc. He was previously chief executive of Alta Advisers, the investment office of the Rausing family, and before this a director of Mercury Asset Management plc.

With Richard taking the Chair in 2020, a further Non-Executive Director has been sought to ensure that we retain extensive pub and brewing industry skills and knowledge amongst the Non-Executives. The Board is pleased to announce the proposed appointment of Kevin Georgel from July 2020. Kevin has spent over 20 years working in the UK brewing and pub sector. Appointed CEO of Admiral Taverns in 2014, Kevin joined Admiral Taverns in 2010 as Managing Director with responsibility for the Operations and Commercial aspects of the business. He was previously Operations Director at Punch Taverns with responsibility for the leased and tenanted estate. Prior to this he held

various senior sales and marketing positions within Molson Coors. Kevin is a non-executive Director of St. Austell Brewery and in January 2020 becomes its Chief Executive. He is also Deputy Chairman of The British Beer and Pub Association.

Summary

The Board is focused on investing for the long-term benefit of shareholders with the aim to run the best pubs in our heartland and be a great British brewer.

The last few years have seen significant progress in developing Shepherd Neame into the modern, balanced business that it is today. The quality of our pub portfolio has improved materially and the acquisitions made this year continue to strengthen our asset base. The operational improvements to enhance the quality of our offer and attract the best people are impressive and set out in the Chief Executive's report.

The Brewing and Brands business has been more challenging this year, but we have repositioned and modernised our portfolio, built new partnerships, developed our marketing and built the skills in our team. All of this will enable us to build on our unique heritage, our geography and expertise and to take advantage of our position as a strong independent brewer.

Consumer behaviour is changing fast and will continue to change; but beer and pubs will remain central to British social life for a very long time to come. Our challenge is to keep evolving to meet changing needs and to invest to ensure that our offer remains fresh and relevant to the consumer. As our heartland demographics and population changes, we aim to change with it, so as to be central to the life of tomorrow's customer base.

Our balance sheet is strong, cash flow robust and margins healthy. The senior team has a good balance of skills and experiences and is motivated to take the Company forward and deliver long-term success.

Miles Templeman
Chairman



OUR STRATEGY

TO DRIVE
FOOTFALL TO

OUR
PUBS

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

The Vine Inn,
Tenterden

322
pubs

£9.8m
investment in
existing pubs



The
Vine Inn,
Tenterden

Royal Naval
Reserve,
Whitstable

INVESTING IN OUR ESTATE

Our pub design programme brings to life the distinctive character of each of our unique pub locations and this year saw investment in the **Royal Naval Reserve, Whitstable**, amongst others.

A HAND-CRAFTED & BESPOKE APPROACH

Our on-going programme of creating unique, bespoke pub signs continues across the estate, with each sign reflecting the history of the individual pub – designed and hand painted by local craftsmen.

TRANSFORMATIONAL DESIGNS

The historic **Royal Albion Hotel, Broadstairs** dates back to 1776 and was a favourite of Charles Dickens. Our design project was specifically tailored to ensure it was sympathetic to the building's rich history, whilst also bringing to life more of a stylish, coastal feel as befits this seafront landmark.

Neptunes Hall,
Broadstairs

The Royal
Albion Hotel,
Broadstairs

CHARACTERFUL PUBS

Food, music and a fantastic drinks selection is at the heart of the Grade II-listed **Neptunes Hall, Broadstairs**. Our £135,000 refurbishment of the main bar and dining area, courtyard garden and exterior retained the original feel of the pub whilst giving it a more contemporary look.



Horse & Groom,
Wilmington

OUR STRATEGY

TO DEVELOP
OUR OFFER TO
ENHANCE THE

CUSTOMER EXPERIENCE

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

294

Hotel bedrooms
in our managed
pub estate

Expanded range
of seasonal and
fresh produce



Oumph! Burgers

The Kings Head, Wye

#shepsfood

WOOD-FIRED PIZZAS

The opportunity to transform an outbuilding at our acclaimed gastropub, **The Kings Head** in **Wye** into the **KingShed** micro pizzeria was identified by our licensees to tap into growing demand for fresh, wood-fired pizzas.

The team were trained by World Pizza Champion Marco Fuso and the offer has been enhanced by locally-sourced offerings such as the Vegan Pizza featuring a selection of vegetables sourced from Willow Farm in nearby Brook.

THE RISE OF VEGANISM

With the demand for vegan food continuing to grow, we were proud to be the first in the UK to launch the award-winning **Oumph! Burger** in 12 of our flagship sites. In addition to its nutritional benefits, the Oumph! also boasts a low climate impact.

GREATER RANGE FOR OUR CUSTOMERS

Pink is on point and we were excited to launch **Angry Orchard Rosé** cider across our pub estate and to national customers this year in collaboration with our partner **Boston Beer Company**. We have seen consumers switching from gin and wine to the brand, which at 4% abv offers a refreshing and fruity alternative for consumers.

HIDDEN LONDON HERITAGE

Our locally illustrated City of London walk that takes consumers on a journey around some of our classic London pubs was launched this year, unveiling hidden heritage stories and taking in some of the best drinking spots in the City. Download your copy here:
www.shepherdneame.co.uk/city-london-walk

Angry Orchard
Rosé cider



OUR STRATEGY

TO ATTRACT,
RETAIN AND
DEVELOP

THE BEST PEOPLE

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

Shepherd Neame
annual Pub Awards
2019

Staff training

1,865
Total Staff

Launched chef
apprenticeship
scheme



Assistant Manager
Jodie Butcher,
The Spitfire in
West Malling

Head Chef, **Jake Wilson**,
The George, Cranbrook

The Dove,
Dargate

ACHIEVING EXCELLENCE TOGETHER

Taking on **The Dove, Dargate**, was a completely new venture for first-time licensees and business partners William and Sophie, who worked closely with our Pub Operations and food development teams. This involved a refurbishment of the site, an extensive training programme for the staff and the development of a British Contemporary Classic themed menu, with many of the ingredients locally-sourced.

Unveiling our
new branded
vehicle bars to
our licensees

ENGAGING AND EXCITING OUR LICENSEES

Our licensees and pub teams are a huge source of insight into what consumers are looking for and so we wanted to make sure they were the first to see and trial our new **Spitfire Land Rover bar** and **Whitstable Bay VW Camper Van bar**. They were developed directly from feedback from the pub estate.

TRAINING THE NEXT GENERATION

Our new apprenticeship programme, created with Umbrella Training, supports apprentices like **Jodie Butcher** through an extensive period of practical training, mentoring and coaching. We have a strong history of training the next generation of hospitality professionals – as seen with employees like **Jake Wilson**, who joined us as a Kitchen Porter and has just achieved his ambition of becoming a Head Chef.

Rob Jones, and his daughter **Laura Jones**,
work together in the brewery delivering
great quality beer for our customers

STRONG FAMILY BUSINESS

The passion and loyalty of our team speaks for itself. Several generations of the same family can often be found working together – like **Rob Jones** and his daughter, **Laura**.



Our debut at **Imbibe** in
July 2019, the UK's leading
On Trade lifestyle event

OUR STRATEGY

TO CREATE
DEMAND
AND BUILD
AWARENESS

FOR OUR
BRANDS

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

Diversifying
our formats

Won 15 awards
for beer quality
and packaging



Whitstable
Bay brand
refresh –
evoking a
sense of
place

CAPTURING SEASIDE SPIRIT

Whitstable's iconic **Old Neptune** pub on the beach has been introduced into the packaging as part of the brand's refresh to evoke the seaside charm and tradition that the town is famous for. A new 5 litre mini keg of the popular **Whitstable Bay Pale Ale** has also launched as consumers seek out sharing formats to match the increase in 'sharing occasions' in beer.

Sam 76
launches
in the UK

THE NEW WAVE OF US CRAFT BEER

Hazy and hoppy, **Sam 76** is an innovative new beer from **Boston Beer Company** combining both lager and ale yeast, revolutionary in name and taste profile. Rave consumer reviews followed a pilot launch in the summer 2019.

NEXT GENERATION CASK

Craft cask has been tipped to be next on the beer-curious consumer's radar and our new **Cask Club** initiative aims to introduce a new wave of consumers to cask beer through new tastes and flavours, with stand-out designs, as well as collaborations with international breweries who are leaders in their respective markets.

SAMPLING SQUADS

Our strategy to raise awareness of our brands and recruit new consumers is supported by the launch of our branded vehicle mobile bars, selected to bring to life the individual brands they represent. As one consumer on Facebook told us: "what better partnership than a classic Land Rover Defender with the iconic **Spitfire** beer!"

Spitfire sampling at the aptly
named Spitfire, Kings Hill

#spitfiresquad



CHIEF EXECUTIVE'S REVIEW

The Albion,
Faversham

"A GREAT YEAR FOR OUR PUBS AND A YEAR OF TRANSITION FOR BREWING AND BRANDS"

JONATHAN NEAME CHIEF EXECUTIVE

This has been a great year for our pubs, and, as expected, a year of transition for brewing and brands but also one of new opportunities for the business as a whole.

The underlying performance of the business has been good, the balance sheet is strong and our overall market positioning has great potential. We have modernised and enhanced our beer range to offer a high quality, broad-based portfolio and entered new partnerships that can provide a platform for future growth.

We are well positioned to meet and exceed the expectations of today's consumer. In all sectors, and in particular leisure and hospitality, demand is increasingly driven by the experience economy, with consumers willing to pay more for products and services that deliver something special, unique or memorable.

Drinks choice is often driven by a desire for premiumisation, food choice is increasingly driven by a desire for a healthy lifestyle or as a rewarding treat. Consumers want more taste and flavour. Purchase decisions are often influenced by the sustainable practices of the manufacturer, the provenance of the ingredients and the authenticity of the company or brand.

These trends play to the inherent strengths of Shepherd Neame: an outstanding portfolio of pubs with

character and individuality, a great reputation for our drinks brands, a strong local and community presence and unique heritage and history.

There are many and varied factors in the sector that influence performance at this time:

- At the macroeconomic level, the UK economy shrank for the first time since 2012 in the final quarter of our financial year* and business and consumer confidence is lower. The tough weather and FIFA World Cup driven comparatives in summer 2019 versus 2018 and pre Brexit stockpiling in the third quarter, may have contributed to this.
- Within the sector, well publicised cost pressures from business rates increases and National Living Wage continue. Cost pressure is likely to continue in these areas as well as from utility costs.

Competition remains fierce at the supply and retail levels but there are always opportunities in such a fragmented market for those companies with high quality products, great service and a distinct market position to succeed.

Further, and over the medium term, our geographic location is becoming an increasing advantage. As the level of economic re-generation and housebuilding within our heartland gathers pace, this will provide us with longer term opportunities.

It is against this backdrop that we remain focused in pursuit of our consistent and successful long-term strategy:

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

Tenanted and managed pub operations

Overview

At the year end we operated 322 pubs (2018: 321) of which 274 (2018: 276), or 85% of our outlets, are freehold. Of the total pubs, 239 are tenanted or leased (2018: 242) and 70 (2018: 68) are managed and 13 (2018: 11) operated under commercial free-of-tie leases.

Approximately two thirds of our pubs are in Kent, but with a growing presence of 37 pubs in central London and the rest in Essex, Sussex, Surrey, Berkshire and Hampshire. We are acquiring pubs throughout this core territory with gradual geographical expansion as appropriate. Our acquisition strategy is to buy predominantly, but not exclusively, managed pubs, with unique

322

PUBS AND HOTELS

* Source: Office for National Statistics

character, in landmark or high footfall locations so as to create a premium and differentiated customer experience. Our ambition is to own and operate the stand-out pubs in each community we serve. We look to grow through selective single site acquisitions or small pub groups if the right opportunity arises.

We have acquired four pubs in the year, a fifth since the year end and a further site for a new build.

All will be operated as managed houses. The pubs are:

- The Cheshire Cheese, near the Temple, and the Compton Cross, in Soho, in central London;
- the Horse and Groom in Wilmington, a well-positioned pub in this densely populated area of North Kent;
- the Wheatsheaf in Farnham;
- since the end of the year the Crown at Rochester, which will join the estate in autumn 2019; and
- a site to build a new pub restaurant and hotel at Castle Hill in the centre of Ebbsfleet Garden City. We anticipate starting to build during 2020 with a target opening date mid 2021.

The two additions in London makes a total of four pubs, – alongside the Savoy Tap and Samuel Pepys, that we have acquired in the capital in the last 18 months. The three pubs in north Kent are all in the heart of planned major housing and economic development projects.

As we strengthen the quality of our estate, we continue to dispose of those outlets that no longer fit our strategy. In the last year, we have disposed of three pubs (2018: eight), sold the freehold and leased back one other, and sold five (2018: one) unlicensed properties and land holdings. We have realised £7.8m (2018: £6.0m) of total disposal proceeds.

Over the last ten years, we have acquired 37 pubs and disposed of 95. These acquisitions and disposals have transformed the profile of our pub estate, with average income per managed pub growing by +72.1% in ten years and average income per tenanted pub growing by +42.4%.

£9.8M

INVESTMENT IN OUR PUBS

Drive footfall to our pubs

We aim to drive footfall to our pubs by designing and developing unique pubs and hotels with a 'wow' factor. We believe that continuous investment in our internal facilities and improvement to the kerb appeal of our pubs, make our outlets stand out from the local competition and so recruit new customers and retain existing. Great pub design plays a hugely important part in creating a premium and differentiated experience. We have excellent skills in house, and use external consultants as appropriate.

This year, we have invested £7.0m (2018: £10.2m) in capital expenditure to improve the look and feel of our pubs and a further £2.8m (2018: £2.8m) in repairs and decorations. This is consistent with our long term plan to maintain the highest standards for our customers.

We have completed an upgrade of the restaurant and extended the conservatory at the Marine Hotel at Whitstable and a refurbishment of the restaurant and bar at the Royal Albion in Broadstairs, with further projects at the Vine in Tenterden, the Shakespeare in Canterbury, the George and Dragon in Thames Ditton and the Albion in Faversham, as well as a number of smaller developments this year.

The Woolpack, Banstead transferred from the tenanted to managed estate in February 2019. We plan a substantial redevelopment later in 2019 to exploit this great site and expect this, alongside the Wharf in Dartford, to be our major investment projects in 2020.

In the tenanted estate, we have carried out developments at the Queens Head at Boughton, the Royal Naval Reserve in Whitstable, the White Horse at Hawkinge and Neptunes Hall in Broadstairs, as well as numerous smaller schemes.

We are investing ever greater amounts in the external appearance of our pubs to improve signage and lighting, to enhance garden and car park facilities and generally improve overall amenities for our customers. We expect to have installed our new look signage on half the pub estate by the end of the 2019 calendar year.

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 drinks.

We operate a well invested, balanced portfolio of pubs and derive our income from three key streams. Drinks sales, in our managed pubs, represents 58% of the total mix (2018: 56%), with food sales 33% (2018: 34%) and accommodation 9% (2018: 9%). Our tenanted and leased pubs are also well positioned across drinks, food and accommodation offers.

