

SHEPHERD NEAME LIMITED ANNUAL REPORT 2020

REGISTERED IN ENGLAND NUMBER 138256



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.

REASSURING OUR CUSTOMERS

Chief Executive Jonathan Neame welcomes customers and team members back into pubs on 4 July 2020, after 15 weeks of closure during lockdown.

HIGHLIGHTS

TURNOVER

£123.6m

2019: £145.8m

STATUTORY (LOSS)/PROFIT BEFORE TAX

£(12.1)m

2019: £3.5m

DIVIDEND PER SHARE

nil

2019: 30.08p

UNDERLYING OPERATING PROFIT¹

£0.9m

2019: £15.3m

UNDERLYING BASIC (LOSS)/ EARNINGS PER SHARE²

(17.8)p

2019: 60.9p

NET ASSETS PER SHARE³

£12.94

2019: £14.01

DIVIDEND PER SHARE (P)

NET ASSETS PER SHARE (€)

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1. 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).
2. Underlying (loss)/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.
3. Net assets at the balance sheet date divided by the number of shares in issue being 14,857,500 50p shares.
4. All comparatives are for the 52 weeks to 29 June 2019.
5. An explanation of the Group's use of Alternative Performance Measures (APMs), including definitions are on pages 90 to 91 of this annual report.

CHAIRMAN'S LETTER TO SHAREHOLDERS

**THIS IS MY LAST ANNUAL
GENERAL MEETING... IT
HAS BEEN AN ENORMOUS
PLEASURE TO SERVE AS
CHAIRMAN SINCE 2005.**

DEAR SHAREHOLDER

This is my last Annual General Meeting, and I shall retire from the Board at its conclusion.

It has been an enormous pleasure to serve first as Non-Executive Director from 2002 and then as Chairman since 2005. The Company has faced many challenges during that time and huge changes in the market, but has evolved and grown to meet them every step of the way. The business is far stronger today.

The Company holds a unique position in the market and is held in the highest regard by staff, licensees, customers and competitors alike. The quality of the beer, pubs and support services is excellent and the passion, dedication and team spirit that so defines Shepherd Neame remains undiminished.

I would like to specifically pay tribute to Jonathan and the whole team who have steered the Company through this extremely difficult period. I have always been impressed by the quality and commitment of people at Shepherd Neame, and they have brought all their knowledge and experience to bear in navigating through this crisis so successfully.

I would like to wish my successor Richard Oldfield every success. He will make an exceptional Chairman and has already contributed greatly to Board debates. He is supported by a strong team and a very experienced Board of Directors and I have every confidence he will do an outstanding job for the Company.

Finally, I would like to thank all the shareholders for the support they have given me during my tenure. I have greatly enjoyed meeting so many of you over the years and it is a huge personal disappointment that this, my final AGM, will not be held in the usual way. I hope to attend future meetings and resume our acquaintances then.

With thanks and best wishes.

MILES TEMPLEMAN
Chairman

CHAIRMAN'S STATEMENT

In my whole career, I have never experienced a year quite like this one, when all normal expectations are suspended by one event that no one could reasonably have foreseen nor planned for.

OVERVIEW

The COVID-19 pandemic has inevitably had a profound effect on the financial performance of the business and caused us to pause all planned activity. However, I am hugely impressed by how the business responded to these changed circumstances and addressed each of the many challenges in a positive, methodical and professional way.

From the outset it was clear to the Board that the safety and well being of our team members, licensees and customers would be our overriding priority. The various measures that were quickly put in place are outlined in the Chief Executive's report but demonstrate clear and decisive leadership during the crisis from the senior team, as well as the caring attitude and community spirit that so defines Shepherd Neame.

Shepherd Neame's operating and financial model is robust and the business is resilient. Its business is balanced with three different operating divisions, each with its own distinct financial and market characteristics. Additionally the business is underpinned by a high quality freehold asset base and a strong balance sheet, and entered into the crisis with sensible levels of leverage.

We recognised quickly that our tenanted business was likely to recover fastest and therefore it was vital to support our licensees to ensure that they would be able to resume trading as soon as restrictions were lifted, without a financial burden overhanging their businesses.

Managed pubs have a high fixed cost base inherent in businesses of this size, and so need higher turnover to achieve their profitability. Thus, their recovery was always going to take longer. However, it is most encouraging to see how strong and rapid the recovery has been in most outlets over the summer, up until the point that further restrictions were introduced.

We have 15 managed pubs in the City and West End of London which we did not re-open until September 2020. These are great pubs but we are concerned for their future in the short term, as central London footfall has been significantly reduced, with few tourists and most commuters working from home.

The Brewing and Brands business has been able to operate throughout to supply off trade customers. This provided much needed cashflow at a time when other sources of cash were foreclosed.

It is pleasing to see how all three business divisions have started their recovery path with resilient trading in the first part of the new financial year.

FINANCIAL RESULTS

The financial results are materially affected by the impact of COVID-19.

For the last 15 weeks of our financial year ended June 2020, we maintained supply of our beer brands to the supermarkets and a few export customers, but derived no income from our pubs, which remained closed until 4 July. We took all the steps we could to minimise costs during this period, used all available Government assistance and ceased all non-contractual expenditure. Nonetheless we continued to incur costs in many areas.

In addition, the Board of Directors took a temporary pay cut of 20%. No bonuses will be paid this year and there is no pay increase across the Company, except those required by law under the national minimum wage legislation.

Total turnover for the 52 weeks to 27 June was £123.6m (2019: £145.8m).

Underlying operating profit was £0.9m (2019: £15.3m). Underlying loss before tax was £2.9m (2019: profit £11.4m) and statutory loss before tax was £12.1m (2019: profit £3.5m).

Underlying basic loss per share was 17.8p (2019: earnings per share 60.9p) and basic loss per share was 79.8p (2019: earnings per share 17.6p).

In a normal year, the business is strongly cash generative. Much of that cashflow is achieved in the summer months and so a 15 week period of closure at this time had a significant effect.

Underlying EBITDA was £9.7m (2019: £23.7m).

CHAIRMAN'S STATEMENT CONTINUED

FINANCING

At the year end the Board took steps to strengthen the Company's financial position and to secure liquidity for the foreseeable future. This is a precautionary step to protect the business in the event of a further and sustained lockdown.

We secured a £25m revolving credit facility from our banking lenders Lloyds Bank plc and Santander plc utilising the Government CLBILS scheme (Coronavirus Large Business Interruption Lending Scheme). Of this, £15m is committed and a further £10m available on request. The loan will mature on 1 July 2022, but can be cancelled by the Company at any time.

As part of these arrangements, the Company's loan note holder BAE Systems Pensions Funds Investment Management Ltd and banking lenders agreed to waive any technical defaults arising from the COVID-19 pandemic and to amend the Group's financial covenants through to September 2021. The Company has now been set a minimum level of EBITDA and liquidity which we are currently comfortably exceeding.

**WE HAVE TRADED
AS WELL AS COULD
BE EXPECTED SINCE
RE-OPENING IN THE
SUMMER, BUT THE
REST OF THE WINTER
PRESENTS FURTHER
RISKS AND FRESH
UNCERTAINTIES.**

We have managed the Company's cash well. At the year end, the Company's net debt was £84.4m (2019: £82.0m), a small increase from the half year end. Over and above this, the Company incurred deferred liabilities of £11m during lockdown¹, predominantly Government liabilities.

CAPITAL AND INVESTMENT

Capital expenditure was £12.3m (2019: £19.3m). Of this £1.8m (2019: £9.0m) was spent on new site acquisitions and £10.5m (2019: £10.3m) on brewery and pub investments. This expenditure was almost entirely incurred in the period up to March 2020.

DIVIDENDS

The Board recognises the importance of dividends to its shareholders and has every intention of resuming dividend payments as soon as possible.

However, as shareholders would expect given the circumstances and the need to preserve cash, the Company will not be paying a final dividend at the AGM 2020 nor an interim dividend in March 2021. In 2019 the Company paid a final dividend of 24.21p and a total dividend for the year of 30.08p.

ANNUAL GENERAL MEETING

The Annual General Meeting is delayed from the usual date of the end of October due to the reporting complexities arising from COVID-19. – In order to adhere to Government guidance, the format of the AGM is different but we anticipate returning to the more normal timetable and format when appropriate.

BOARD OF DIRECTORS

As previously announced Richard Oldfield will become Chairman at the Annual General Meeting. Richard has been a Non-Executive Director since 2016 and his advice and experience have been invaluable in helping the Company steer through the challenges of the last few months. I have no doubt he will make an excellent Chairman and help lead the Company back on a path to growth.

He will step down as Chair of the Audit Committee on his appointment and this role will be taken by Bill Brett. Hilary Riva will become Chair of the Remuneration Committee. Richard will also become Chair of the Nominations Committee.

As previously announced, Kevin Georget will be elected to the Board at the Annual General Meeting, as a Non Executive Director.

COMPANY SECRETARY

At the AGM, Robin Duncan will step down as Company Secretary and will retire in March 2021. Robin has served the Company with great distinction in many roles for over 40 years and we wish him well for the future. I am delighted that Glenda Flanagan will become Company Secretary. She has been a key member of the senior team for over 10 years in her role as Financial Controller and is very well qualified to assume this role with considerable knowledge of corporate governance and accounting.

¹ 16 March to 4 July

ROBERT NEAME CBE

I would like to pay a personal tribute to Robert Neame, the former Chairman and the Company's first President, who sadly passed away in November 2019. He dedicated 63 years of his life to the Company and achieved great success over many years. He built the platform that the business benefits from today. He will be sorely missed by all who knew him.

SUMMARY AND OUTLOOK

Shepherd Neame is a strong independent business with a clear plan to drive recovery in the short term and a focus on the opportunities that may arise in the market for the long term.

The Company has experienced many challenges over its history, but perhaps none as severe and instant as this crisis. The Company survives because it has a clear strategy, a well balanced business, a strong freehold asset base, long term financing and sensible levels of net debt. The Company is also tightly managed by an experienced and dedicated team who have already put the Company well on the path to recovery.

We have traded as well as could be expected since re-opening in the summer, but the rest of the winter presents further risks and fresh uncertainties. The new restrictions are of great concern, and we hope can be lifted in due course.

The Company has liquidity for the foreseeable future within its financing structure, and our clear objective, when conditions allow, is to resume our growth trajectory, re-start our investment programme and the payment of a dividend as soon as possible.

The Company's position in the market as an independent operator with its local and community footprint, high quality pub estate and brewery, with its unique heritage, is as strong as ever. As we emerge from this crisis, I have no doubt we will benefit from the opportunities, such as local heartland infrastructure investment, that are likely to arise in the coming months and years.

It has been a privilege to be Chairman of this great company for the past 15 years. I have greatly enjoyed working with the team and supporting the development and growth as best I can. I shall miss it greatly, but look forward to seeing the Company enjoy the success in the future that I fully anticipate.

MILES TEMPLEMAN
Chairman

CHIEF EXECUTIVE'S LETTER TO SHAREHOLDERS

**IT IS TESTAMENT TO THE
RESILIENCE OF THE
BUSINESS... THAT WE HAVE
SO FAR WEATHERED THE
STORM AS WELL AS COULD
BE EXPECTED.**

DEAR SHAREHOLDER

This has been an extraordinary year and arguably the greatest crisis that the Company has ever faced.

It is however testament to the great spirit in the business that the team has rallied magnificently and was determined not to be beaten by this pandemic.

From the brewery team who kept supply going, to the magnificent work in the pubs to reassure our customers, to the head office team who worked tirelessly – and still are – to think through the challenges of managing the business; it has been a great team effort.

We started the year well and had good momentum. We had carried out some exciting development projects in the pubs and our new partnership with Boon Rawd Brewery was on track.

It was really encouraging therefore that, after 105 days of anxious lockdown, our customers quickly re-engaged with us, our licensees responded magnificently to the support we had given them and our finances started to recover.

Whilst none of this momentum is lost, the new restrictions placed on hospitality in the autumn have been disheartening. But, we have a good business plan and an experienced management team who can respond quickly according to the circumstances. Our absolute determination is to recover the business as quickly as possible and to put us back on the path to growth. Although we cannot be certain how long this will take, we remain well positioned in the sector, and as resolute as ever to succeed.

Finally, I would also like to express my personal thanks to Miles for his encouragement, support and guidance over the last 15 years. He has been a great Chairman and will be greatly missed by all. I very much look forward to working with Richard in the future.

JONATHAN NEAME
Chief Executive

INVESTING IN OUR BUSINESS

FOR THE LONG TERM

FIRST HALF HIGHLIGHTS

A key highlight in the managed estate in the first half of the year was the development of the Woolpack at Banstead at a cost of £1.3m.

CHIEF EXECUTIVE'S REVIEW

This year has produced one of the greatest challenges anyone is ever likely to face in their working or personal lives.

OVERVIEW

We plan for many scenarios on an ongoing basis, but no one planned for the total closure of all our pubs and the loss of the greater part of our revenue and cashflow for 15 weeks. No one anticipated one of the deepest recessions ever nor the fundamental shifts – temporary or permanent – in consumer behaviour in response to the COVID-19 pandemic.

It is however a testament to the great resilience of the business, to the inherent strength of our brands and assets, as well as to the skills of the people we employ, that we have so far weathered this storm as well as could be expected, and in many respects, are likely to emerge in due course well positioned.

During the last few months, we have had to take many critical decisions, often under extreme pressure, that could have a material impact in the long term on the Company. Throughout, I feel the team has made the right judgment calls at the right time, as well as maintaining a good flow of communications to our people, licensees and customers. I would like to express my thanks to all who have contributed to this enormous effort.

Since re-opening, and up until new restrictions were imposed in mid September, our performance has been stronger than originally anticipated, but we still face considerable difficulties before this crisis ends and have a significant challenge to navigate our way through the winter months.