At the start of this financial year, we enjoyed exceptionally warm weather and success for the England football team in the FIFA World Cup. As a consequence, we had buoyant drink sales with lager and cider brands performing especially well. Our coastal sites, in particular, benefitted from these favourable summer conditions. As the year has unfolded the trading conditions have become more difficult with a challenging final quarter as we lapped the exceptional trading in the prior year. Christmas trading 2018 was buoyant with period like-for-like managed pub sales up +7.1% and Easter 2019 was strong too, but periods in between these holiday peaks have been more testing.

“OUR AMBITION IS TO OWN AND OPERATE STAND OUT PUBS IN EACH COMMUNITY WE SERVE”



CHIEF EXECUTIVE'S REVIEW CONTINUED

+3.2%

LFL MANAGED SALES GROWTH

In these circumstances it is particularly pleasing that we still managed to grow like-for-like sales in all categories with like-for-like food sales returning to growth.

Like-for-like drinks sales in the managed estate grew by +4.3% (2018: +2.3%). The demand for premium drinks and ever wider choice of beers continues.

We have enhanced our bars, and are continually evolving our range to meet consumer demand. In beer, world lagers and fuller flavoured, craft beers drive growth. In cider, craft and red fruit based products are popular. The good performance of cocktails, gin and flavoured mixers continues.

In the eating out market pubs have continued to outperform restaurants because pubs are more flexible at adapting their offer to changing consumer needs. Visit frequency, according to MCA*, has fallen by -0.6%, driven predominantly by decline in daytime meals.

We have focused efforts on developing menus to respond to health conscious customers and now provide a variety of vegetarian and vegan options. We have launched a new vegan burger and expanded our range of seasonal and fresh produce.

We have made improvements to the way we communicate our food offer. We are proud of our position in the community and look to use local suppliers where possible within our menus and have invested

more in online engagement with our chefs and communications about our local supplier network via #shepsfood.

We recognise that people are often time-poor and some customers may want to ensure that their visit to our pubs is as fast and efficient as possible. In response to these demands we are exploring ways to improve the overall speed of service through automated table ordering and online booking.

As a consequence of all these measures, our managed like-for-like food sales grew by +1.9% (2018: -1.3%).

Providing high quality accommodation is a key part of our offer and this part of the business has enjoyed rapid growth in recent years. At the year end there were 294 (2018: 294) letting rooms in the managed estate and 220 (2018: 220) in the tenanted estate. The new site in Ebbsfleet will add 17 rooms to the managed estate in 2021.

Our managed like-for-like accommodation sales grew by +1.5% (2018: +2.9%). During the year we refurbished 31 bedrooms (2018: 16 bedrooms) at the Dog and Bear, Lenham, the Millers Arms, Canterbury, the Sun Inn, Faversham, and the Crown, Chislehurst as part of our ongoing programme to upgrade and maintain high standards in our managed inns and hotels. Occupancy fell slightly to 77% from the prior year level of 79%, but RevPAR continued to grow marginally to £68 (2018: £67).

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 loyalty and engagement of our licensees and employees through the professionalism of the support we provide.

We employed 1,865 people (2018: 1,662) at the year end, of which the majority are in our managed pubs: 1,611 (2018: 1,403), a number that has nearly doubled in the last ten years.

Across the business, we have an enviable reputation for attracting great staff and looking after them. We provide comprehensive training, support and engender a strong family culture across the business. We aim to create an aspirational career pathway and position ourselves as the local hospitality employer of choice.

In the past year, we have added new systems to help us manage this growing team and support their training and personal development more effectively. In the coming year, we will add further systems to enable enhanced communication and engagement at all levels across our employee base.

We try to engage pub teams as much as possible in the development of their individual businesses and to create a culture of empowerment. We have on-site champions for coffee, customer service and social media. We encourage our food teams to build our online presence by showcasing great fresh food and individual chef stories.

A particular challenge in the sector has been to attract quality chefs. In the last year, we have worked more closely with local catering colleges to recruit new young talent. We have launched an apprentice scheme for chef development at various stages of their career path. We have a programme to improve the kitchen working environments and deliver improved air conditioning.

We also enjoy great relationships with our tenanted and leased partners and are proud to support their achievements. We greatly value personal relationships and offer a flexible and tailored approach to the challenges and opportunities in each outlet.

**"WE AIM TO
UNDERSTAND
THE
POTENTIAL
IN EVERYONE
AND INSPIRE
THEM TO
ACHIEVE
THEIR GOALS"**

* Source: MCA Insight UK Eating Out Market Report 2019



We were delighted with the recent results from this year's KAM Media industry survey, which gave us great feedback from our licensees on the support and service levels we provide. We score highly against our key competitors in most categories and firmly believe we attract some of the best talent within the sector.

We are firm supporters of Voluntary Code of Practice for the operation of Tenanted and Leased pubs. We are particularly pleased with the take up of one of the initiatives launched this year, to provide a comprehensive regulatory compliance support package.

Every year, we hold a celebration to recognise and reward the outstanding talent of our licensees. I am delighted that Lou Davies and her team at the Market House, Maidstone were named as the Shepherd Neame Pub of the Year for their remarkable transformation of this pub.

Pub performance

Our Managed pubs continue to outperform the market. The Coffey Peach Business Tracker recorded like-for-like sales growth in the market of +1.6% for the 12 months to June 2019. Our same outlet like-for-like managed pub sales were up +3.2% for the 52 weeks to 29 June 2019 (2018: +1.3%). Average income per managed pub grew by +6.6% (2018: -1.8%).

Within the tenanted estate we have continued the very robust and consistent trajectory of recent years, with like-for-like tenanted pub income up +2.3% (2018: +2.1%) and average income per tenanted pub up +3.3% (2018: +5.8%).

Brewing and brands

Overview

The market for beer continues to evolve at a rapid rate.

There is a clear role for an independent brewer, of our size, based in the south east, with our skills and expertise. We have a unique heritage, brew great beers,

have strong local provenance, and enjoy excellent customer relationships. We also see considerable new opportunities emerging as the market evolves.

Achieving the highest quality standards in production is a key success criterion. In the last year, we have won 15 different awards for the quality of our beer and packaging. We have invested £1.1m in new plant and infrastructure. In 2020 we plan to install new yeast and filter plants to further improve product quality at similar levels of capital expenditure. We have invested £0.5m more in marketing and brand activity than the prior year, which we believe is the right step for the long term as we build the Shepherd Neame brand.

The overall beer market grew by +1.7% in the 12 months to June 2019*, with growth largely driven through the off trade, which now accounts for 54% of total volume*. The on trade also grew by +0.3%*.

The growth in the category has been driven by world lager. Cask ale and premium bottled ale, categories where we have traditionally been strong have declined. Canned volume is growing ahead of bottled. We have seen increased demand for more taste and flavour and hop-forward character in beers which is driving considerable brand switch in each category.

As previously communicated, the termination of the Asahi contract in 2018 and the end of the Lidl own

brand contract allowed us to focus capacity on our own brands but was always going to require change for us, because of lower production volume and also because we no longer had a strong world lager brand. Recent portfolio enhancements are designed to address this.

Creating demand and building awareness for our brands

In response to the market trends, we have taken a number of important steps in the last year to strengthen the company's beer portfolio over the next few years. We have:

- modernised our flagship British classic ale, Spitfire
- refreshed our highly successful Whitstable Bay range
- successfully launched the Bear Island range with Bear Island East Coast Pale Ale and Triple Hopped Lager
- introduced the Cask Club with a series of collaboration ales with leading craft brewers.

In addition, and having evaluated a number of potential partnerships in world lager and craft beer opportunities, we have:

- introduced Sam 76, a hazy American IPA, and Angry Orchard Rose Cider, both on trend craft brands imported from Boston Beer
- entered a new partnership with Boon Rawd Brewery Company to import distribute Singha Beer, Thailand's original premium beer throughout the UK.

The move to go into partnership with Boon Rawd Brewery Company puts an exciting world lager in our sales portfolio which appeals to younger, discerning and adventurous consumers. This is backed up by top level brand sponsorships at Chelsea FC and Moto GP races.

Whilst this brand will take some time to build we believe it will complement our own portfolio and see good opportunities for growth over the medium term. We are engaged in discussions with other potential partners for further opportunities to access different parts of the market.

"NEW PARTNERSHIP WITH BOON RAWD BREWERY COMPANY PUTS AN EXCITING WORLD LAGER INTO OUR SALES PORTFOLIO"

+2.3%
LFL TENANTED PUB INCOME GROWTH

* Source: The British Beer & Pub Association



CHIEF EXECUTIVE'S REVIEW CONTINUED

As a result of these portfolio developments, we have conducted a comprehensive engagement programme with customers and consumers, with a series of trade shows, outside events and strong social media activity. We have received a very good reaction to the brand activity and the direction we are taking.

Brewing and brands performance

Our core own brand beer and cider volumes grew by +0.5% reflecting the key changes made within the portfolio. Strong performances were seen in Spitfire Lager, Bear Island and Orchard View.

Total own beer volumes fell by -23.3%. The impact of the Asahi and Lidl contracts was a reduction in volume of 40,000 brewers barrels.

Current trading

We have made an encouraging start to the new year against strong comparatives in the prior period.

For the 11 weeks to 14 September 2019, total managed sales grew by +4.7% (2018: +7.8%), same outlet like-for-like managed sales were up +1.6% (2018: +5.1%) and own beer and cider volumes continued the recent improved momentum and grew by +5.8% (2018: +4.0%).

+0.5%

OWN BRAND BEER AND CIDER VOLUME GROWTH

In the 9 weeks to 31 August 2019 like-for-like tenanted pub income was up +2.7% (2018: +6.2%).

Summary

Shepherd Neame remains well positioned in the sector, with great pub assets, an exciting beer portfolio, excellent brand reputation and a geographical location with potential for economic growth. The new financing and strong balance sheet gives us a great platform to take advantage of any opportunities that may arise in the sector.

This year has seen an excellent performance from our managed pubs with substantial growth in turnover and profit. The tenanted pubs have continued their recent impressive sustained like-for-like performance.

Brewing and Brands performance has been more challenging as expected this year, but we are excited by the potential of our recent portfolio enhancements.

Shepherd Neame is a modern, well invested, balanced business. We have transformed our pub operations in recent years to increase our exposure to the growth areas of the market. We see further opportunities emerging in both beer and pubs to unlock more.

As an authentic and independent business we appeal to many of today's consumer attitudes. We think for the long term, we invest for the long term and we are financed for the long term, but we are flexible and agile to respond to changes in the market over the short term.

Jonathan Neame
Chief Executive

**"A MODERN,
WELL
INVESTED,
BALANCED
BUSINESS"**

FINANCIAL COMMENTARY

Turnover and underlying profit

The previous financial year was a 53 week year. Commentary in this section is on an equivalent 52 week to 52 week basis unless otherwise specified. Trading performance across the operating segments on a comparative basis is shown in the table to the right.

Managed pubs delivered good sales growth through like-for-like sales of +3.2% combined with further growth from the new pubs acquired in the year taking total turnover growth to +7.6%. Underlying operating profit grew by a healthy +9.5% through sales growth combined with an improvement in underlying operating margins of 20 basis points to 13.4%.

This margin improvement came from improved labour costs, focus on food margins and procurement and offset the inflationary impacts that have affected the whole industry around labour and business rates.

Good progress has been made in mitigating rises in the national living wage and apprenticeship levy through implementing a new labour scheduling system with a focus on improved service at the lowest cost and introducing an apprenticeship scheme for chefs and pub managers.

Ongoing cost inflation means that margins will be under continued pressure. Tenanted pubs turnover grew by +1.0% despite a lower number of pubs trading across the financial year. Underlying operating profit was up +0.2% following the increase in turnover offset by increases in depreciation as we continue to invest to transform the tenanted estate.

Brewing and brands was impacted by the exit from the Asahi and Lidl own brand contracts which lead to a reduction in volumes of 40,000 brewers barrels. Total own beer volumes were 150,000 brewers barrels (2018: 196,000 brewers barrels) leading to a turnover fall of -23.9%. Underlying EBITDA for this segment was £3.0m (2018: £4.4m) and capital investment £1.1m (2018: £1.8m)

	2019 52 weeks £'000	2018 52 weeks £'000	Change %	2018 53 weeks £'000	Change %
Turnover					
Managed Pubs	68,777	63,913	+7.6	65,332	+5.3
Tenanted Pubs	35,033	34,678	+1.0	35,374	-1.0
Brewing and Brands	40,742	53,524	-23.9	54,424	-25.1
Unallocated	1,249	1,411	-11.5	1,437	-13.1
Total	145,801	153,526	-5.0	156,567	-6.9
Underlying Profit					
Managed Pubs	9,215	8,413	+9.5	8,694	+6.0
Tenanted Pubs	12,950	12,921	+0.2	13,215	-2.0
Brewing and Brands	923	2,219	-58.4	2,301	-59.9
Unallocated	(7,830)	(7,947)	+1.5	(8,146)	+3.9
Underlying operating profit	15,258	15,606	-2.2	16,064	-5.0
Net finance costs	(3,901)	(4,214)	+7.4	(4,295)	+9.2
Underlying profit before tax	11,357	11,392	-0.3	11,769	-3.5

and hence free cash flow generated from this division was £1.9m (2018: £2.6m).

Underlying net finance costs of £3.9m (2018: £4.2m) benefitted from the refinancing and lower cost of debt. Underlying interest cover was 3.9 times (2018: 3.7 times).

Items excluded from underlying results

Total items excluded from underlying results were a net charge of £7.9m (2018: net credit of £0.4m). This year's items comprised four elements:

- As part of the refinancing exercise the company terminated interest rate swap contracts totalling £35.0m for net cash consideration of £9.4m in connection with the repayment of the associated term loan. As a result, other finance costs excluded from underlying results includes £9.4m in respect of settled interest rate swap liabilities and £0.4m of unamortised finance costs relating to the previous facility which have been written off. A further charge of £1.0m was taken in respect of the movement in fair value of the ineffective portion of the remaining interest rate swap and cap.
- The annual impairment review resulted in an impairment charge of £0.2m relating to five properties (2018: £0.6m charge in relation to three properties).

- Property profits of £2.8m (2018: £1.9m) on the sale of three pubs, the sale and leaseback of one pub and the sale of five unlicensed properties (2018: eight pubs and one unlicensed property) were recognised as the business continues to dispose of predominantly small community wet led pubs and unlicensed assets that no longer fit with the Company's long-term strategy.
- The annual revaluation to fair value of investment properties on the balance sheet resulted in an increase in value of £0.2m (2018: £0.8m).

In the previous year there were one-off operating charges of £1.8m in relation to restructuring costs following a review of strategy for the brewing and brands division associated with the expiry of the Asahi contract.

Taxation

The total tax charge was £0.9m (2018: £2.1m), an effective rate of 25.4% (2018: 17.4%) following a higher tax charge on property disposals. The average statutory rate of corporation tax in the UK for the period was 19.0% (2018: 19.0%). The underlying tax rate was 21.1% (2018: 21.3%). The net tax charge on items excluded from underlying results was a credit of £1.5m (2018: credit of £0.4m).



FINANCIAL COMMENTARY CONTINUED

Summary rates of taxation	2019 Profit £'000	Tax £'000	Rate %	2018 Profit £'000	Tax £'000	Rate %
Profit before tax and tax thereon	3,471	882	25.4%	12,119	2,104	17.4%
Operating charges excluded from underlying results	-	-		1,759	334	
Impairment	168	32		622	118	
Non underlying finance costs	10,772	2,047		-	-	
Profit on disposal of property	(2,848)	(521)		(1,908)	102	
Investment property fair value movements	(206)	(39)		(823)	(156)	
Underlying profit before tax and underlying tax thereon	11,357	2,401	21.1%	11,769	2,502	21.3%

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

Earnings per share and dividends

Underlying basic earnings per ordinary share fell by -3.3% to 60.9p (2018: 63.0p) following the decrease in underlying operating profit but on an adjusted 52 vs 52 weeks basis was level. Basic earnings per ordinary share decreased to 17.6p (2018: 68.1p) due to the lower operating profits and the one off impacts of the refinancing.

Dividend per share paid and proposed in respect of the year increased by 3.0% to 30.08p per ordinary share (2018: 29.2p per ordinary share) to give total dividends of £4.4m (2018: £4.3m). Underlying dividend cover fell to 2.0 times (2018: 2.2 times) and total dividend cover has fallen to 0.6 times (2018: 2.3 times).

Cash Flow

The decrease in underlying operating profits meant underlying EBITDA decreased by -3.9% to £23.7m (2018: £24.6m) or -1.4% on a 52 vs 52 week basis. Tax cash payments decreased to £1.6m due to the one off costs of refinancing being tax deductible. Net cash inflow from operating activities decreased by £0.1m to £22.5m (2018: £22.6m).

The total cash cost of interest and dividends, purchase of own shares and issue costs of new loans decreased by £1.2m to £9.3m (2018: £10.5m). Due to the 2018 financial year being 53 weeks in length five quarterly interest payments were incurred whereas the 2019 financial year reverts to the usual four. Dividend

payments reflect the increase in payment of the final 2018 and interim 2019 dividends.

In order to service the Company's future obligations under employee incentive plans 57,000 shares were purchased at an average market price of £10.45.

In 2018 2,200 shares were purchased at an average market price of £11.25. Within that year all the consideration for these purchases was settled, combined with a further £1.3m of consideration for shares purchased in the 2017 financial year.

Total disposal proceeds of £7.8m (2018: £6.0m) were realised from the sale of pubs and assets that no longer fit our strategy.

Taking these items together internally generated free cash flow was £21.1m (2018: £18.1m) which has been invested in capital expenditure for the long-term growth of the company as follows:

- Cash spend on core capital expenditure was £10.3m (2018: £14.0m) as we continue to invest to strengthen the pub and brewery asset base. The previous year had three large managed developments at the Market House, Maidstone, the Spitfire, Kings Hill, West Malling and at the Boathouse, Yalding, whereas the 2019 financial year had just one major development at the Marine, Whitstable.
- A further £9.0m was invested in the acquisition of two new leasehold sites and two freehold pub sites. In 2018 £0.7m was invested in the acquisition of two new leasehold pub sites in London.

Financing and loan facilities

In October 2018 the company's debt facilities were refinanced to support

the long term strategy of the business.

The new structure gives the Company £107.5m of committed long term facilities and is attractive because it provides:

- Certainty of funding as the business looks for growth.
- A lower rate of interest than the debt being replaced.
- An improved debt maturity profile with a revolving credit facility expiring in 2023, and private placement expiring in 2038.
- New debt partners who share and support our long-term focus and strategy.

Specifically, the key features of this new financing structure are:

- A private placement raising £35m from BAE Systems Pension Funds Investment Management Ltd ("BAE Pension Fund"), who received loan notes at a fixed interest rate of 3.99% for 20 years.
- These loan notes replaced part of the term loan that was due to expire in 2026. As a result, £37.5m of this loan was cancelled and repaid leaving £22.5m remaining. Swap contracts of £35m associated with this loan have been terminated. The cancellation of the swaps has had no impact on net asset value per share, but has increased net debt in the short term.
- A new five-year revolving credit facility of £50m with Lloyds Bank plc and Santander UK plc. This matures in 2023 replacing the previous facility of £45m that was due to expire in 2020 and would therefore have had to be refinanced in 2019 during the proposed period of the UK's exit from the European Union. The terms of this facility are LIBOR plus bank margin of between 1.35% and 2.50% depending on the leverage ratio of net debt to EBITDA. The rate of LIBOR on the first £20m of the drawings on this facility has been capped at 2.0% mitigating a level of interest rate risk on this floating rate debt.

At the year end net debt stood at £82.0m (2018: 74.8m) meaning the new facilities provide £25.5m of headroom.

Cash flow and net debt

Summary cash flow statement

	2019 £'000	2018 £'000
Underlying EBITDA	23,673	24,639
Working capital and other operating cash flows	391	2,266
Tax	(1,567)	(2,831)
Operating charges excluded from underlying results	-	(1,475)
Cash flow from operations	22,497	22,599
Dividends paid, purchase of own shares and share option proceeds	(4,917)	(5,523)
Interest paid and issue costs of new loan	(4,341)	(4,970)
Disposal of fixed assets	7,825	6,008
Internally generated free cash flow	21,064	18,114
Core capital expenditure	(10,312)	(14,015)
Customer loan redemptions	61	75
Cash flow pre acquisitions and debt repayment	10,813	4,174
Acquisition of pubs	(8,992)	(733)
Cash acquired on acquisition	347	-
Settlement of derivative financial instruments	(9,610)	-
Repayment of borrowings	(54,500)	(2,000)
New bank loans raised	59,500	-
Net cash (outflow)/inflow for the period	(2,442)	1,441
Movement in loan issue costs	262	(155)
Movement in loans	(5,000)	2,000
Closing net debt	(81,977)	(74,797)

Balance sheet

There was a £6.8m increase in fixed assets (2018: increase of £2.1m) and an increase in net debt of £7.2m to £82.0m (2018: £74.8m).

Shareholders funds at 29 June 2019 were £208.1m (2018: £201.1m) meaning net assets per share showed an increase of +3.5% to £14.01 (2018: £13.53).

Balance sheet gearing at the year end was 39% (2018: 37%) and the leverage ratio of net debt to underlying EBITDA at the year end was 3.5 times (2018: 3.0 times).

Investment Property

We continue to hold a small number of non-core assets that no longer fit the company's long term strategy but which are held to unlock potential increased shareholder value in the future. These assets are generally land or buildings that do not meet the company's tied pub model or land associated with the company's historic farming activities. As at 29 June 2019, the Company owns investment property valued at £8.8m (2018: £7.9m).

During the period we have achieved planning permission for residential development and subsequent disposal of land at two pub sites, and one other property. We have also sold the historic farmhouse at Queen Court, Ospringe and are exploring options for further disposals of land and buildings from this property.

In 2018, we made a planning application for 50 houses on land outside Faversham. The application was refused, but is the subject of an appeal, due to be heard in the autumn 2019.

UK exit from the European Union

The business has a Brexit risk committee reporting to the Executive Board to focus on the company's responses to risks and opportunities associated with the UK's exit from the European Union. The key risks identified for the company are disclosed in the risk and uncertainty report on page 24. A number of factors have been reviewed by the committee with mitigating steps put in place as appropriate:

- The company has a relatively small level of exports to the EU as total worldwide export sales are less than 2% of turnover.

- A high proportion of inputs to the brewery and our pubs come from the UK or from Kent. Certain purchases such as wines come from outside the UK but this is a relatively low value of overall purchases. Currently the currency value of 3 months purchases of Euro and US dollars sit within cash and cash equivalents to hedge against turbulence in foreign exchange rates.
- The company has no refinancing risk having taken the option to refinance early in October 2018.
- The company has made arrangements to take additional local storage space to support higher stock levels.
- The overall proportion of EU nationals employed by the company is relatively low at less than 10%. Notwithstanding this, to support recruitment, retention and development of key roles across the pub estate an apprenticeship scheme has been started for chefs and pub managers.

Certain risks are harder to mitigate against. The company and a number of its customers are reliant on the Kent road infrastructure to enable smooth transport of products or to visit our pubs. Any sustained congestion on this road network could lead to supply chain challenges or a lower number of visits to our pubs. It is difficult to take early mitigation against this risk but the company will remain flexible to react to changes as they arise.



PRINCIPAL RISKS AND UNCERTAINTIES

Risk management overview

The Board and management team continually assess the risks that the Company is exposed to through operating the brewing and brands and pub divisions. Classification of risks takes into account the likelihood of their occurrence and the scale of potential impact (both financial and reputational) on the business. Once the key risks have been identified, each business unit and

functional areas is responsible for evaluating current controls in place to manage their risks. The individual risk registers are reviewed and the risk mitigation plans are monitored. Risk registers are aggregated and considered on a top-down basis in the context of delivering our strategy and are adapted appropriately to the changing environment.

Some external risks are out of the direct control of the Board. These points are discussed at Board meetings to ensure that the business can respond effectively to changes in the external environment. These risk management processes are designed to manage risks which may have a material impact on the business rather than to mitigate all risks entirely. These principal risks and uncertainties are not an exhaustive list of all risks and uncertainties the Company faces.

Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/risk trend
ECONOMIC AND POLITICAL			
Strength of the Economy and the United Kingdom's exit from the European Union	A fall in consumer confidence and a weakening economy could lead to customers drinking and eating at our pubs and hotels less frequently which in turn could lead to lower profitability.	The Board maintains an updated view of the context of Brexit negotiations and of economic trends in the UK economy and hospitality sector. We respond to these changes by reviewing investment levels in our brands and pubs and through active property management. These actions ensure there is a level of flexibility in the cost base and can be used to encourage a variety of customers to our products and pubs.	↗
The United Kingdom's exit from the European Union could lead to a reduction in the UK's hospitality workforce and a skills shortage	A number of EU nationals are key employees within our brewery and within our pubs and are key to us delivering great service to our customers. Any reduction in this workforce may make recruitment more difficult or expensive and may lead to labour shortages and higher costs.	We have continued to improve our development opportunities, working conditions and employee engagement to retain our existing workforce and to ensure Shepherd Neame are the employer of choice in our heartland territory. In the 52 weeks to 29 June 2019 a new apprenticeship scheme has been adopted to support the recruitment, development and retention of chefs and pub managers and to help to mitigate this risk.	↗
Post the UK's exit from the European Union any changes to customs legislation could lead to greater road congestion around Dover and the Kent road infrastructure	Any delay in customs processing at the key port of Dover can lead to significant road delays and blockages across our heartland territory of Kent. This can delay customer orders and supplier deliveries thereby increasing costs to the business as well as making it harder for customers to visit our pubs.	We monitor inventory levels carefully to ensure that we have adequate buffer supplies of key supply materials to protect against periods of supply delay and have made arrangements for additional storage space to be available to support higher stock levels. We actively work with our customers and pubs to look to ensure supply through periods of road delay.	↗



Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk trend
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 changes in taxation could affect customer demand for our products and our profitability. There is a further risk that the government introduces a deposit recycling scheme for bottled products. If introduced this could lead to an increase in costs for the Company	Legislative developments are monitored and we aim to continue to grow income streams from other sources such as non-alcoholic beverages, food and accommodation. 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.	↔
Regulation of Tied pub agreements	The Company operates a number of arrangements under the tied pub model. This model continues to attract a level of political scrutiny in the light of the introduction of the new statutory pub code which came into place in 2016. The Company is currently not impacted by the statutory code as it owns and operates fewer than 500 tied pubs. If the code were to change and apply to operators of fewer than 500 tied pubs this could lead to higher costs and lower profits.	Regulatory developments are monitored and the Company has membership of the BBPA and Directors are members of key industry bodies where regulatory matters are discussed and influenced. The Company works hard to ensure good relations with licensees, provides flexible agreements and continues to invest in property repairs and support.	↔
Health and Safety	Operating a large number of pubs and a brewery manufacturing site increases the complexity of operations and processes. Any non-compliance with health and safety legislation could have serious consequences for our customers, employees and licensees.	The Company has a Head of Health and Safety and an assistant whose sole focus is to manage the delegated responsibilities of the Board. The Head of Health and Safety reports directly to the Executive Board on all health and safety matters across the organisation and carries out all key risk assessments. Health and safety policies are approved and adhered to across all areas of the company and we provide regular training to employees. A panel of employees act as health and safety representatives for their respective areas of the business at the brewery site to ensure risks are identified and procedures are followed. To support our licensees in the tenanted estate a new compliance package has been made available which provides support and management of pub health and safety requirements. Initial take up of this package has been significant.	↔
Increased legislation and regulation	The Company is exposed to increasing levels of regulation and legislation across all areas of its operations. This greater regulation and compliance leads to increased costs and lower profitability. Any significant failure to adhere to legislation and regulation could lead to reputation and brand damage for the Company.	Full procedures and policies are in place to reflect current legislation and regulation and external legal advice is used to monitor new and amended legislation. In addition a number of processes and controls are in place to protect personal data to ensure the company is compliant with GDPR regulations. External training and consulting services are engaged where appropriate to develop training and communication materials for employees and licensees.	↔



PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk trend
OPERATIONAL			
Brands and Reputation	<p>The Company has a range of strong brands and an excellent reputation in the market as Britain's oldest brewer.</p> <p>There is a risk that unexpected events or incidents could damage the reputation of our brands leading to lower sales and profitability.</p>	<p>The Company has a Head of Marketing, Brands and Communications who coordinates all brand communication and presentation and reports directly to the Chief Executive. Further investment has been made in the 52 weeks to 29 June 2019 to increase the size of the marketing and communications team and to grow levels of activity.</p> <p>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.</p>	↔
Partnerships, Brewing contracts and third party brewing arrangement	<p>The Company is engaged in various relationships and contractual arrangements to brew, sell and market drink brands. Such arrangements carry different obligations and responsibilities on both parties. The agreements are generally long-term but subject to renewal from time to time.</p> <p>Loss of several of these agreements could lead to a reduction in sales and profitability.</p>	<p>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.</p> <p>We hold regular reviews of brand performance with our partners and set clear financial and brand targets across the business through the annual budget to ensure compliance with the arrangements in place.</p>	↔
Site Dependency	<p>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.</p>	<p>We have developed a disaster recovery plan to mitigate disruption where all or part of the Faversham site is damaged or cannot operate effectively.</p> <p>We have a maintenance programme and undertake regular site inspections.</p> <p>Our finished product is decentralised and held in a number of warehouses in different geographic locations through the Kuehne and Nagel Drinks Logistics network.</p>	↔
Water Recovery	<p>A consequence of brewing beer at the Faversham brewery is that there is a level of water required within which there are waste particles or substances.</p> <p>To address this brewing output the Company built and 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 and could breach our discharge consent with statutory bodies which could increase costs and lower profitability.</p> <p>A further output of the water recovery process is the solid matter that is removed whilst cleaning the water (such as grain and hops). These substances are recycled with local farms but can give off an odour. If these materials are not handled carefully the odour can escape into the local area which can diminish the brand perception within the Faversham community.</p>	<p>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 and take water samples to ensure the highest standards of compliance are maintained.</p> <p>Disciplined processes are in place with internal employees and contractors to ensure waste materials are carefully managed at all times.</p>	↔



Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk trend
Supply chain failure and reliance on suppliers	We rely on a number of key suppliers to service both the brewery site and our managed pubs. Prolonged disruption to our supply chain could affect the quality and availability of our product. If we were unable to brew, package and distribute our own beers for a long period we could suffer reputational and brand damage, loss of revenue and profitability.	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. During 2020 it is expected that our third party logistics partner will upgrade their systems which could lead to supply challenge. The Executive Board and IT team are working closely with the Kuehne and Nagel Drinks Logistics senior management to plan and test the new system ahead of the change to mitigate the risk of disruption in this area.	↑
Information technology failure	The Company places significant reliance on information systems to operate the brewery site, head office functions and managed pubs. A prolonged failure of these systems could affect the Company's ability to trade and lead to reduced profitability.	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. During 2019 a new email protection system has been tested and this is being introduced across the organisation to further protect against cyber-attack. Where operations use third party hosted systems we work closely with suppliers to ensure business continuity and security are maintained at the highest levels.	↔
Beer and food product safety	The Company produces and sells consumable products for human consumption. Any defects in quality, product life, or contamination could lead to injury to consumers. Legislation changes have increased the level of disclosure around potentially harmful allergen ingredients within consumer products.	The Executive Board sets high standards for process compliance and cleanliness across the managed pub estate, brewery and visitor centre. Controls are in place to maintain product safety, recall processes are tested annually and pub management and chefs are incentivised to ensure kitchens are clean. In the year further investment was made in a new menu system called Ten Kites which manages food menus within the managed estate and ensures allergens are fully disclosed.	↔

Risk management overview

Risk increasing
 Risk unchanged
 Risk decreasing

This strategic report was approved by the Board of Directors on 24 September 2019 and signed on its behalf by:

Jonathan Neame
Chief Executive



Pier Five's charity
shuffleboard
tournament

OUR 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.