Our plan is to minimise expenditure, maximise cashflow, and restore the strength of our balance sheet, as quickly as possible over the next year, so that we are best placed to take advantage of any opportunities that arise.

PERFORMANCE TO THE END OF FEBRUARY 2020

The Interim Results, for the 26 weeks ended 28 December 2019, were published on 11 March. At that time, we reported a satisfactory trading period, in spite of a great deal of political uncertainty in the autumn prior to the General Election in December. In the context of what followed, such uncertainty seems trivial.

Trade in January was buoyant in all channels and there was every prospect of a strong finish to the year. In this context we looked forward to the final quarter with considerable optimism. Indeed, as we stated in our Interim Report, 'we have seen no discernible change in customer behaviour to date'. Whilst clearly accurate at the time, that position changed rapidly in the days following this announcement, and by Friday 20 March, all pubs in the UK were shut.

Our turnover to the half year was up +3.3% to £79.0m (2019: £76.5m) and to 29 February 2020, like-for-like sales in each division continued on the same solid and steady trajectory. Tenanted like-for-like pub income was strong at +2.6%, own brand beer and cider volumes were up +4.4% and same outlet managed like-for-like sales were up +0.6%.

A key highlight in the managed estate in the first half of the year was the development of the Woolpack at Banstead at a cost of £1.3m. We had also commenced a major redevelopment at the Wharf in Dartford in January, but had to suspend work at the site in March and only resumed in July.

Earlier in the year, we acquired the Crown, Rochester and secured a freehold site at Ebbsfleet with an initial payment to build a new pub hotel, to be called The Chalk Yard. This build was due to commence in May 2020, but subsequently the project has been suspended.

In the tenanted estate, we have enjoyed a continual strong performance for some time now. The levels of maintenance and investment in our estate over a sustained period, and the high quality support services we provide, have created a robust business. We carried out major developments at the Lord Nelson, Dover, at the Red Lion, Charing Heath and at the Rose in June, Margate;

DOING THE RIGHT THING FOR OUR STAFF

PROTECTING OUR TEAM

We took immediate action to make the brewery COVID-secure and introduced various protective measures for our team members so they could operate in a safe environment.

TEMPERATURE CHECKS IN BREWERY

CHIEF EXECUTIVE'S REVIEW CONTINUED

DOING THE RIGHT THING FOR OUR LICENSEES

PIVOTING OUR OFFER

Our pubs needed to adapt fast to the crisis and many of our licensees have pivoted their offer, such as the Three Mariners, Oare. Named Kent Life's Pub of the Year 2019, Sarah Simmonds and the team set up a giant teepee in the pub garden selling a range of farm fresh local produce and takeaway food boxes to complement the pub's fantastic menu.

We were delighted that our efforts and achievements were recognised as winners of the 2020 Publican Award for Best Tenanted/Leased Company (up to 500 sites).

In our Brewing and Brands division, we commenced a distribution partnership with Boon Rawd Brewery for Singha Beer, Thailand's original premium beer, in September 2019. We were enjoying considerable success in the period prior to lockdown, by opening new wholesaler and on trade customer accounts, and are most pleased at the way this has continued since re-opening.

Overall beer volume was in growth for the first part of the year, with good performances in export and grocery and renewed momentum in our heartland. We commissioned the installation of a new yeast plant to improve beer quality at a cost of £0.5m. This project was suspended in March and finally completed in October.

WE WERE WINNERS OF THE 2020 PUBLICAN AWARD FOR BEST TENANTED/ LEASED COMPANY.

PIVOTING THE BUSINESS IN RESPONSE TO COVID-19

On 16 March, we formed a crisis management committee, consisting of members of the senior team, and met several times per week through to the end of July. This committee and the Board made all the critical decisions about closing the business down and then preparing it to re-open in July.

The overriding priority of the Board was the safety and wellbeing of our team members, licensees and customers. Immediate actions that were taken were to:

- close the offices and move to home working from 18 March
- make the Brewery COVID-secure so that it could continue to produce beer. We introduced various protections for our brewing team so that they could operate in a safe environment, with workplace distancing measures in place.

The priority for the business was to conserve cash. Immediate actions taken included decisions to:

- cancel the interim dividend
- cancel all capital projects
- minimise expenditure

and, the Board of Directors and higher paid staff all took a voluntary pay cut for the period of closure.

From lockdown, we implemented further measures and:

- waived all rent receivable from our tenanted licensees from 16 March
- gave credits to our customers for beer that could not be sold
- provided regular advice and guidance to our licensees
- helped our licensees to access business grants and other available Government assistance
- established daily communications to all our teams
- accessed the Government Coronavirus Job Retention Scheme to furlough up to 91% of all staff

We entered negotiations with all our landlords where we hold a lease over rental commitments. In the main, we achieved satisfactory outcomes with our landlords being supportive and understanding of our predicament. We are grateful to those who have waived rent in full or part during lockdown. We have now paid the majority of the outstanding rent accrued during lockdown, with the remainder subject to agreed deferral arrangements. It is also most welcome that the Government has cancelled business rates for hospitality outlets for one year.

During the whole of lockdown the brewery continued to produce beer for the supermarkets and a few export customers. Off trade volume grew by +36% during this period, albeit total own brand beer volume was down -23% of normal. Demand was so high for our traditional beers that we were able to support local hop growers and place a significant order for Kentish hops. We also re-launched our online shop.

DOING THE RIGHT THING

We believed it was critical that the Company and its licensees played their part.

To this end, we:

- arranged for all food in our managed pub kitchens to be despatched to local food banks
- offered our managed hotel accommodation to the NHS
- supported the regular #ClapforCarers
- produced the base 'beer' for hand sanitiser in partnership with the Copper Rivet Distillery

CHIEF EXECUTIVE'S REVIEW CONTINUED

DOING THE RIGHT THING FOR OUR CUSTOMERS

SAFE SPACES

Investment in measures, such as protective screens, was a critical part of our re-opening strategy to reassure customers that it was safe to come back to pubs. Retraining our teams was essential and we were delighted to receive numerous personalised thank you messages as our customers started to return.

Many of our pubs provided much needed take away or grocery services to their local community.

Throughout, we tried to maintain regular communications with our staff, licensees and customers on the actions we were taking to combat the crisis.

RE-OPENING OUR PUBS

As we approached the re-opening date of 4 July, intense activity prepared the business to restart. We were able to give first class advice and guidance to our licensees on the specific risk assessment required for each pub, and to help make the necessary mitigations in each outlet. Our customer signage received many favourable comments and was produced by our Charity of the Year, the Royal British Legion Industries (RBLI).

To operate with social distancing in place is a considerable challenge for many outlets, resulting in a loss of capacity and therefore a risk to the viability of many pubs. It was most welcome therefore that the Government recognised this and moved to the '1 metre plus' rule, thereby increasing capacity, so long as satisfactory mitigations to avoid face to face contact, such as screens or seating back to back, were in place. Customers have welcomed the small booths created by screens between tables and many of these will become a permanent feature.