£25,000
Raised through
ShepsGiving

Locally
sourced hops



HEROES' WELCOME

Our team turned out in force to support the **RAF Spitfire Rugby 7s** as the brewery marked the end of a gruelling 1300km ride to commemorate the 75th anniversary of the famous "Great Escape" of WWII, part of a fundraising initiative to raise money for the RAF Benevolent Fund.

Cheers from our
brewery staff

We have been at the heart of the community for over 300 years and are proud to support a large number of charitable and community causes. This year marked a step change approach to our fundraising initiatives under the name of **Sheps Giving**, where we selected local charity the Silas Pullen Fund, which supports the Brain Tumour Charity, as our first Charity of the Year.

Beer fans enjoying a pint at
the **Faversham Hop Festival**

THE HOME OF THE HOP

We are proud to support many local events and festivals, such as the famous Hop Festival in Faversham, Kent - where hops were being used for brewing as far back as the 1530s. Today, we continue to use a large proportion of local Kent-grown hops in our brewing, and in particular the fresh green hops used to make our Oast Dodger Green Hop Ale.

LOCALLY SOURCED PRODUCERS

We work with a hand-picked network of farmers, fishermen and food producers throughout Kent and the South East to use only the best, fresh ingredients to ensure our pub estate menus champion great fresh local food.

Kingcott Dairy, Kent

TEAMWORK

As leading partner of **Kent County Cricket Club**, we worked closely with the new management team to step-change the bar experience and in-ground activation to deliver a more engaging offer.



BOARD OF DIRECTORS

BILL BRETT
NON-EXECUTIVE
DIRECTOR

NIGEL BUNTING
RETAIL &
TENANTED
OPERATIONS
DIRECTOR

JONATHAN NEAME
CHIEF EXECUTIVE

MILES TEMPLEMAN
CHAIRMAN

HILARY RIVA
NON-EXECUTIVE
DIRECTOR

ROBIN DUNCAN
COMPANY
SECRETARY

**RICHARD
OLDFIELD**
NON-EXECUTIVE
DIRECTOR

**MILES TEMPLEMAN (71)**
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 Managing Director of the Whitbread Beer Company. He has held a variety of Non-Executive roles including Melrose PLC, Yo Sushi and Ben Sherman. He is currently a trustee of The Howard Partnership Trust, Chairman of Chop'd Limited and is a Governor of Brighton College.

JONATHAN NEAME DL (55)
CHIEF EXECUTIVE

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 was Chairman of the British Beer and Pub Association from 2012 to 2015 and a Non-Executive Director of the St Austell Brewery Company Ltd from 2002 until May 2018. He has been Chairman of Visit Kent since 2015 and a Trustee of the Leeds Castle Foundation since 2011. He is a Warden of the Brewers Company and a Deputy Lieutenant of Kent. He was awarded an Honorary Doctorate from the University of Kent in 2016.

MARK RIDER (43)
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 he qualified as a chartered accountant at PricewaterhouseCoopers. He is a Fellow of the Institute of Chartered Accountants.

GEORGE BARNES (65)
PROPERTY & SERVICES DIRECTOR

Joined the Company in 1978. He is a Chartered Surveyor and Registered Valuer 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 Pub Governing Body.

NIGEL BUNTING (52)
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.

HILARY RIVA OBE (62)
NON-EXECUTIVE DIRECTOR

Appointed to the Board in April 2016. She is a Non-Executive Director of ASOS Plc. She was previously a Non-Executive Director of London and Partners Limited and Shaftesbury Plc, a member of the Management Board of Arcadia, Managing Director of Rubicon Retail and Chief Executive of the British Fashion Council.

RICHARD OLDFIELD OBE (63)
NON-EXECUTIVE DIRECTOR
CHAIRMAN OF THE AUDIT
COMMITTEE

Appointed to the Board in June 2016. He is Chairman of Oldfield Partners LLP, a Director of Witan Investment Trust plc and former Chairman of Keystone Investment Trust plc. He was previously Chief Executive of Alta Advisers and a Director of Mercury Asset Management plc. He is also a trustee of the Prince's Trust and Royal Marsden Cancer Charity.

BILL BRETT (54)
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 a Director and past Chairman of the Mineral Products Association.

ROBIN DUNCAN (63)
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 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.

ROBERT NEAME CBE DL DCL (85)
PRESIDENT

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 retired as Chairman of the trustees of the Shepherd Neame Company Retirement Account in 2018. 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.

GEORGE BARNES
PROPERTY &
SERVICES
DIRECTOR

MARK RIDER
FINANCE & IT
DIRECTOR



CORPORATE GOVERNANCE

The Company is a private company limited by shares. These 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 any 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 three Executive Directors. The biographical details on pages 30 and 31 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 three times during the year. Attendance is shown in the table below. The Committee is responsible for identifying and proposing prospective candidates for Directors for consideration and appointment by the Board as a whole. It reviews the size, structure and composition of the Board and makes recommendations to the Board with regard to any adjustments deemed necessary.

The Committee is responsible for considering the Company's succession plans for Board members, and determining what skills, knowledge and experience will be necessary. This year it considered and recommended the appointment of a new Chairman and Non-Executive Director. 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 is chaired by Richard Oldfield. It comprises the Non-Executive Directors. The Executive Directors and external auditor attend its meetings by invitation. The Committee has defined terms of reference, reviews 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 one meeting during the year which the Chief Executive and Finance and IT Director also attended.

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Disclosure Committee
Number of meetings	6	1	3	3	3
Executive Directors					
George Barnes	6	*	-	-	-
Nigel Bunting	6	*	-	-	-
Jonathan Neame	6	*	*	*	3
Mark Rider	6	*	-	-	3
Non-Executive Directors					
Bill Brett	6	1	3	3	-
Richard Oldfield	6	1	3	3	*
Hilary Riva	5	1	3	3	-
Miles Templeman	6	1	3	3	3

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



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 matter for this financial year was the results of the annual impairment exercise. The Chairman of the Committee is in regular contact with the audit partner to discuss matters relevant to the Company.

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 2019 Deloitte provided audit services in respect of the Group accounts of £120,000 tax services of £26,000, and other services of £10,000.

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 34 to 38.

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 Company does not have an internal audit function and the Board does not consider that one is required for a business of Shepherd Neame's size. Ongoing quality visits and counts by independent stocktakers provide assurance over activities in the managed pub estate.

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 Company's performance and progress.

Peel Hunt LLP provided broking and advisory services during the year.

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

All formal Company 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 Company's community involvement. We are supportive of their participation in local government, and in other voluntary services and we support various sporting and social activities for employees. We place an emphasis on longevity of service and loyalty and reward it.

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



REMUNERATION REPORT

Overview

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

The Remuneration Committee is chaired by 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 Committee is also responsible for approving the bonus targets and payments for the Company's Executive Directors and Senior Managers.

The Committee aims to ensure that remuneration packages for Executive Directors are competitive and comparable with companies of a similar size, complexity and activity and are designed to attract, retain and motivate Executive Directors with appropriate skills and capabilities.

Remuneration 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.

In coming to these decisions the Remuneration Committee considers the overall performance of the business 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 2017 the Remuneration Committee engaged the services of Aon Hewitt to support a review of the Company's Executive remuneration arrangements, considering best practice, competitiveness in the market and the alignment between the executive remuneration structure and business strategy.

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

- A cash bonus scheme providing for annual bonuses to a value of up to 30% of salary based on a series of financial performance and non-financial targets. These targets are set at the start of the financial year and performance evaluated after the financial year is complete.
- Secondary options over ordinary shares granted annually to a value of up to 70% 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 performance in underlying earnings per share, net asset value per share, dividend growth and total shareholder return over the three-year period. Directors are not expected to sell the vested shares for a further two years.

Share options are issued to Executive Directors under the Shepherd Neame Limited 2015 Restricted Share Scheme (the "2015 Scheme"). This 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 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.

The malus provision allows that 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.

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 Fees

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

**Directors' emoluments**

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

Group and Company	52 weeks ended 29 June 2019	53 weeks ended 30 June 2018 restated (v)
	£'000	£'000
Aggregate amount:		
Salary (i)	1,059	1,172
Annual bonus (ii)	125	165
Salary in lieu of pension contributions (iii)	178	187
Taxable benefits	97	109
Cash payment in lieu of share options	-	16
Share Incentive Plan (iv)	13	15
Directors emoluments	1,472	1,664
Primary and secondary share options vesting in the year (v)	180	312
Compensation for loss of office	-	126
Pension contributions	10	25
	1,662	2,127

The number of Directors who:

Had pension benefits accruing under money purchase schemes	4	5
Exercised options over shares in the scheme	3	4
Had awards receivable in the form of shares under a long-term incentive plan	4	4

Details of Directors' share options are shown on page 37

Highest paid Director:

Salary (i)	261	255
Annual bonus (ii)	44	55
Salary in lieu of pension contributions (iii)	60	59
Taxable benefits	39	36
Share Incentive Plan (iv)	3	3
Primary and secondary share options vesting in the year (v)	56	81
	463	489

(i) The average salary increase for Executive Directors in July 2018 for the 2019 financial year was 2.5% (2018: 2.0%). The salary increase for the highest paid Director was 2.5% (2018: 2.0%).

(ii) The annual bonus accrued in 2019 relates to performance in the 2019 financial year and will be paid in September 2019. The aggregate bonus paid to Executive Directors in the 2019 financial year relating to the 2018 financial year was £157,000 or 19% of the 2018 executive salaries.

(iii) Due to changes in legislation, the highest paid Director and two other Executive Directors are no longer contributing members of the Company pension scheme. In addition, the pension contributions for the remaining Executive Director are capped.

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

(v) Option 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. The vesting 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 vesting of the 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 exercise of options is conditional upon Directors remaining in employment with the Company for three years from the date of grant of the options.

The comparative has been restated in respect of primary share options vesting in October 2017 with a value of £136,000 which were omitted from last year's disclosure. The value of the restatement for the highest paid director was £35,000.

(vi) In 2019, options were exercised by the highest paid Director over 18,015 shares (2018: no options were exercised). The gross gain, not included above, made by the highest paid Director on the exercise of share options was £197,000 (2018: nil). This gain is subject to tax.



REMUNERATION REPORT CONTINUED

Performance related pay

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

Group and Company	52 weeks ended 29 June 2019	53 weeks ended 30 June 2018
All Executive Directors		
Cash bonus	£125,000	£165,000
Bonus as a percentage of the 2019 executive salaries (2018: percentage of the 2018 executive salaries)	14.7%	17.1%
Share options granted to Executive Directors in the year that will vest in future years:		
Secondary options (i)	57,844	46,105
Share options vesting in the year:		
Primary options	10,653	10,710
Secondary options	7,358	13,770
Percentage of Secondary share options granted, approved to vest (ii)	44%	72%
Highest Paid Director		
Cash bonus	£44,000	£55,000
Bonus for highest paid Director as a percentage of 2019 salary (2018: percentage of 2018 salary)	17.0%	21.4%
Share options granted to the highest paid Director in the year that will vest in future years:		
Secondary options (i)	17,856	14,232
Share options vesting in the year:		
Primary options	3,315	2,787
Secondary options	2,290	3,583
Percentage of Secondary share options granted, approved to vest (ii)	44%	72%

(i) For the reference period 2018 to 2021. (2018: reference period 2017 to 2020). These options will vest by reference to performance criteria to be measured against the 2021 result (2018: 2020 result).

(ii) Secondary options granted in October 2015 (2018: granted October 2014), performance measured against criteria set at the date of the award based on performance between 2015 to 2018 (2018: 2014 to 2017).

Subject to the approval of the accounts the Remuneration Committee will consider secondary option awards for the reference period to 2019 in October 2019.

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 29 June 2019 (30 June 2018) are as follows:

	At 2018	Granted	Exercised	Forfeited	At 2019		Exercise price £	Date from which exercisable	Expiry date
George Barnes	2,221	-	(2,221)	-	-	***	0.50	16/10/18	16/10/25
	3,470	-	(1,534)	(1,936)	-	****	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
	1,232	-	-	-	1,232	***	0.50	13/10/20	13/10/27
	9,814	-	-	-	9,814	****	0.50	13/10/20	13/10/27
	-	12,312	-	-	12,312	****	0.50	19/10/21	19/10/28
	21,871	12,312	(3,755)	(1,936)	28,492				
Nigel Bunting	2,414	-	-	-	2,414	***	0.50	16/10/18	16/10/25
	3,772	-	-	(2,105)	1,667	****	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
	1,312	-	-	-	1,312	***	0.50	13/10/20	13/10/27
	10,449	-	-	-	10,449	****	0.50	13/10/20	13/10/27
	-	13,110	-	-	13,110	****	0.50	19/10/21	19/10/28
	23,574	13,110	-	(2,105)	34,579				
Jonathan Neame	2,501	-	(2,501)	-	-	*	1.00	19/10/15	19/10/22
	3,539	-	(3,539)	-	-	**	1.00	18/10/16	18/10/23
	2,787	-	(2,787)	-	-	*	0.50	17/10/17	17/10/24
	3,583	-	(3,583)	-	-	**	0.50	17/10/17	17/10/24
	3,315	-	(3,315)	-	-	***	0.50	16/10/18	16/10/25
	5,180	-	(2,290)	(2,890)	-	****	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
	1,787	-	-	-	1,787	***	0.50	13/10/20	13/10/27
	14,232	-	-	-	14,232	****	0.50	13/10/20	13/10/27
	-	17,856	-	-	17,856	****	0.50	19/10/21	19/10/28
	44,588	17,856	(18,015)	(2,890)	41,539				
Mark Rider	2,703	-	(2,703)	-	-	***	0.50	16/10/18	16/10/25
	4,224	-	(1,867)	(2,357)	-	****	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
	1,458	-	-	-	1,458	***	0.50	13/10/20	13/10/27
	11,610	-	-	-	11,610	****	0.50	13/10/20	13/10/27
	-	14,566	-	-	14,566	****	0.50	19/10/21	19/10/28
	26,247	14,566	(4,570)	(2,357)	33,886				
Total	116,280	57,844	(26,340)	(9,288)	138,496				

* 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 the 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 shares at 29 June 2019 was £10.10 (30 June 2018: £10.85) and the range during the year was £9.85 to £11.00 (2018: £10.25 to £13.20).



REMUNERATION REPORT CONTINUED

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 in the Company's shares at 29 June 2019 (30 June 2018) are as follows:

		Beneficial	Ordinary shares as trustees	Under SIP
George Barnes	2019	47,278	-	3,235
	2018	44,663	-	2,902
Nigel Bunting	2019	16,097	-	2,365
	2018	16,097	-	2,032
Bill Brett	2019	28,767	-	-
	2018	15,735	-	-
Jonathan Neame	2019	160,041	146,037	2,870
	2018	144,226	146,037	2,537
Richard Oldfield	2019	4,250	-	-
	2018	2,000	-	-
Mark Rider	2019	4,719	-	1,712
	2018	2,873	-	1,379
Miles Templeman	2019	8,905	-	-
	2018	8,905	-	-

The holdings under the SIP were allocated in all years from 2003 to 2018 with the exception of 2009 and are held in trust for a qualifying period of three years before ownership vests unconditionally (see note 32a).



REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their Annual Report and Accounts for the 52 weeks ended 29 June 2019.

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 Strategic Report which comprises the statements and reviews on pages 3 to 27. The Strategic report includes information on the Group's strategy and provides further details of the Group's performance for the 52 weeks ended 29 June 2019 and likely future developments.

Dividends

The Company paid an interim dividend of 5.87p per ordinary share (2018: 5.75p). The Directors now recommend a final dividend of 24.21p per ordinary share (2018: 23.45p). This makes a total dividend for the year of 30.08p per ordinary share (2018: 29.20p).

The total proposed final dividend on ordinary shares will be £3,578,000 (2018: £3,466,000) which together with the 2019 interim dividend paid of £866,000 (2018: £849,000) will make total dividends of £4,444,000 (2018: £4,315,000).

Directors

The names of the Directors at 29 June 2019 are set out on pages 30 and 31. Details of all Directors' interests are set out in the Remuneration Report on pages 34–38.

Jonathan Neame, George Barnes, Bill Brett, Hilary Riva, and Richard Oldfield retire from the Board by rotation and will be offering themselves for re-election.

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

Purchase of own shares

During the year the Company purchased a total of 57,000 ordinary shares at a total cost of £595,000 representing 0.4% of the Company's issued share capital (2018: 2,200 ordinary shares at a total cost of £25,000 being 0.01% of the Company's issued share capital). 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 (2018: £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
24 September 2019

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 Commentary on pages 21 to 23 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 of Shepherd Neame Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 29 June 2019 and of the group's profit for the year then ended;
- the group financial statements 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
- the parent company statements 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
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated Profit and Loss Account;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Balance Sheet;
- the Consolidated and Parent Company Statement of Changes in Equity;
- the Consolidated Cash Flow Statement; and
- the related notes 1 to 34.

The financial reporting framework that has been applied in the preparation of the group and parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 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 Financial Reporting Council's (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 matter that we identified in the current year was the discount rate and forecast growth rates used as part of the tangible fixed assets impairment review.

Materiality

The materiality that we used for the group financial statements was £640,000 (2018: £706,000) which was determined on the basis of 6% (2018: 6%) of forecast underlying profit before taxation.

Scoping

We performed full scope audit procedures over the entire group.

Significant changes in our approach

There are no changes in our audit approach.

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.

Key audit matter description

The Group has property, plant and equipment with a net book value of £306m as at 29 June 2019 (30 June 2018: £300m). 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.

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, where triggers have been met. 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 the 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 key audit matter for our audit purposes.

Refer to accounting policies (page 48) and note 14 of the group financial statements (page 56).

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

We obtained an understanding of the group's processes and relevant controls 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 key audit matter:

- Engaged valuation specialists to benchmark discount rates against market data and competitors and also performed sensitivity analysis using our specialist's discount rate thresholds;
- Tested the arithmetical accuracy and integrity of Management's model;
- Challenged Management's growth forecasts and assumptions used through detailed discussions with Management and a retrospective review of budget accuracy and historic growth. We have assessed the extent to which Brexit may impact upon assumptions;
- Reviewed and challenged Management's consideration of what indicates an impairment 'trigger';
- Challenged Management's value in use calculations and assumptions for pubs requiring impairment tests. This included those deemed 'at risk';
- Reviewed and followed up the 'at risk' properties identified as part of the 2018 impairment review to note whether these were still deemed to be at risk of impairment;
- Assessed the reasonability of impairment indicators used by Management in order to highlight potentially impaired properties;



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

- | | | |
|---|--|---|
| <p>8. Evaluated the appropriateness, sufficiency and clarity of any impairment-related disclosures provided in the group financial statements, including the disclosure of key sensitivities;</p> <p>9. Performed peer analysis for similar entities to determine whether the WACC rate and long-term growth rates applied within the VIU calculations are appropriate;</p> | <p>10. Considered the completeness of pubs at risk of impairment identified through use of cumulative audit knowledge and challenged the pubs excluded from the impairment model;</p> <p>11. Considered the level of profits and losses on disposal of properties in the current year;</p> | <p>12. Challenged the appropriateness of Management's sensitivity analysis; and</p> <p>13. Engaged valuation specialists in order to calculate an Enterprise value for the Group which we compared with the Group market capitalisation.</p> <p>Key observations
We are satisfied Management's assumptions in growth rates and the discount rate used in the impairment review performed are reasonable.</p> |
|---|--|---|

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 financial statements	Parent company financial statements
Materiality	£640,000 (2018: £706,000)	£633,600 (2018: £698,940)
Basis for determining materiality	6% (2018: 6%) of underlying profit before taxation. Considering the fact that there has been no significant changes in the Group's business this year, we agreed with the Group's Audit Committee that we would keep a consistent percentage applied for materiality calculation. Please see page 53 for reconciliation to profit before taxation.	6% (2018: 6%) of underlying profit before taxation. Parent company financial statement materiality was capped at 99% (2018: 99%) of Group materiality.
Rationale for the benchmark applied	We judged underlying profit before taxation to be the most appropriate benchmark for determining materiality as it is a key performance indicator for the Board of Directors and various stakeholders including shareholders.	The parent company comprises all of the trading results of the Group. The cap has been applied to ensure that Parent Company materiality is lower than Group materiality.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £32,000 (2018: £35,300), 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 The Horse & Groom (Dartford) Limited which is a wholly owned subsidiary at the balance sheet date.

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. Parent company materiality was calculated to be £633,600 as discussed above.

**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 the 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

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.

Opinion on other matter prescribed by our engagement letter

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006.

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.**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.

Ian James Smith FCA
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
24 September 2019



CONSOLIDATED PROFIT AND LOSS ACCOUNT

52 WEEKS ENDED 29 JUNE 2019

	note	52 weeks to 29 June 2019			53 weeks to 30 June 2018		
		Underlying results £'000	Items excluded from underlying results £'000	Total statutory £'000	Underlying results £'000	Items excluded from underlying results £'000	Total statutory £'000
Turnover	3, 4	145,801	-	145,801	156,567	-	156,567
Operating charges	5, 7	(130,543)	(168)	(130,711)	(140,503)	(2,381)	(142,884)
Operating Profit	3	15,258	(168)	15,090	16,064	(2,381)	13,683
Finance costs	6	(3,901)	(9,820)	(13,721)	(4,295)	-	(4,295)
Fair value movements on financial instruments charged to profit and loss		-	(952)	(952)	-	-	-
Net finance costs		(3,901)	(10,772)	(14,673)	(4,295)	-	(4,295)
Profit on disposal of property	7	-	2,848	2,848	-	1,908	1,908
Investment property fair value movements	7	-	206	206	-	823	823
Profit/(loss) before taxation		11,357	(7,886)	3,471	11,769	350	12,119
Taxation	8	(2,401)	1,519	(882)	(2,502)	398	(2,104)
Profit/(loss) after taxation		8,956	(6,367)	2,589	9,267	748	10,015
Earnings per 50p ordinary share	10						
Basic				17.6p			68.1p
Diluted				17.5p			67.4p
Underlying basic				60.9p			63.0p

All results are derived from continuing activities.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

52 weeks ended 29 June 2019

	note	52 weeks ended 29 June 2019 £'000	53 weeks ended 30 June 2018 £'000
Profit after taxation		2,589	10,015
Gains arising on cash flow hedges during the period	21	248	4,271
Transfers to the profit and loss account on cash flow hedges	21	10,660	-
Tax relating to components of other comprehensive income	8	(1,931)	(792)
Other comprehensive gains		8,977	3,479
Total comprehensive income		11,566	13,494



CONSOLIDATED AND PARENT COMPANY BALANCE SHEET

AS AT 29 JUNE 2019

	note	Group 29 June 2019 £'000	Group 30 June 2018 £'000	Company 29 June 2019 £'000	Company 30 June 2018 £'000
Fixed assets					
Goodwill	13	760	620	760	620
Tangible fixed assets	14	314,728	308,037	314,728	308,037
Investments and loans	15	10	76	5,519	239
		315,498	308,733	321,007	308,896
Current assets					
Stocks	17	7,111	6,841	7,111	6,841
Debtors	18	12,945	14,036	12,945	14,036
Deferred tax asset	24	1,058	2,992	1,058	2,992
Cash at bank and in hand		116	1,625	116	1,625
		21,230	25,494	21,230	25,494
Creditors: amounts falling due within one year					
Bank loans and overdrafts	20	(933)	-	(1,068)	-
Creditors	19	(23,096)	(24,614)	(28,470)	(24,806)
		(24,029)	(24,614)	(29,538)	(24,806)
Net current (liabilities)/assets		(2,799)	880	(8,308)	688
Total assets less current liabilities		312,699	309,613	312,699	309,584
Creditors: amounts falling due after more than one year					
Bank loans	20	(81,160)	(76,422)	(81,160)	(76,422)
Derivative financial instruments	22	(6,822)	(16,955)	(6,822)	(16,955)
Deferred lease liability		(2,547)	(2,314)	(2,547)	(2,314)
Provision for liabilities	24	(14,073)	(12,870)	(14,073)	(12,870)
Net assets		208,097	201,052	208,097	201,023
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	71,858	73,532	71,858	73,532
Own shares	26	(1,551)	(1,588)	(1,551)	(1,588)
Hedging reserve	26	(4,990)	(13,967)	(4,990)	(13,967)
Profit and loss account	26	134,252	134,547	134,252	134,518
Equity shareholders' funds		208,097	201,052	208,097	201,023

The profit attributable to the Shareholders of the Company for the 52 weeks ended 29 June 2019 was £2,618,000 (2018: £10,270,000 for the 53 weeks ended 30 June 2018).

These accounts for Shepherd Neame Limited (Registered in England number 138256) were approved by the Board of Directors on 24 September 2019 and were signed on its behalf by:

Miles Templeman
Jonathan Neame
Directors



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

52 WEEKS ENDED 29 JUNE 2019

	note	Called-up share capital £'000	Share premium account £'000	Revaluation reserve £'000	Own shares £'000	Hedging reserve £'000	Profit and loss account £'000	Total £'000
Balance at 24 June 2017		7,429	1,099	73,579	(2,277)	(17,446)	128,727	191,111
Profit for the financial year		-	-	-	-	-	10,015	10,015
Gains arising on cash flow hedges during the year	21	-	-	-	-	4,271	-	4,271
Tax relating to components of other comprehensive income	8	-	-	-	-	(792)	-	(792)
Total comprehensive income		-	-	-	-	3,479	10,015	13,494
Ordinary dividends paid	9	-	-	-	-	-	(4,197)	(4,197)
Revaluation reserve realised on disposal of properties		-	-	(47)	-	-	47	-
Accrued share-based payments	32	-	-	-	-	-	649	649
Purchase of own shares	26	-	-	-	(25)	-	-	(25)
Distribution of own shares	26	-	-	-	556	-	(536)	20
Unconditionally vested share awards		-	-	-	158	-	(158)	-
Balance at 30 June 2018		7,429	1,099	73,532	(1,588)	(13,967)	134,547	201,052
Profit for the financial year		-	-	-	-	-	2,589	2,589
Gains arising on remaining cash flow hedges during the year	21	-	-	-	-	248	-	248
Transfers to the profit and loss on termination of interest rate swaps	21	-	-	-	-	9,875	-	9,875
Transfers to the profit and loss account on hedge ineffectiveness of remaining interest rate swaps	21	-	-	-	-	785	-	785
Tax relating to components of other comprehensive income	8	-	-	-	-	(1,931)	-	(1,931)
Total comprehensive income		-	-	-	-	8,977	2,589	11,566
Ordinary dividends paid	9	-	-	-	-	-	(4,341)	(4,341)
Revaluation reserve realised on disposal of properties		-	-	(1,674)	-	-	1,674	-
Accrued share-based payments	32	-	-	-	-	-	396	396
Purchase of own shares	26	-	-	-	(595)	-	-	(595)
Distribution of own shares	26	-	-	-	467	-	(448)	19
Unconditionally vested share awards		-	-	-	165	-	(165)	-
Balance at 29 June 2019		7,429	1,099	71,858	(1,551)	(4,990)	134,252	208,097

There are no differences in the Parent Company Statement of Changes in Equity and the Consolidated Statement Changes in Equity above other than the Parent Company Profit for the financial year of £2,618,000 (2018: Parent Company profit of £10,270,000).

CONSOLIDATED CASH FLOW STATEMENT

52 WEEKS ENDED 29 JUNE 2019

	52 weeks ended 29 June 2019 £'000	53 weeks ended 30 June 2018 £'000
Net cash flows from operating activities (note 27)	22,497	22,599
Cash flows from investing activities		
Proceeds of sale of tangible fixed assets	7,825	6,008
Purchase of tangible fixed assets	(13,710)	(14,748)
Customer loan redemptions	61	75
Acquisition of subsidiaries	(5,594)	-
Cash acquired on acquisition	347	-
Net cash flows from investing activities	(11,071)	(8,665)
Cash flows from financing activities		
Dividends paid	(4,341)	(4,197)
Interest paid	(3,526)	(4,970)
Settlement of derivative financial instruments	(9,610)	-
Repayment of long-term loans	(54,500)	(2,000)
New long-term loans	59,500	-
Issue costs of new long-term loans	(815)	-
Purchase of own shares	(595)	(1,346)
Share option proceeds	19	20
Net cash flows from financing activities	(13,868)	(12,493)
Net (decrease)/increase in cash and cash equivalents	(2,442)	1,441
Cash and cash equivalents at beginning of the period	1,625	184
Cash and cash equivalents at end of the period	(817)	1,625



NOTES TO THE ACCOUNTS 29 JUNE 2019

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 39. Shepherd Neame Limited is the ultimate controlling party of the Group.