Additional new measures included table service, single use menus or apps for ordering, and track and trace registration on arrival. This is in addition to clear directional and spacing signage throughout our premises and multiple hand sanitiser stations. All of this required re-training for our team members as they returned from furlough.

Whilst there was understandable concern about how such measures could be implemented, I am delighted by the way all our teams responded. We recognise that we need strict compliance to the guidelines and the highest standards of hygiene and safety in our outlets to reassure our customers that our outlets are COVID-19 secure.

We have received many favourable comments from customers since re-opening about the measures we have put in place and the quality and attitude of our staff. We believe that this has provided the necessary confidence to encourage our customers to return.

By the end of July we had re-opened most of our 234 tenanted pubs and 45 of our 69 managed pubs. The majority of those that remained closed were in Central London. This was ahead of our original plan as, after the first couple of weeks, it was clear that people still wanted to go to pubs.

THE SUMMER MONTHS

Trade was fairly slow in early July, but it was building week on week. August was strong in our tenanted and managed pubs, with many pubs trading above last year. This was clearly boosted by the Eat Out To Help Out (EOTHO) scheme which supported over 74,000 meals in our managed pubs and a successful dinner, bed and breakfast promotion to drive occupancy in our hotels.

The Wharf in Dartford finally re-opened at the end of August once the redevelopment was complete.

We benefit from a large number of rural, coastal and suburban pubs with great gardens or terraces, and have a strong food offer in most of those sites. These have been in strong demand throughout the summer.

I am pleased to say that staff and customers alike seemed thrilled to be back, enjoying the pub experience that they loved and missed. The table service experience in particular has been welcomed by most customers.

But, after the great progress made over the summer by our teams, and the immense efforts to create safe environments for our staff and customers, it was extremely disheartening that fresh restrictions were imposed on the hospitality sector. These included the new Rule of Six, the compulsory Test and Trace, increased wearing of masks, the imposition of a 10pm curfew and the new regional tier system and ultimately fresh national lockdown from 5 November.

The curfew is a poor public health measure as it has meant that people leave pubs simultaneously, many of them to gather at close quarters without distancing elsewhere. The clear evidence from Public Health England is that hospitality venues are safe and are a source of only a fraction of all infections.

CHIEF EXECUTIVE'S REVIEW CONTINUED

BY THE END OF JULY WE HAD OPENED MOST OF OUR PUBS EXCEPT THOSE IN CENTRAL LONDON. IT WAS SOON CLEAR THAT PEOPLE STILL WANTED TO GO TO PUBS.

By contrast, we, and our licensees, have been very careful to ensure that our pubs are safe places with proper distancing and movement rules in place.

Neither the trade nor any of the relevant licensing authorities were consulted on these measures which are almost universally seen to be bad policy.

Pubs have a high fixed cost base and need volume to achieve profit. This is in part due to the heavy tax burden on the sector. The initial support that the Chancellor was able to provide to the sector was impressive and most welcome. In particular, the VAT cut to 5%, the cancellation of business rates and the EOTHO in August are all welcome initiatives.

The hospitality sector in general has been one of the hardest hit, and this support was important to start to re-build the finances for many pubs and to protect a significant number of jobs. In this context the new restrictions imposed in mid September have been a blow to many operators and will stimulate significant job losses across the sector.

TRADING PERFORMANCE

Of those managed pubs that have been open, since 4 July, like-for-like retail sales to the end of September were -7.9%. Demand for food and accommodation in our coastal hotels has been strong. Overall like-for-like sales were -36.7%.

Tenanted volumes were tracking at c 90% of normal through the summer period, which was above our initial expectation, but have now fallen back following the new restrictions. For the 13 weeks to 26 September we achieved 73% of prior year like-for-like tenanted pub income. Following the reopening of pubs, we provided substantial rental support. Currently rent is being charged at substantially below contractual rent and will remain at this level through to the end of February 2021. We hope to restore rental levels to near their previous levels as soon as practicable.

Beer volumes have remained robust, with export and grocery business performing well. Own Brand Beer and Cider volumes to 26 September were -1.9% versus last year. The shift to drinking at home has clearly benefitted the off trade. Whilst the on trade was recovering well, many key customers such as sports clubs, nightclubs and event management companies, have remained closed since the start of lockdown.

ADAPTING TO THE CHANGE IN CONSUMER BEHAVIOUR

It is hard to gauge at this stage which of the many changes in consumer behaviour during lockdown will stay for the long term.

However, many are likely to be beneficial to us if they become permanent, as and when consumer confidence returns. Specifically, support for local independent businesses is strong, particularly those with a strong community presence; international travel restrictions are likely to drive more staycation holidays; and the move to home working, whilst negative for our London pubs, could be positive for our many suburban and village pubs in commuter areas.

The way we have adapted our offer to table service within pubs has been well received, and the design modifications to create booth seating are also popular.

It is also clear that we are entering a new era where digital excellence is a critical success factor for any consumer business. We are reviewing where else we can improve in terms of wifi infrastructure, customer communications and consumer engagement via social channels.

Another significant change arising from this crisis is in pub recruitment. In recent years, it has become harder to recruit for certain roles in hospitality, particularly chefs and qualified kitchen staff. But this has changed and applications for pub, bar and kitchen roles are strong. Demand for our tenanted pubs is also good.

One overall theme seems clear, namely that there is great loyalty to Shepherd Neame from existing customers and that our actions and behaviours during lockdown appear to have attracted new ones.

THE YEAR AHEAD

At this stage there is no clear indication when restrictions will be lifted in full. Whilst food outlets have fared well so far, ongoing restrictions will have a negative impact on certain venues, for example pubs which rely on live music, broadcast live sport or host traditional pub games.

We remain therefore in a time of considerable uncertainty which is reflected in the risks to which we draw attention in this Report and in uncertainties relating to valuations. Subject to these important reservations, with the knowledge that we have of current circumstances we are optimistic about a good recovery.

Looking further ahead into 2021, we remain cautiously optimistic of a good summer. We hope that many of the normal events and sporting occasions can resume, and that customers will continue to enjoy the great British pub experience. Demand for functions and weddings is already high, assuming they are allowed to take place. We anticipate another staycation summer and are delighted that the Open Golf due to take place at Royal St Georges in July 2020 has been rescheduled for July 2021 and should bring visitors to the area.

**WHILST THERE
REMAINS
CONSIDERABLE
UNCERTAINTY IN
THE SHORT TERM...
SHEPHERD NEAME
REMAINS WELL
POSITIONED IN
THE SECTOR.**

THE RECOVERY PLAN

The Board has a clear Business Plan to stabilise the business during 2021 and then provide a platform for sustainable growth beyond.

We managed to contain our net debt through lockdown to similar levels as at the half year but incurred incremental liabilities of c. £11m, largely from agreed deferral of tax payments. These are being paid off against an agreed schedule during the coming year. We have made great strides at debt reduction in the new financial year, which demonstrate how cash generative the business remains even in the current difficult circumstances.