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

The accounts have been prepared on a going concern basis under the historical cost convention, modified to include investment properties held at fair value and by the revaluation of freehold licensed properties as at 28 June 2014. They are prepared in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The Group has adopted FRS 102.25 regarding borrowing costs during the period. There has been no impact on the recognition of borrowing costs in the current or comparative period, accordingly no separate presentation of its impact on the financial statements is presented nor comparative period restated.

b Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up for the 52 weeks ended 29 June 2019 (2018: 53 weeks ended 30 June 2018). 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 or 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 properties	25 to 30 years
• Other freehold properties	50 years
• Leasehold properties	over the lease term
• Plant, machinery, vehicles and containers	3 to 25 years
• Fixtures and fittings	2 to 30 years
• Computer hardware and software (included in fixtures and fittings)	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 annually reviewed for indicators of impairment if events or changes in circumstances suggest 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 and hedge accounting

The Group uses derivative financial instruments (interest rate swaps and interest rate caps) 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 £22.5m 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.

The current interest rate cap has not been designated as a cash flow hedge and fair value movements are recognised immediately in the profit and loss account.

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.

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.



NOTES TO THE ACCOUNTS 29 JUNE 2019

1 Accounting Policies continued

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 is 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 Borrowing costs

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

n Items excluded from underlying results

Items which are either material or infrequent in nature and do not relate to the underlying performance are excluded from underlying results.

o 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.

p 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.

q Dividends

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

r 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 and Stochastic pricing models 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.

5 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.

The net impact on the impairment charge of applying different assumptions to cash flow forecast, the growth rates used to calculate cash flow projections and the pre-tax discount rates would be as follows:

	A 10% reduction in cash flow forecast		A 0.5% increase in discount rate		A 0.5% reduction in growth rate	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Increased impairment resulting from	866	452	689	290	689	290

Critical judgements

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

3 Segmental reporting

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 and other products;
- Managed Pubs; and
- Tenanted Pubs which comprises pubs operated by third parties under tenancy or tied lease agreements.

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

52 weeks ended 29 June 2019	Brewing and Brands £'000	Managed Pubs £'000	Tenanted Pubs £'000	Unallocated £'000	Total £'000
Turnover	40,742	68,777	35,033	1,249	145,801
Underlying operating profit	923	9,215	12,950	(7,830)	15,258
Items excluded from underlying results	-	140	(308)	-	(168)
Divisional operating profit	923	9,355	12,642	(7,830)	15,090
Net underlying finance costs					(3,901)
Finance costs excluded from underlying results					(9,820)
Fair value movements on ineffective element of cash flow hedges					(952)
Profit on disposal of property					2,848
Investment property fair value movements					206
Profit on ordinary activities before taxation					3,471



NOTES TO THE ACCOUNTS 29 JUNE 2019

3 Segmental reporting continued

52 weeks ended 29 June 2019	Brewing and Brands £'000	Managed Pubs £'000	Tenanted Pubs £'000	Unallocated £'000	Total £'000
Other segment information					
Capital expenditure – tangible fixed assets and goodwill	1,105	13,647	4,216	1,203	20,171
Depreciation and amortisation	1,979	3,282	2,479	558	8,298
Underlying divisional EBITDA	2,968	12,517	15,460	(7,272)	23,673
Number of pubs	–	70	239	13	322
53 weeks ended 30 June 2018	Brewing and Brands £'000	Managed Pubs £'000	Tenanted Pubs £'000	Unallocated £'000	Total £'000
Turnover	54,424	65,332	35,374	1,437	156,567
Underlying operating profit	2,301	8,694	13,215	(8,146)	16,064
Items excluded from underlying results	(1,700)	(535)	(136)	(10)	(2,381)
Divisional operating profit	601	8,159	13,079	(8,156)	13,683
Net finance costs					(4,295)
Profit on disposal of property					1,908
Investment property fair value movements					823
Profit on ordinary activities before taxation					12,119
Other segment information					
Capital expenditure – tangible fixed assets and goodwill	1,830	7,625	4,594	938	14,987
Depreciation and amortisation	1,995	2,955	2,351	993	8,294
Underlying divisional EBITDA	4,449	11,690	15,606	(7,106)	24,639
Number of pubs	–	68	242	11	321

Geographical information

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

	52 weeks ended 29 June 2019 £'000	53 weeks ended 30 June 2018 £'000
Turnover		
UK	143,581	154,031
Rest of the World	2,220	2,536
	145,801	156,567

4 Turnover

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

	52 weeks ended 29 June 2019 £'000	53 weeks ended 30 June 2018 £'000
Sale of goods and services	136,757	147,503
Rental income	9,044	9,064
	145,801	156,567

5 Operating charges

	Before items excluded from underlying results 52 weeks ended 29 June 2019 £'000	Items excluded from underlying results 52 weeks ended 29 June 2019 £'000	Total 52 weeks ended 29 June 2019 £'000	Total 53 weeks ended 30 June 2018 £'000
Production costs and costs of goods used in retailing	56,080	-	56,080	64,331
Change in stocks of finished goods and work in progress	(270)	-	(270)	222
Staff costs:				
Wages and salaries	29,961	-	29,961	30,312
Social security costs	2,500	-	2,500	2,582
Other pension costs	969	-	969	922
Amortisation of goodwill (note 13)	118	-	118	115
Depreciation of tangible fixed assets (note 14)	8,180	-	8,180	8,179
Impairment of tangible fixed assets (note 14)	-	652	652	622
Reversal of impairment of tangible fixed assets (note 14)	-	(484)	(484)	-
Loss on sale of fixed assets (excluding properties)	92	-	92	542
Property repairs	2,950	-	2,950	3,293
Operating lease rentals – land, buildings, vehicles & equipment	4,360	-	4,360	3,937
Foreign exchange loss/(gain)	15	-	15	(3)
Impairment of stock recognised as an expense	460	-	460	517
Other operating charges	25,128	-	25,128	27,313
Total operating charges	130,543	168	130,711	142,884

The analysis of auditor's remuneration is as follows:

	52 weeks ended 29 June 2019 £'000	53 weeks ended 30 June 2018 £'000
Fees payable to Deloitte LLP for the audit of the Group's annual accounts	120	114
Fees payable to Deloitte LLP for other services to the Group:		
Tax advisory services	26	22
Other services	10	-
Total fees payable to Deloitte LLP	156	136

6 Net finance costs

	Underlying results £'000	52 weeks ended 29 June 2019 Items excluded from underlying results £'000	Total statutory £'000	53 weeks ended 30 June 2018 Total statutory £'000
Interest payable: Bank loans and overdrafts	3,938	-	3,938	4,330
Interest receivable: Other	-	-	-	(2)
Investment income: Income from fixed asset investments	(18)	-	(18)	(15)
Other finance income: Unwinding of discounts on provisions	(19)	-	(19)	(18)
Settlement of interest rate swaps associated with refinancing	-	9,386	9,386	-
Write-off of unamortised finance costs following refinancing	-	434	434	-
Ongoing fair value movements on financial instruments charged to profit and loss	-	952	952	-
Net finance costs	3,901	10,772	14,673	4,295

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;
- Operating and finance charges which are either material or infrequent in nature and do not relate to the underlying performance; and
- Fair value movements on financial instruments charged to profit and loss.



NOTES TO THE ACCOUNTS 29 JUNE 2019

7 Non-GAAP reporting measures continued

	52 weeks ended 29 June 2019 £'000	53 weeks ended 30 June 2018 £'000
Underlying EBITDA	23,673	24,639
Depreciation and amortisation	(8,298)	(8,294)
Free trade loan discounts	(25)	(62)
Loss on sale of assets (excluding property)	(92)	(219)
Underlying operating profit	15,258	16,064
Net underlying finance costs	(3,901)	(4,295)
Underlying profit before taxation	11,357	11,769
Profit on disposal of properties	2,848	1,908
Investment property fair value movements	206	823
Operating charges – items excluded from underlying results	(168)	(2,381)
Settlement of interest rate swaps associated with refinancing	(9,386)	-
Write-off of unamortised finance costs following refinancing	(434)	-
Other fair value movements on financial instruments charged to profit and loss	(952)	-
Profit on ordinary activities before taxation	3,471	12,119

During the period, £37,500,000 of term loan was repaid and the Group entered into new financing arrangements. The Group also terminated interest rate swap contracts totalling £35,000,000 for net cash consideration of £9,386,000 in connection with the repayment of the loan. As a result, other finance costs excluded from underlying results includes £9,386,000 in respect of settled interest rate swap liabilities and £434,000 of unamortised finance costs relating to the previous facility which have been written off. Finance costs excluded from underlying results includes £952,000 in respect of the ineffective portion of the movement in fair value interest rate swaps.

Operating charges – items excluded from underlying results comprised an impairment charge of £168,000 (note 14).

The charge of £2,381,000 for the 53 weeks ended 30 June 2018 comprised £1,759,000 in respect of restructuring costs following a review of strategy for the brewing and brands business associated with the termination of the Asahi contract, and an impairment charge of £622,000 (note 14).

8 Taxation

a Tax on profit on ordinary activities

	52 weeks ended 29 June 2019			53 weeks ended 30 June 2018		
	Underlying results £'000	Excluded from underlying results £'000	Total statutory £'000	Underlying results £'000	Excluded from underlying results £'000	Total statutory £'000
Tax charged to profit and loss						
Current tax						
UK corporation tax at 19.0% (2018: 19.0%)	2,455	(1,959)	496	2,645	(251)	2,394
Prior year under provision	1	-	1	25	-	25
Total current tax	2,456	(1,959)	497	2,670	(251)	2,419
Deferred tax						
Origination and reversal of timing differences	(59)	440	381	(158)	(147)	(305)
Prior year under/(over) provision	4	-	4	(10)	-	(10)
Total deferred tax	(55)	440	385	(168)	(147)	(315)
Total tax charged to profit and loss	2,401	(1,519)	882	2,502	(398)	2,104
Tax charged to other comprehensive income						
Deferred tax						
Gains arising on cash flow hedges in the period			1,931			792
Total tax charged to other comprehensive income			1,931			792

b Reconciliation of the total tax charge

	52 weeks ended 29 June 2019 £'000	53 weeks ended 30 June 2018 £'000
Group profit on ordinary activities before taxation	3,471	12,119
Tax on Group profit at average UK corporation tax rate of 19.0% (2018: 19.0%)	659	2,303
Expenses not deductible for tax purposes	85	96
Profit on sale of property less chargeable gains	133	(310)
Prior year under provision	5	15
Total tax charged to profit and loss	882	2,104

c) Factors that may affect future tax charges

Following the Finance Act 2016, the main rate of UK Corporation tax rate will reduce to 17% from 1 April 2020. A rate of 17% (2018: 17%) has been used in the deferred tax calculations which is the tax rate that is expected to apply in the periods in which the timing differences are expected to reverse.

During the 52 weeks beginning 30 June 2019, the net reduction of deferred tax liabilities expected to be credited to the profit and loss account is estimated at £100,000 due to the reversal of accelerated capital allowances. This estimate is based upon a number of assumptions, including the level of capital expenditure qualifying for capital allowances, which is uncertain and could result in a different actual movement.

There is no expiry date on timing differences.

9 Dividends

	52 weeks ended 29 June 2019 £'000	53 weeks ended 30 June 2018 £'000
Declared and paid during the year		
Final dividend for 2018: 23.45p (2017: 22.73p) per ordinary share	3,475	3,348
Interim dividend for 2019: 5.87p (2018: 5.75p) per ordinary share	866	849
Dividends paid	4,341	4,197

The Directors propose a final dividend of 24.21p (2018: 23.45p) per 50p ordinary share totalling £3,578,000 (2018: £3,475,000) for the 52 weeks ended 29 June 2019. The dividend is subject to approval by the shareholders at the Annual General Meeting, to be held on 18 October 2019 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 29 June 2019 £'000	53 weeks ended 30 June 2018 £'000
Profit attributable to equity shareholders	2,589	10,015
Items excluded from underlying results	6,367	(748)
Underlying earnings attributable to equity shareholders	8,956	9,267
	Number	Number
Weighted average number of shares in issue	14,717	14,707
Dilutive outstanding options	114	142
Diluted weighted average share capital	14,831	14,849
Earnings per 50p ordinary share		
Basic	17.6p	68.1p
Diluted	17.5p	67.4p
Underlying basic	60.9p	63.0p

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 pages 35 and 36.



NOTES TO THE ACCOUNTS 29 JUNE 2019

12 Employees

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

	52 weeks ended 29 June 2019 Number	53 weeks ended 30 June 2018 Number
Brewery, head office	254	263
Managed pubs	1,430	1,306
	1,684	1,569

13 Intangible fixed assets

Group and Company	Goodwill £'000
Cost	
At 30 June 2018	816
Acquisitions (note 16)	258
At 29 June 2019	1,074
Amortisation	
At 30 June 2018	196
Charge for the period	118
At 29 June 2019	314
Net book value	
At 29 June 2019	760
At 30 June 2018	620

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 2.0% (2018: 2.0%). The pre-tax discount rate used in this review was 7.54% (2018: 8.05%).

14 Tangible fixed assets

Group and Company	2019 £'000	2018 £'000
Property, plant and equipment	305,934	300,168
Investment properties	8,794	7,869
Total tangible fixed assets	314,728	308,037

a Property, plant and equipment

	Freehold properties £'000	Leasehold properties over 50 years £'000	Leasehold properties under 50 years £'000	Plant, machinery, vehicles and containers £'000	Fixtures and fittings £'000	Assets under construction £'000	Total £'000
Valuation or cost							
At 30 June 2018	253,037	942	7,378	35,684	81,287	877	379,205
Additions	9,069	-	660	447	8,609	1,096	19,881
Disposals	(3,535)	-	-	(230)	(1,020)	(87)	(4,872)
Transfers	(971)	-	22	44	(983)	(647)	(2,535)
At 29 June 2019	257,600	942	8,060	35,945	87,893	1,239	391,679
Accumulated depreciation							
At 30 June 2018	5,084	165	3,976	27,748	42,062	2	79,037
Charge for year	588	17	249	1,388	5,938	-	8,180
Impairment	597	-	12	-	43	-	652
Reversal of impairment	(484)	-	-	-	-	-	(484)
On disposals	(84)	-	-	(230)	(714)	-	(1,028)
Transfers	(9)	-	-	-	(603)	-	(612)
At 29 June 2019	5,692	182	4,237	28,906	46,726	2	85,745
Net book values							
At 29 June 2019	251,908	760	3,823	7,039	41,167	1,237	305,934
At 30 June 2018	247,953	777	3,402	7,936	39,225	875	300,168

Included in additions is £70,000 (2018: £121,000) of own labour capitalised and £4,000 (2018: nil) of capitalised interest.

Disposals includes an amount of £689,000 (2018: £2,635,000) 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 revalued amounts, adjusted for subsequent disposals, have been retained. Valuations of £202,276,000 are included in the valuation or cost of the freehold properties at 29 June 2019 (2018: £206,808,000).

If they had not been revalued, freehold properties would have been carried in the balance sheet at 29 June 2019 at:

Group and Company	2019 £'000	2018 £'000
Cost	172,804	166,453
Accumulated depreciation	(6,855)	(6,436)
Net book amount	165,949	160,017

The Company has entered into certain operating leases as lessor. The gross cost of assets held for use under these leases amounted to £26,390,000 (2018: £27,359,000) and the related accumulated depreciation charges amounted to £658,000 (2018: £508,000) and the aggregate rentals receivable amounted to £1,370,000 (2018: £1,370,000).

A net impairment loss of £168,000 was recognised in the year in respect of five licensed properties to write them down to their recoverable amount (2018: £622,000 in respect of three licensed properties) and the reversal of impairment of two licensed properties (2018: none).

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 2.0% (2018: 2.0%) for managed pubs and 1.5% (2018: 1.5%) for tenanted pubs. The pre-tax discount rate used in this review was 7.54% (2018: 8.05%).

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 who are Royal Institute of Chartered Surveyors (RICS) qualified.

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.

Group and Company	2019 £'000	2018 £'000
Valuation:		
Carrying value at start of year	7,869	6,757
Additions	21	18
Disposals	(1,225)	(1,205)
Transfers	1,923	1,476
Fair value movement	206	823
Carrying value at end of year	8,794	7,869

The investment property rental income during the year was £334,000 (2018: £266,000).

If the investment properties had not been revalued, they would have been carried in the balance sheet at 29 June 2019 at a cost of £5,023,000 (2018: £4,164,000).



NOTES TO THE ACCOUNTS 29 JUNE 2019

15 Investments and loans

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Investment in subsidiaries	-	-	5,509	163
Loans to customers	10	76	10	76
Carrying value	10	76	5,519	239

a Investment in subsidiaries

At 29 June 2019 the parent Company and the Group had 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%
The Horse and Groom (Dartford) Limited	£1 Ordinary shares	100%
Thomas Grant & Sons Limited*	£1 Preference shares	100%
	£1 Ordinary shares	99.9%
Todd Vintners Limited*	£1 Ordinary shares	50%

The above companies are incorporated in England and Wales and the registered office for each of them is 17 Court Street, Faversham, Kent ME13 7AX. All subsidiary undertakings have been included in the consolidation.

* These companies were dormant throughout the period.

Investment in principal subsidiaries

Company	2019 £'000	2018 £'000
Cost		
At beginning of period	11,583	11,583
Additions	5,487	-
Disposals	(11,561)	-
	5,509	11,583
Provisions for impairment		
At beginning of period	(11,420)	-
Charged to profit and loss	-	(11,420)
Disposals	11,420	-
	-	(11,420)
Carrying value at end of period	5,509	163

On 16 April 2019, the Company acquired 100% of the issued share capital of The Horse and Groom (Dartford) Limited for £5,745,000.

During the year, Village Green Restaurants Limited, Ultimate Entertainment Services Limited and Mexxa Mexxa Limited were liquidated.

The provision for impairment charged in the year ended 30 June 2018 related solely to Village Green Restaurants Limited. These movements are eliminated on consolidation of the Group.

b Loans to customers

Group and Company	2019 £'000	2018 £'000
Carrying value at start of period	76	194
Redemptions	(61)	(75)
Loan discounts awarded	(25)	(62)
Unwinding of discounts on loans receivable	20	19
Carrying value at end of period	10	76

c The maturity profile of the loans is:

Group and Company	2019 £'000	2018 £'000
Recoverable within one year	3	14
Recoverable between one and five years	7	15
Recoverable after five years	-	47
	10	76

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 none are expected to be repaid in cash and £10,000 is expected to be repaid by offset against discounts to be earned but not received by customers (2018: £11,000 and £65,000 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

On 16 April 2019, the Company acquired 100% of the issued share capital of The Horse and Groom (Dartford) Limited, a company which owns and operates a pub in Dartford, for cash consideration of £5,745,000. The fair value of assets acquired at that date was £5,487,000, which was less than the fair value of the consideration by £258,000, 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	1,880	4,320	6,200
Current assets			
Stocks	16	-	16
Debtors	21	-	21
Cash	347	-	347
Total assets	2,264	4,320	6,584
Creditors: amounts falling due within one year	(245)	-	(245)
Provisions for liabilities – deferred tax	(154)	(698)	(852)
Total liabilities	(399)	(698)	(1,097)
Net assets	1,865	3,622	5,487
Goodwill arising on acquisition			258
			5,745
Satisfied by:			
Cash			5,745

£151,000 of this consideration was settled after 29 June 2019.

The business of The Horse and Groom (Dartford) Limited was hived up to Shepherd Neame Limited at the date of acquisition, and results since this date have been recognised in this company.

17 Stocks

Group and Company	2019 £'000	2018 £'000
Raw materials and consumables	2,357	1,963
Work in progress	362	380
Finished goods including goods for resale	4,392	4,498
	7,111	6,841

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

18 Debtors

Group and Company	2019 £'000	2018 £'000
Trade debtors	9,396	11,238
Other debtors	369	355
Derivative financial instruments (see note 21)	56	-
Prepayments	3,124	2,443
	12,945	14,036

Amounts due after more than one year comprised £267,000 (2018: £249,000) 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 £297,000 (2018: £239,000) was recognised in profit and loss during the year.



NOTES TO THE ACCOUNTS 29 JUNE 2019

19 Creditors: Amounts falling due within one year

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Trade creditors	7,123	7,060	7,122	7,060
Amounts owed to subsidiary undertakings	-	-	5,397	202
Corporation tax	269	1,338	269	1,338
Other tax and social security	6,042	5,851	6,023	5,846
Accruals and deferred income	7,472	7,929	7,469	7,929
Trade deposits	1,857	1,838	1,857	1,838
Other creditors	333	598	333	593
	23,096	24,614	28,470	24,806

20 Borrowings

Group and Company	2019 £'000	2018 £'000
Amounts falling due after more than one year:		
Bank loans	47,000	77,000
Other loans	35,000	-
Less: loan issue costs	(840)	(578)
	81,160	76,422

During the year, £37.5m of term loan was repaid and the Group entered into new financing arrangements. Loans at the year end comprise a 20-year term loan of £35.0m arranged in October 2018, a 20-year term loan of £22.5m arranged in April 2007 and drawings of £24.5m on the revolving credit facility.

The £35.0m loan represents a private placement with BAE Systems Pension Funds Investment Management Ltd and is repayable on 30 October 2038. The £22.5m term loan is hedged by interest rate swap contracts which are referred to note 22. This loan was provided by Lloyds Banking Group plc and is repayable in five instalments of £1.6m payable every year commencing on 31 December 2021 with the outstanding balance being repayable on 31 December 2026. The five-year revolving credit facility with Lloyds Bank plc and Santander UK plc matures in 2023.

At the year end, £20.5m (2018: £28.0m) of the total £45.0m (2018: £45.0m) committed revolving credit bank facility was available and undrawn.

The loans and overdraft are repayable as follows:

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Amounts payable on demand or within one year	933	-	1,068	-
Amounts payable between one and five years	29,300	17,000	29,300	17,000
Amounts payable after five years	52,700	60,000	52,700	60,000
	82,933	77,000	83,068	77,000

The Company's loans and overdraft 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:

	2019 Notional principal £'000	2019 Weighted average interest rate %	2019 Weighted average period for which rate fixed (years)	2018 Notional principal £'000	2018 Weighted average interest rate %	2018 Weighted average period for which rate fixed (years)
Bank loans	22,500	5.77	7.5	60,000	5.78	8.5
Other loans	35,000	3.99	19.3	-	-	-
Revolving credit facility	24,500	2.55	-	17,000	2.29	-

Three-month LIBOR was 0.774% at 29 June 2019 (30 June 2018: 0.674%). The overdraft facility bears interest at 1.25% (2018: 2.5%) above the Bank of England base rate which was 0.75% at 29 June 2019 (30 June 2018: National Westminster Bank base rate of 0.5%).

Categories of financial assets and liabilities

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

	Group 2019 £'000	Group 2018 £'000	Company 2019 £'000	Company 2018 £'000
Financial assets				
Debt instruments measured at amortised cost				
• Loans receivable from customers	478	590	478	590
Measured at fair value through profit and loss				
• Interest rate cap	56	-	56	-
Measured at undiscounted amount receivable				
• Cash	116	1,625	116	1,625
Financial liabilities				
Measured at fair value and designated in an effective hedge relationship				
• Derivative financial liabilities	(6,822)	(16,955)	(6,822)	(16,955)
Measured at amortised cost				
• Fixed rate loan notes	(34,576)	-	(34,576)	-
• Variable rate bank loan	(46,584)	(76,422)	(46,390)	(76,422)
Measured at undiscounted amount payable				
• Overdraft	(933)	-	(933)	-

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

	2019 £'000	2018 £'000
Interest income and expense		
Total interest income for financial assets at amortised cost	20	21
Total interest expense for financial liabilities at amortised cost	(12,927)	(3,684)
Fair value gains and losses		
On derivative financial liabilities designated in an effective hedging relationship	248	4,271
Transfers to profit and loss account on cash flow hedges	10,660	-

22 Derivative financial instruments

Derivative instruments are used to change the economic characteristics of financial instruments in accordance with Group policy.

Interest rate swaps

At 29 June 2019 the Group held one (2018: three) interest rate swap contract for a nominal value of £25m (2018: £60m). The interest rate swap is classified as a cash flow hedge because the derivative financial instrument hedges the risk of variation in interest cash flows on its borrowings. The Group receives a variable interest rate based on three month LIBOR. The interest rate swaps settle on a three-monthly basis and the Group settles the difference between the fixed and floating interest on a net basis. At the balance sheet date, £22.5m of the Group's borrowings (2018: £60m) were hedged by the interest rate swap at a fixed rate of 5.1% (2018: 5.1%), which expires in December 2026.

A gain of £248,000 (2018: gain of £4,271,000) was recognised in other comprehensive income in respect of the swaps in cash flow hedges. During the year, the Group terminated interest rate swap contracts with a total nominal value of £35m which resulted in an accumulated loss of £9,875,000 (2018: nil) being recycled from the hedging reserve to the profit and loss account. In addition a further £785,000 (2018: nil) was transferred to the profit and loss account in respect of the movement in fair value of the ineffective portion of the remaining interest rate swap.

Interest rate cap

The Group has entered into an interest rate cap agreement in order to hedge the risk of variation in interest cash flows on its borrowings. At the balance sheet date, £20m (2018: nil) of the Group and Company's borrowings were hedged by an interest cap at a rate of 2% (2018: nil), which expires in 2023.



NOTES TO THE ACCOUNTS 29 JUNE 2019

22 Derivative financial instruments continued

Fair value

The fair values for interest rate swaps and caps are a volatile value often referred to as "mark to market" value. The value is determined by marking the fixed rate within the instrument against the market for forward interest rates. This is based on information provided by financial institutions, who use a variety of estimation techniques based on market conditions, such as interest rate expectations, existing at each balance sheet date.

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

	Average contract fixed interest rate		Notional principal value		Fair value	
	2019 %	2018 %	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Interest rate cap	2.0	-	20,000	-	56	-
Interest rate swap	5.1	5.1	25,000	60,000	(6,822)	(16,955)

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 certain commercial transactions and 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 rates, variable rates and interest rate caps. Fixed rates do not expose the Group to cash flow interest rate risk, but also do not enjoy a reduction in borrowing costs in markets where rates are falling. Interest rate caps limit the maximum rate payable but require payment of a lump sum premium. Debt is represented by two 20-year term loans, 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. All except the £35.0m term loan, bear interest at a variable rate based on LIBOR and Bank of England base rate. There are two components of the interest rates on the £22.5m 20-year term bank loan. One component is attached to the rate of LIBOR and fixed by means of interest rate swap contracts which run for the same period as the loan as disclosed in notes 21 and 22. The other component is attached to the level of bank margin. Interest on the £35.0m 20-year term loan notes is fixed at 3.99%. Interest on drawings on the revolving credit facility and short-term overdraft facility are not fixed as it has been 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 loans which amounted to £57.5m 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 £45.0m, which is due to mature in October 2023 and a committed overdraft facility of £5.0m, which matures in October 2023. The size of the facility is regularly reviewed and the overdraft facility is renewed annually. At the year end £24.5m (2018: £17.0m) of the revolving credit loan facility and £0.9m (2018: nil) 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. 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 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	2019 £'000	2018 £'000
Onerous lease provisions	29	60
Deferred taxation	14,044	12,810
	14,073	12,870

a Onerous lease provisions

Group and Company	2019 £'000	2018 £'000
As at start of period	60	54
(Credited)/charged to profit and loss	(31)	6
As at end of period	29	60

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

b Deferred tax

Group and Company	Asset 2019 £'000	Liability 2019 £'000	Net 2019 £'000	Asset 2018 £'000	Liability 2018 £'000	Net 2018 £'000
As at start of period	2,992	(12,810)	(9,818)	3,787	(13,128)	(9,341)
(Charged)/credited to profit and loss	(3)	(382)	(385)	(3)	318	315
Charged to other comprehensive income	(1,931)	-	(1,931)	(792)	-	(792)
Acquired in the year (note 16)	-	(852)	(852)	-	-	-
As at end of period	1,058	(14,044)	(12,986)	2,992	(12,810)	(9,818)

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

	Asset 2019 £'000	Liability 2019 £'000	Net 2019 £'000	Asset 2018 £'000	Liability 2018 £'000	Net 2018 £'000
Derivative financial instruments	1,042	-	1,042	2,973	-	2,973
Accelerated capital allowances	-	(2,454)	(2,454)	-	(2,557)	(2,557)
Revaluation of freehold pubs	-	(7,420)	(7,420)	-	(6,728)	(6,728)
Rolled over capital gains	-	(4,034)	(4,034)	-	(3,436)	(3,436)
Others	16	(136)	(120)	19	(89)	(70)
As at end of period	1,058	(14,044)	(12,986)	2,992	(12,810)	(9,818)

25 Called-up share capital

	2019 £'000	2018 £'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.



NOTES TO THE ACCOUNTS 29 JUNE 2019

26 Reserves

Share premium account

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

Revaluation reserve

The revaluation reserve represents the cumulative effect of revaluations of freehold land and buildings up to 28 June 2014.

Own shares

The own shares held reserve arises in connection with the employee share schemes. The Company held 130,968 ordinary shares at 29 June 2019 with a market value of £1,323,000 (2018: 124,529 and £1,351,000). During the year, the Group purchased 57,000 ordinary shares at an average cost of £10.45 per share (2018: 2,200 shares at an average cost of £11.25).

Of the own shares held 53,437 are allocated to employees under the Share Incentive Plan but have not yet vested.