Key elements of our plan include continuing to minimise all but essential expenditure and the considered sale of non core assets. Sadly we have had to review our cost base and have had to make a total of approximately 170 roles redundant in the pubs and brewery. We are also looking to continue to build on our partnerships within the brewing and brands division so as to utilise the brewery to its maximum capacity.

We own four separate land holdings in and around Faversham which are considered suitable for residential development, and with a realistic prospect of receiving planning permission over the medium term. We are promoting these through the local plan.

Our immediate priority is to revive the cashflows in the business, to reduce leverage and to restore a dividend as soon as possible.

THE LONGER TERM OPPORTUNITY

Whilst there remains considerable uncertainty in the short term, we remain confident for the long term.

Shepherd Neame remains well positioned in the sector. As an authentic, independent business with a strong community and local presence, we are arguably more relevant now than ever before.

Our core strategy is unchanged, namely to focus on our strengths as a brewer and pub operator within our heartland of Kent, London and the South East. Our strong freehold asset base has been a critical factor in enabling us to weather this storm and remains key to having a strong balance sheet.

As we emerge and are able to start looking for new growth opportunities we believe that the infrastructure development within our heartland, in particular in north and central Kent, will continue to provide interesting opportunities.

CHIEF EXECUTIVE'S REVIEW CONTINUED

THE PASSION AND COMMITMENT WITHIN THE BUSINESS IS AS GREAT AS EVER AND WILL... DRIVE A POWERFUL RECOVERY OVER THE NEXT FEW YEARS.

The hospitality market will evolve rapidly as a result of COVID-19. It is likely that many secondary or city centre outlets may close for good. In that context, many of our pubs may benefit, particularly suburban and community pubs which is the core base of our estate. We have gained new customers for our beer during lockdown and expect that to continue. Further, our reputation and the loyalty to our brand appears to have been enhanced in the last few months.

But, the sector will need ongoing support. We are hopeful that the Government now recognise the importance of hospitality to jobs and the British economy and will reflect this in future policy making. We will continue to make the case for lower overall taxation on the sector, such as extended business rates holiday and lower rates of excise duty for beer in line with other countries, and differential rates of VAT for food and accommodation to help re-stimulate the visitor economy.

A BIG THANK YOU

Finally, there has been an extraordinary effort from many right across the business in recent months, to enable us to address the challenges we faced and to respond accordingly.

I have been hugely impressed by the ingenuity demonstrated by many of our licensees in serving their communities and by the team spirit right across the organisation. The messages of goodwill from employees, licensees and customers alike has been uplifting; and at times overwhelming. On many dark days this has been the fuel that has kept us all going. The passion and commitment within the business is as great as ever and will provide the energy for us to drive a powerful recovery over the next few years.

We are also very grateful for the messages of support received from many shareholders who recognise the need to cancel the dividend and appreciate the actions we have taken to safeguard the business for the future.

JONATHAN NEAME
Chief Executive

OUR STRATEGY

OUR VISION to be a Great British Brewer and run the Best Pubs
OUR MISSION to give our customers a great and memorable experience
 to make for a better day!

TO DRIVE FOOTFALL TO OUR PUBS

- Maximise investment to operate the best pubs in each community
- Pursue freehold acquisition opportunities within our Heartland
- Seek long term development opportunities in areas of economic growth potential such as North and Central Kent and others

TO DEVELOP OUR OFFER TO ENHANCE THE CUSTOMER EXPERIENCE

- Be known for great customer service
- Differentiate our offer with local food produce and distinctive drinks range
- Invest in digital excellence and infrastructure to build engagement with customers
- Build on strong social media presence to enhance brand presence

OUR STRATEGIC OBJECTIVES

TO ATTRACT, RETAIN AND DEVELOP THE BEST PEOPLE

- Be an Employer of Choice
- Train and develop great Customer Service skills
- Attract the best licensees
- Develop a modern, diverse and inclusive culture and workspace

TO CREATE DEMAND AND BUILD AWARENESS FOR OUR BRANDS

- Maintain distinctive design and signage in our pubs
- Be the preferred brewer in our Heartland
- Communicate our unique brand story

We aim to do the right thing for our community, our team members,
 our stakeholders and our environments

BUSINESS MODEL AND INVESTMENT CASE

OUR PURPOSE

The Shepherd Neame 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.

We balance strong cash flow generation with a plan to re-invest into the business to continuously enhance the customer experience and to ensure the business is always well positioned to grow into the long term.

OUR PUB ESTATE

319
PUB
PORTFOLIO

OUR BEER BRANDS

OUR BUSINESS CHARACTERISTICS

	Tenanted Pubs	Managed Pubs	Brewing and Brands
Segment characteristics	Typically freehold owned pubs across the South East of England. Revenue is derived from the sale of drinks products and through charging rent. These pubs are operated by independent licensees.	Typically freehold owned pubs across the South East of England. Revenue is derived from the sale of drinks, food and accommodation. These pubs are operated and managed by Shepherd Neame employees.	A manufacturing and wholesale business providing a portfolio of ales, lagers and ciders to on trade customers (e.g. bars, pubs and sports clubs) and off trade customers (e.g. supermarkets).
Financial characteristics	Stable levels of growth aligned to inflation, highest margin and typically the largest division in terms of profitability. Highly cash generative requiring some capital investment.	Higher levels of growth than tenanted business. Typically the largest division in terms of turnover. Cash generative but requires the greatest capital investment.	Smallest division in terms of profitability and lowest margin. Business is cash generative and requires the lowest level of capital investment.
Value to the business	Bedrock of cash generation that can be used for new acquisitions and transformational investments.	Growth engine through like for like growth, acquisition and transformational investment.	Nationwide brand presence. Unique point of difference for the pub estate. Cash generation for reinvestment.

A cash generative, balanced business that is well positioned to take advantage of growth areas in the market. Having an integrated model allows us to find the best operating model for our pubs and provides a strong route to market for our brands.

Underpinning our business model is a single infrastructure and brand identity to drive consistency, customer service and loyalty. This is supported by a stable financing strategy focussed on ownership of freehold property backed by a sensible level of long term and short term debt.

HOW WE ADD VALUE

Maintaining our integrated business model ensures that consumers get a consistent level of distinctive products whether they visit one of our tenanted or managed pubs or purchase a bottled ale or lager from the supermarket.

A key objective of the business in recent years has been to reposition the pub estate to benefit from the demand trend of food and accommodation within pubs and to move away from an estate that was historically based on small wet-led pubs. This has required significant active property management and investment. Over the last ten years 84 pubs and a number of investment properties have been disposed of for total proceeds of £47.4m and 38 pubs have been purchased at a cost of £66.8m.

This activity has also fulfilled an objective of providing greater balance across our pub estate. Historically Shepherd Neame was largely a tenanted pub operator but the repositioning of the pub estate has enabled us to significantly grow the managed pub estate and achieve higher growth in revenues in this area.