A further 75,168 shares, held by the Trustees of the Share Incentive Plan, have vested unconditionally and as such are no longer treated as own shares held (2018: 61,752 and 77,083 respectively). Of these shares 51,497 can be distributed to employees free of tax (2018: 41,833).

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 account

The profit and loss account represents all current and prior period retained profits and losses, including fair value gains and losses 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 29 June 2019			53 weeks ended 30 June 2018		
	Underlying results £'000	Excluded from underlying results £'000	Total £'000	Underlying results £'000	Excluded from underlying results £'000	Total £'000
Operating profit	15,258	(168)	15,090	16,064	(2,381)	13,683
Adjustment for:						
Depreciation and amortisation	8,298	-	8,298	8,294	-	8,294
Impairment of tangible fixed assets	-	652	652	-	622	622
Reversal of impairment on tangible fixed assets	-	(484)	(484)	-	-	-
Share-based payments expense	396	-	396	569	80	649
(Increase)/decrease in stocks	(254)	-	(254)	222	-	222
Decrease in debtors and prepayments	1,168	-	1,168	5,948	-	5,948
Decrease in creditors and accruals	(938)	-	(938)	(4,488)	(120)	(4,608)
Free trade loan discounts	25	-	25	62	-	62
Loss on sale of assets (excluding property)	92	-	92	219	324	543
Interest received	18	-	18	15	-	15
Income tax paid	(1,566)	-	(1,566)	(2,831)	-	(2,831)
Net cash inflow/(outflow) from operating activities	22,497	-	22,497	24,074	(1,475)	22,599

b Analysis of net debt

	2018 £'000	Cash flow £'000	Repayment of long-term loans £'000	New long-term loans £'000	Issue costs of new loans £'000	Amortisation of issue costs £'000	2019 £'000
Cash	1,625	(1,509)	-	-	-	-	116
Bank overdraft	-	(933)	-	-	-	-	(933)
Cash and cash equivalents	1,625	(2,442)	-	-	-	-	(817)
Debt due after more than one year	(76,422)	-	54,500	(59,500)	815	(553)	(81,160)
Total	(74,797)	(2,442)	54,500	(59,500)	815	(553)	(81,977)

28 Capital commitments - Group and Company

Contracts for capital expenditure not provided for in the accounts amounted to £877,000 (2018: £735,000).

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 2019 £'000	Plant and machinery 2019 £'000	Land and buildings 2018 £'000	Plant and machinery 2018 £'000
Within one year	3,873	338	3,360	361
Between one and five years	14,879	369	12,863	334
After five years	50,515	-	40,994	-
	69,267	707	57,217	695

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 2019 £'000	Other property, plant and equipment 2019 £'000	Investment properties 2018 £'000	Other property, plant and equipment 2018 £'000
Within one year	279	1,283	166	1,263
Between one and five years	511	2,477	242	3,222
After five years	1	-	-	8
	791	3,760	408	4,493

30 Contingent liabilities

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 unprovided liability for the Company. The dispute resolution procedure in the long-term agreement is arbitration. In the absence of a consensual resolution to this dispute, there is a possibility that arbitration could commence. It is estimated that the Company's legal and associated costs of an arbitration case could be up to £750,000. The Company would seek to reclaim these costs as part of the arbitration process.

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 29 June 2019 and 30 June 2018 are included in the tables and footnotes on pages 37 and 38.

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 2018 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 2019 or 2018.

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

	2019 Number	2018 Number
Outstanding shares at start of year	126,095	131,620
Granted during the year	25,205	20,055
Forfeited during the year	(3,494)	(2,375)
Distributed during the year	(19,201)	(23,205)
Outstanding shares at end of year	128,605	126,095
Distributable at end of year	75,168	64,343

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 £10.49 (2018: £11.59).



NOTES TO THE ACCOUNTS 29 JUNE 2019

32 Share-based payment continued

The weighted average fair value of the shares granted in November 2018 was £10.80 (November 2017: £12.85). The fair value, taking into account the terms and conditions upon which the shares were granted, equates to the market price at the date of grant.

The expense recognised for share-based payments made under SIP in respect of employee services during the year to 29 June 2019 was £224,000 (2018: £223,000).

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 three 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. Upon the Group having achieved certain financial performance criteria, a proportion of the options originally granted are exercisable three years after the date of grant 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 29 June 2019 had a remaining contractual life of 3.43 years.

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

	2019 Number	2019 Weighted average exercise price	2018 Number	2018 Weighted average exercise price
Outstanding at start of year	16,006	£0.75	50,027	£0.60
Exercised	(13,865)	£0.73	(28,666)	£0.53
Forfeited during the year	-	-	(5,355)	£0.50
Outstanding options at end of year	2,141	£0.83	16,006	£0.75
Exercisable at end of year	2,141	£0.83	16,006	£0.75

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).

There was no charge recognised for share-based payments made under this scheme in respect of employee service during the year to 29 June 2019 (2018: £46,000).

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 three 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 are 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.

During the year the company purchased 57,000 shares at an average cost of £10.45 (2018: 58,369 shares at an average cost of £11.25). The contractual life of each option granted is ten years and the options outstanding at 29 June 2019 had a remaining contractual life of 8.36 years.

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

	2019 Number	2019 Weighted average exercise price	2018 Number	2018 Weighted average exercise price
Outstanding at start of year	130,683	£0.50	87,675	£0.50
Granted during the year	66,014	£0.50	57,576	£0.50
Exercised	(19,410)	£0.50	(8,799)	£0.50
Forfeited during the year	(9,288)	£0.50	(5,769)	£0.50
Outstanding options at end of year	167,999	£0.50	130,683	£0.50
Exercisable at end of year	11,098	£0.50	-	-

The weighted average fair value of the options granted during the year was £8.02 (2018: £12.36). The exercise price for all options outstanding at the end of the year was £0.50.



The fair value of the components of the equity-settled share options granted under the scheme is estimated at the date of grant using the Black-Scholes and Stochastic option pricing models which are 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 models used for the years ended 29 June 2019 and 30 June 2018:

	2019	2018
Expected share price volatility	12%	10%
Risk-free interest rate	0.80%	0.56%
Dividend yield	2.78%	2.21%
Expected life of option (years)	3	3
Weighted average share price	£10.50	£12.80

A charge of £172,000 was recognised for share-based payments made under the Shepherd Neame 2015 Restricted Share Scheme in respect of employee service during the year to 29 June 2019 (2018: £380,000).

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 £969,000 (2018: £922,000). Contributions of £174,000 (2018: £152,000) were payable to the schemes at the year end. One of the executive Directors (2018: one) is a contributing member of one of the Company's defined contribution schemes. During the previous financial year, changes in legislation meant that the highest paid Director and two other executive Directors were 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 £1,662,000 for the year (2018: £2,127,000) being remuneration of £1,469,000 (2018: £1,800,000) and share-based payment expenses of £193,000 (2018: £327,000) as disclosed in the Remuneration Report on pages 34 to 38. The Directors are granted discounts on purchases from the Company, in line with the discount given to all other staff.

During the year no advances were paid to Directors. In the year ended 30 June 2018 advances totalling £53,000 were paid to two Directors in respect of tax and NI payable on the exercise and sale of share options. The sums were repaid within one month with no interest payable. No amounts were outstanding at either year end.

Jonathan Neame, Chief Executive of Shepherd Neame Limited, is Chairman of Visit Kent. During the year ended 29 June 2019, fees and sponsorship activity paid to Visit Kent amounted to £12,000 including VAT (2018: £26,000). There was no balance owed to Visit Kent Limited at either 29 June 2019 or 30 June 2018.

Jonathan Neame was a non-executive Director of St Austell Brewery Company Limited until May 2018, hence only comparative figures are disclosed for related party transactions. During the prior year, the Group purchased goods to the value of £16,000 including VAT and made sales of £58,000 to St Austell Brewery Company Limited. As at 30 June 2018, Shepherd Neame Limited was owed £2,000, including VAT, by St Austell Brewery Company Limited and Shepherd Neame Limited owed a balance of nil to St Austell Brewery Company Limited.

George Barnes is an executive director of Shepherd Neame Limited. Mr A J A Barnes, a close member of George Barnes' family, is a partner of Clarke Barnes Solicitors LLP, which provided legal services in respect of Group properties during the year to 29 June 2019 at a cost of £33,000 including VAT and disbursements to third parties (2018: £21,000). No balance was owed to the partnership by Shepherd Neame Limited as at 29 June 2019 (2018: nil).

Nigel Bunting, an executive director of Shepherd Neame Limited, is also a director of Davy and Company Limited. During the year, the Group did not purchase any goods (2018: nil) but made sales to the value of £212,000 (2018: £214,000) to Davy and Company Limited and its associated companies. At the year end, no balance was owed by Shepherd Neame Limited to the Davy Group of companies (2018: nil) and the balance owed to the Group by the Davy Group of companies, including VAT, was £14,000 (2018: £24,000).

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

2019

3 October	Ex-dividend date
4 October	Record date*
18 October	Annual General Meeting and payment of final dividend

2020

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



GLOSSARY - ALTERNATIVE PERFORMANCE MEASURES

The performance of the Group is assessed using a number of alternative performance measures (APMs).

The Group's results are presented both before and after items excluded from underlying results. Adjusted profitability measures include underlying results as we believe this provides both management and investors with useful additional information about the Group's performance and aids a more effective comparison of the Group's trading performance from one period to the next. Adjusted profitability measures are presented alongside unadjusted UK GAAP results on the face of the profit and loss account with details of items excluded from underlying results provided in note 7.

In addition, the Group's results are described using certain other measures that are not defined under UK GAAP and are therefore considered to be APMs. These measures are used by management to monitor ongoing business performance against both shorter-term budgets and forecast but also against the Group's longer-term strategic plans. The definition of each APM presented in this report is shown below.

Measure	Definition	Location of reconciliation to GAAP measure
Underlying operating profit	Operating profit excluding operating charges that are either material or infrequent in nature and do not relate to the underlying performance.	Note 7
Underlying operating profit margin	Calculated by dividing underlying operating profit by turnover.	
Underlying profit before tax	Underlying operating profit less underlying net finance costs.	P&L
Underlying profit after tax	Underlying profit before tax less attributable taxation.	P&L
Underlying basic earnings per share	Underlying profit after tax 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 employees under the Share Incentive Plan which are treated as cancelled.	Note 10
Underlying net finance costs	Finance costs excluding charges that are either material or infrequent in nature and do not relate to the underlying performance and fair value movements on financial instruments charged to profit and loss.	Note 6
Underlying interest cover	Calculated by dividing underlying operating profit by underlying net finance costs.	
Underlying dividend cover	Calculated by dividing the underlying basic earnings per share by the dividends per share.	
Underlying tax rate	Calculated by dividing underlying tax by the underlying profit before tax.	Page 22
Underlying EBITDA	Underlying profit before tax pre net finance costs, depreciation, amortisation, profit or loss on sale of fixed assets excluding property and free trade loan discounts.	
Pub income	Pub profit before depreciation, amortisation, rent and property costs and other cost allocations	
Average income per managed pub	Calculated by dividing total managed pub income by the average number of managed pubs trading in a financial period. Previously this was described as average EBITDAR per managed pub.	
Average income per tenanted pub	Calculated by dividing total tenanted pub income by the average number of tenanted pubs trading in a financial period. Previously this was described as average EBITDAR per tenanted pub.	
Managed like-for-like (LFL) sales	Managed LFL sales includes turnover from the sale of drink, food and accommodation but excludes machine income. LFL sales performance is calculated against a comparable 52 week period in the prior year for pubs that were trading in both 52 week periods.	
Like-for-like (LFL) tenanted pub income	Tenanted income calculated to exclude from both years those pubs which have not been trading throughout the two years. The principal exclusions are pubs purchased or sold, pubs which have closed, and pubs transferred to or from our managed business. Income is calculated against a comparable 52 week period in the prior year for pubs that were trading in of both 52 week periods.	
Net debt	Net debt comprises cash, bank overdrafts, bank and other loans less unamortised loan fees.	Note 27
Gearing	Calculated by dividing net debt by net assets.	
Ratio of net debt to EBITDA	Net debt divided by underlying EBITDA.	
Free cash flow	Net cash flows from operating activities plus proceeds of disposal of fixed assets less dividends paid, purchase of own shares and option proceeds, interest payments and issue cost of new loan.	Financial commentary
Total annual dividend	The total annual dividend comprises interim dividends paid during the financial year and the final dividend proposed after the completion of the financial year.	



GLOSSARY – ALTERNATIVE PERFORMANCE MEASURES CONTINUED

In addition, the Group uses the following non-financial KPIs to assess performance against its strategic objectives:

Measure	Definition
RevPAR	Revenue per available bedroom – the average room rate achieved multiplied by the occupancy percentage.
Room occupancy rate	Room nights occupied expressed as a percentage of total room nights available for a financial year.
Own beer volume growth	Year-on-year growth in the sales volumes of all beer and Shepherd Neame cider brewed and packaged by the Company in Faversham.
Core own brand beer growth	Year-on-year growth of Shepherd Neame branded beer and cider sales volumes excluding licensed, customer own label and contract volumes.



FIVE YEAR FINANCIAL SUMMARY

	52 weeks Group 2019 £'000	53 weeks Group 2018 £'000	52 weeks Group 2017 £'000	52 weeks Company 2016 £'000	52 weeks Company 2015 £'000
Profit and loss					
Turnover	145,801	156,567	156,198	139,890	138,237
Underlying operating profit	15,258	16,064	15,259	14,235	13,758
Operating items excluded from underlying results	(168)	(2,381)	(469)	(495)	(63)
Net underlying finance costs	(3,901)	(4,295)	(4,094)	(3,898)	(4,424)
Net non-underlying finance costs	(10,772)	-	-	-	-
Profit on disposal of property	2,848	1,908	588	4,235	354
Investment property fair value movements	206	823	496	282	4,086
Profit on ordinary activities before taxation	3,471	12,119	11,780	14,359	13,711
Taxation	(882)	(2,104)	(1,568)	(1,940)	(2,734)
Earnings available to shareholders	2,589	10,015	10,212	12,419	10,977
Assets employed					
Fixed assets	315,498	308,733	306,599	280,205	279,960
Current assets	21,230	25,494	31,020	29,193	33,862
Current liabilities	(24,029)	(24,614)	(31,145)	(27,430)	(26,143)
Non-current liabilities	(104,602)	(108,561)	(115,363)	(98,091)	(107,853)
Net assets	208,097	201,052	191,111	183,877	179,826
Per 50p ordinary share	2019	2018	2017	2016	2015
Basic earnings	17.6p	68.1p	69.1p	84.0p	74.3p
Underlying earnings available to shareholders	60.9p	63.0p	59.1p	54.7p	48.7p
Dividends (interim and proposed final)	30.08p	29.20p	28.35p	27.50p	26.70p
Net assets	£14.01	£13.53	£12.86	£12.38	£12.10
Dividend cover	0.6	2.3	2.4	3.1	2.8
Underlying dividend cover	2.0	2.2	2.1	2.0	1.8

Kent-based band **Salvation**
Jayne at this year's **Ramblin'**
Man Festival

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