As we have grown the size of the managed estate we have developed significant retailing and food development skills combined with systems and infrastructure that can be scaled up at relatively low cost. Growth has also meant we have benefitted from economies of scale to help absorb recent years of external driven cost inflation, a trend we expect to continue. We expect to invest for growth through further property investment combined with greater digital technology and marketing to build loyalty across our heartland.

Within the brewing and brands space many customers are looking for a portfolio of products so that suppliers such as us can offer a "one stop shop". We carefully manage a diverse portfolio of classic ales, entry level modern craft beer and lagers to cater to these needs providing seasonal and specialist products combined with new product developments to cater to new trends. In addition our brewery has a flexibility in its capability so we complement our portfolio with distinctive licensed products such as Singha and Sam Adams. These are all underpinned by a nationwide distribution network and integrated sales team.

FUTURE OPPORTUNITIES

Our heartland of Kent is about to experience a significant increase in new housing and population combined with new infrastructure investment. Expected notable developments are:

- Population of Kent expected to rise by around 20% by 2031
- Significant housing development in North and Central Kent
- New upper Thames crossing likely to improve traffic flow and reduce the time taken to travel between Kent and Essex
- Crossrail extension and the likely infrastructure investment around Ebbsfleet

During the COVID-19 pandemic there has been a move away from eating and drinking out in urban city centres whilst customers work at home. Whilst the Company has some excellent Central London pubs it is well placed, with the vast majority of the estate outside central London, to benefit from any more permanent change in working and socialising practices.

STAKEHOLDER VALUE

Customers

We serve customers a range of experiences in our pubs and through off trade sales so customers can enjoy Shepherd Neame products in their homes.

Trade Customers

We are dedicated to offering excellent service to our licensees, on and off trade customers so that working with Shepherd Neame is a unique and distinctive experience that adds value to their own businesses.

Our teams

We look to motivate and reward our team members well. We are committed to being a Company where people want to work enabling our people to demonstrate their individuality, creativity and talent.

Suppliers

We look to build long term relationships with our suppliers and use a hand-picked network of farmers, fishermen and food producers throughout Kent and the South East to supply our brewery and pub estate. We continue to employ traditional crafts to work on our pubs and brewery, including thatchers, hand sign writers and shipwrights.

Communities

Our pubs are often the heart of the communities they are based in and the Company has proud roots in the town of Faversham and the County of Kent. The Company and our licensees support a number of national and local charities and community initiatives.

Shareholders

We have a strategy in place that has enabled the business to grow dividend per share and net asset per share over a sustained period up until the COVID-19 pandemic. We expect this strategy to continue to underpin these objectives into the future.

FINANCE AND IT DIRECTOR'S LETTER TO SHAREHOLDERS

WE HAD TRADED WELL UP TO THE OUTBREAK OF THE COVID-19 PANDEMIC. THE PERIOD FROM THE START OF THE FINANCIAL YEAR TO 29 FEBRUARY 2020 SAW TURNOVER UP 4.6% AND UNDERLYING PROFIT BEFORE TAX UP 6.1%.

DEAR SHAREHOLDER

Clearly events during this financial year have been unique in the Company's history and have led to us taking a different approach to maintain the financial strength of the business.

At the outbreak of the virus, and as we entered lockdown, we took a number of key initiatives to protect the business's cash flow.

It is reassuring that during the enforced lockdown these actions taken by the business reduced the level of cash leaving the Company to the lowest level possible. We opened the calendar year of 2020 with net debt of £83.9m and at the financial year end this stood at £84.4m. Since the year end as we started to trade net debt has reduced to £82.4m at the end of September 2020 and we have repaid a number of the liabilities that were deferred at the year end.

Our long term financing structure of £107.5m that was put in place in 2018 has served us well during this episode and our lenders have been supportive of the business and our actions. The Board has arranged an additional CLBILS loan of £25m that runs up to June 2022 to protect against any further shocks from the COVID-19 pandemic and its repercussions and as a result we feel we have adequate facilities for the foreseeable future.

Looking forward and outside the finance agenda, we have made good progress on our sustainability and responsibility programme and have identified a 10 year carbon reduction programme that can make the company carbon neutral. Whilst progress in this area is, by necessity, going to have to be delayed as the company's cash flow and balance sheet recovers from the COVID-19 shock, we maintain our focus on delivering change in this area in the coming years.

MARK RIDER
Finance and IT Director

FINANCIAL REVIEW

The financial year shows two distinct periods of performance split by the outset of the COVID outbreak and the enforced lockdown and closure of our pub estate.

PERFORMANCE OF THE BUSINESS

Trading to the point of lockdown showed growth across all our segments with particularly strong growth in own beer volume on the back of the new Singha agreement.

Within the pub estate tenanted like-for-like income was up on the back of growth of drinks turnover and rent. Managed pubs like-for-like growth reflected strong comparatives in the prior year and margins continued to see pressure from inflation in labour costs through increases in the national minimum wage.

THE IMPACT OF LOCKDOWN

Post lockdown and the period of pub closure meant that no turnover was achievable in the managed and tenanted divisions and that these areas were loss making. Within the brewing and brands segment whilst we could not service our on trade customers (who were also closed) we continued to serve our off trade customers. With consumers largely in their homes we saw a significant increase in off trade volumes of +36% versus the comparative prior year period. Total own brand beer and cider volumes fell by -3.6% for the full year as a result.

In the previous financial year the comparative months of March to June generated operating profit of £6.9m whereas under lock-down the operating loss was £(7.6)m. Whilst we benefitted from £5.4m of government grants and furlough income in this period and generated £2.0m of internal cost savings, lockdown did cost us £3.2m in customer support and £1.6m of direct additional costs including £0.9m of additional one-off holiday accrual for our teams.

Underlying net finance costs of £3.9m (2019: £3.9m) resulted from a saving of 8.4% in the period up to lockdown offset by an increase in costs post lockdown.

ITEMS EXCLUDED FROM UNDERLYING RESULTS

Total items excluded from underlying results were a net charge of £9.2m (2019: net charge of £7.9m). This year's items comprised seven elements:

- The annual impairment review resulted in an impairment charge of £7.6m relating to 26 properties (2019: £0.2m charge in relation to five properties). This charge is higher than in recent years and results from a view of the impact of COVID-19 on future trade at certain sites.
- During the year we identified a transaction in one of our ledgers that gave us cause for concern. We investigated this thoroughly and extensively in consultation with external advisers and our auditors. As a result we uncovered a series of erroneous charges made against certain accounts, as a result of unlawful action by one employee, who was acting independently over a number of years. This employee has now left the business and we were successful in obtaining a high court judgement to recover £895,000 of losses and further costs of £50,000. A charge of £945,000 has been recognised reflecting the full value of the losses and fees within this financial year and recoveries will be netted against this value in subsequent periods as they are received.

	13 weeks to 29 February 2020 Unaudited	Change %	52 weeks to 27 June 2020 Audited	Change %
Managed like-for-like sales growth	+0.6%		-29.8%	
Tenanted like-for-like income growth	+2.6%		-28.1%	
Core own brand beer and cider volume growth	+4.4%		-3.6%	
Turnover	101,354	+4.6%	123,619	-15.2%
Underlying operating profit	8,507	+1.4%	944	-93.8%
Underlying net finance costs	(2,489)	+8.4%	(3,857)	+1.1%
Underlying profit/(loss) before tax	6,018	+6.1%	(2,913)	-125.6%
Statutory profit/(loss) before tax	5,325	+218.7%	(12,101)	-448.6%

FINANCIAL REVIEW CONTINUED

- There is an ongoing HMRC enquiry in respect of potential liabilities relating to uniforms and training requirements for staff paid the national minimum wage. Whilst we do not accept any liability, a provision of £0.5m has been recognised as a prudent estimate of a potential liability including a 100% HMRC fine.
- Property losses of £6,000 (2019: profits £2.8m) were incurred on the sale of four pubs, two unlicensed properties and several pieces of land, (2019: three pubs, sale and leaseback of one pub and five unlicensed properties). These were 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 £50,000 (2019: £0.2m).
- The COVID-19 pandemic resulted in one-off costs associated with putting in place the CLBILS loan of £0.2m.
- In 2019 as part of the previous 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 included £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.

TAXATION

The Company has recognised a total tax credit of £0.4m (2019: tax charge £0.9m), an effective rate of 2.9% (2019: 25.4%). The current year includes a charge of £1.0m (2019: nil) on restating deferred tax liabilities from 17% to 19%. The average statutory rate of corporation tax in the UK for the period was 19% (2019: 19%). The underlying tax rate was 9.8% (2019: 21.1%). The net tax credit on items excluded from underlying results was £0.1m (2019: credit of £1.5m).

EARNINGS PER SHARE AND DIVIDENDS

Underlying basic earnings per ordinary share fell by -129% to (17.8)p (2019: earnings per share 60.9p) following the decrease in profits following the COVID-19 pandemic. Basic earnings per ordinary share decreased to (79.8)p (2019: 17.6p) due to the lower operating profits and the one-off impacts affecting the year.

Due to the COVID-19 pandemic, the need to preserve cash and the fact the terms and conditions of the new financing arrangement have restrictions on dividend payments whilst the facility and alternative covenants remain in place, mean that we will not be paying a dividend for the 52 weeks ended 27 June 2020 nor an interim dividend in March 2021 (2019: total dividend of 30.08p per ordinary share, total dividend paid £4.4m).

CASH FLOW

The decrease in underlying operating profits meant underlying EBITDA decreased by -59.2% to £9.7m (2019: £23.7m). Tax cash payments decreased to £0.2m. This payment related to the 2019 financial year as there is no tax liability in respect of 2020. Net cash inflow from operating activities decreased by £7.2m to £15.3m (2019: £22.5m).

The total cash cost of interest and dividends, purchase of own shares and issue costs of new loans decreased by £2.2m to £7.1m (2019: £9.3m). The reduction in dividend payments reflect that no interim 2020 dividend has been paid (2019: £0.9m) offsetting the 3.2% increase in payment of the final 2019 dividend which was paid in October 2019.

Before the COVID-19 pandemic in the first half of the year, in order to service the Company's future obligations under employee incentive plans expected at that time, 25,300 shares were purchased at an average market price of £11.45. In 2019 57,000 shares were purchased at an average market price of £10.45.

Total disposal proceeds of £1.8m (2019: £7.8m) 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 £9.9m (2019: £21.1m). This was invested in capital expenditure ahead of the COVID-19 pandemic:

- Cash spend on core capital expenditure was £10.5m (2019: £10.3m) as we continue to invest to strengthen the pub and brewery asset base. This included a major development on the Woolpack, Banstead and initial expenditure on a major development at the Wharf, Dartford whereas the 2019 financial year had just one major development at the Marine, Whitstable.
- We invested a further £1.8m in the acquisition of the Crown Inn, Rochester and a freehold site for development at Ebbsfleet. In 2019 £9.0m was invested in the acquisition of two new leasehold sites and two freehold pub sites.

BALANCE SHEET

There was a £5.6m decrease in fixed assets (2019: increase of £6.8m) following the impairment charge recognised in the financial year and an increase in net debt of £2.4m to £84.4m (2019: £82.0m).

Shareholders' funds at 27 June 2020 were £192.2m (2019: £208.1m) meaning net assets per share showed a decrease of -7.6% to £12.94 (2019: £14.01).

Balance sheet gearing at the year end was 44% (2019: 39%) and the leverage ratio of net debt to underlying EBITDA at the year end was 8.7 times (2019: 3.5 times), driven by the impact of COVID-19 on the year's EBITDA.

FINANCING AND LOAN FACILITIES

Since the Company was refinanced in October 2018 we have a mixture of long term and short term debt through a combination of loan notes held by the BAE Systems Pension fund and bank debt with Lloyds Bank plc and Santander UK plc. These facilities total £107.5m comprising £35m of loan notes at a fixed interest rate of 3.99% for 20 years, £22.5m of amortising Term Loan running to 2026 and a revolving credit facility of £50m maturing in 2023.

The COVID-19 pandemic has impacted these facilities in the following ways:

- Due to the business not being able to trade through lockdown it was not able to meet the technical terms and covenants associated with the loan note and bank facilities. As a result of this technical breach, the Company's loans have been re-classified to short-term at the balance sheet date.

The lenders have supported the business through this period and have provided a waiver of these covenants until September 2021 and amended them in the interim with alternative covenants around minimum EBITDA and liquidity.

- Due to the business not meeting its covenants the lenders are entitled to increase the cost of interest on the facilities during this period. These increases have increased net finance costs and will do so until the Company meets its historic covenants.
- To provide further support to the business through the ongoing uncertainty of the COVID-19 pandemic a further £25.0m of facilities were taken out on 1 July 2020 utilising the UK Government's Coronavirus Large Business Interruption Loan Scheme ('CLBILS'). The Board does not intend to utilise this facility unless necessary but it has been introduced as a prudent measure to ensure liquidity in the foreseeable future.

At the year end net debt stood at £84.4m (2019: £82.0m) meaning the existing facilities provide £23.1m of headroom with the new CLBILS loan of £25.0m on top of this capacity taking total headroom to £48.1m.

GOING CONCERN

Due to the uncertainty that the COVID-19 pandemic has led to in the hospitality industry and the Company's ability to open its pubs there is a risk that previously seen levels of profitability may not be achievable in the short term. The Company has significant debt facilities available but requires a level of profit to meet its covenants.

In view of the risk that the Company may not meet its covenants due to further enforced closure there is a material uncertainty that may cast significant doubt around the Company's ability to continue as a going concern. The Board feels that in current known circumstances it has adequate cash reserves to meet the business's needs over the coming twelve months and hence the accounts have been prepared on a going concern basis.

MARK RIDER
Finance and IT Director

SUSTAINABILITY AND RESPONSIBILITY REPORT

Underpinning our strategy is a drive to do the right thing for our community, our team members, our stakeholders and our environment. These objectives actively influence our decision making and we have clear objectives for progress over the long term which are centred across five key objectives:

1. REDUCING OUR USE OF ENERGY AND UTILITIES

We have a proud tradition of looking at ways to minimise our energy and utility use. We were the first brewery in the world to introduce PDX wort heating in the brewery and in 2013 invested £3m in a Water Recovery Plant which allows us to recycle the waste water enabling us to reduce water usage by 40%.

This ethos continues within the business and during 2020 we completed the Government's Energy Saving Opportunities Scheme. Whilst the benchmarking of this exercise placed us well compared to brewing and hospitality industry we have identified a number of key initiatives that will enable us to further improve the level of energy we use in both the brewery and our pubs and we have plans to introduce these as part of our future investment programs.

Whilst we are looking to minimise our use of energy, brewing beer and running pubs remains an energy intensive business. As a result during this year we have entered new long term contracts with our utility providers based on purchasing the majority from green or renewable sources.

One of my and the Board's key focusses going forward is carbon reduction. We have concluded measurement of our carbon footprint in line with the streamlined energy and reporting regime and the results are as follows:

2019/20 Streamlined Energy & Carbon Report

Parameter	Units	Current reporting year 01/01/19 - 30/06/20	Comparison calendar year 01/01/18 - 31/12/18
Total energy consumption used to calculate emissions	kWh	32,956,052	39,595,169
Emissions from combustion of gas (scope 1)	tCO ₂ e	3,578	4,348
Emissions from transportation in vehicles owned or controlled by reporting company (scope 1)	tCO ₂ e	-	-
Emissions from purchased electricity (scope 2)	tCO ₂ e	3,194	4,265
Emissions from business travel in vehicles owned or operated by 3rd parties (scope 3)	tCO ₂ e	159	218
Total gross emissions	tCO₂e	6,931	8,831
Intensity ratio: Total brewery gross emissions/total brewed product	tCO₂e/hL	0.015	0.011
Intensity ratio: Total managed house gross emissions/total turnover of MH estate	tCO₂e/£k	0.069	0.076

Methodology	<p>This report has been prepared following the <i>GHG Reporting Protocol – Corporate Standard</i> and using the guidance set out in <i>Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance</i> – HM Government (March 2019).</p> <p>Energy consumption data has been sourced from utility supplier invoices, or where this is not available calculated from site-based records and travel expense data.</p> <p>As this is the first SECR reporting year, a comparison year is not mandatory but we have included data collected as part of the Energy Savings Opportunity Scheme (ESOS) from the previous calendar year. Going forward, all reporting will be aligned to our financial year (July-June).</p> <p>Conversion from energy to emissions was completed by application of the relevant emissions factor from UK Government GHG Conversion Factors for Company Reporting for the appropriate year.</p>
Energy Efficiency Action	<p>Activities undertaken within the brewery that have had a beneficial impact on energy use and therefore carbon emissions have included:</p> <ul style="list-style-type: none"> • Crowned off and reduced the pressure of standby boiler to reduce radiant heat losses (approx. 1,360 MWh p.a. gas saving) • Converted main brewery boilers to use demineralised water rather than soft liquor to reduce build-up of impurities and thus minimise heat loss from boiler blowdown (approx. 109 MWh p.a. gas saving)
External verification provided by:	Carbon Architecture Ltd

We are members of the industry Zero Carbon Forum and during 2020 we have worked with outside consultancy Carbon Architecture to design a carbon reduction roadmap that will enable the business to be carbon neutral within a ten year period. This programme will involve a level of future capital investment and so there is no doubt that the COVID-19 pandemic will slow the progress we can make against this plan in the short term. Looking forward though we have a commitment to making progress against this roadmap.

2. REDUCING THE WASTE FROM OUR BUSINESS

We are very conscious of the impact companies such as ourselves can have on the environment. Wherever possible we have a culture of lowering waste and increasing our level of recycling. Good progress has been made against this agenda and during the year we avoided 96% of waste generated in our managed pubs going to landfill through good waste management. The brewery site has always been prominent in its level of recycling and 97% of the grain and hops used in the brewing process was re-used as animal feed on local farms and we were the first UK brewery to be awarded a Feed Materials Assurance Scheme certificate. During the year we introduced a new shrink wrap material in our bottling line with 30% recycled content which has lowered our use of virgin plastics.

Looking forward we are looking at multiple ways to minimise the level of remaining waste that continues to go to landfill at both the brewery site and within our managed pubs. In addition we have formulated an investment plan to introduce a new canning line and multipacker unit within our production plant. Using the multipacker will enable us to remove the use of plastic shrink wrap and therefore provide further benefit to our customers and the environment.

SUSTAINABILITY AND RESPONSIBILITY REPORT CONTINUED

3. DOING THE RIGHT THING FOR OUR PEOPLE

This year has been an unusual and unprecedented year and has involved us moving to highly flexible working practices for our people both in our pubs and offices. Whilst this flexibility has been welcomed it has meant some challenges. We work with local counsellors and the licensed trade charity so that members of our team have access to support with their mental health. This has been complemented during this year with a roll out of mental health awareness training amongst our head office and we are looking at the training and the start of mental health first aiders across all our sites.

We are keen to ensure we are developing our people and giving them the skills and expertise needed to build their careers and during 2019 launched an apprenticeship programme for aspiring managers and chefs. This involved teaming up with Umbrella Training, a specialist hospitality apprenticeship provider based in Chatham, to provide a structured development programme for ambitious team members to progress within the business. We started with 26 apprentices studying for Level 3 Hospitality Supervisor and Level 4 Hospitality Manager qualifications and hope that more team members can enjoy success and development under this scheme into the future.

4. WORKING WITH PARTNERS THAT SHARE OUR VALUES

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 and visitor centre menus champion great fresh local food. During this year a significant amount of the food purchased for our managed pubs came from suppliers in Kent and the South East.

Across the remainder of our supplier base we are focussed on ensuring our partners trade at the highest quality and ethical standards. Looking forward we are looking to introduce a supplier evaluation to ensure that our suppliers meet the full criteria we require to support our business.

5. BEING AT THE HEART OF OUR COMMUNITIES

Throughout the Company's history there has been a deep connection to Faversham, the County of Kent and the communities our pubs serve. Often this takes the form of supporting local sports, clubs and hobbies with the iconic partnership with the Kent Cricket club and the Spitfire St Lawrence ground but there is a large number of sponsorship and partnerships that are in place to support activities across all levels in our communities.

Our pubs often support both national and local charitable causes but in 2018 we made a step change approach to our fundraising initiatives under the name of ShepsGiving, where we select one charity to concentrate all the Company and our teams' efforts behind. In the current year our chosen Charity of the Year was the Royal British Legion Industries (RBLI) who were celebrating their centenary year.

Based in Aylesford, Kent, RBLI is a national charity which not only supports British veterans, but civilian men and women of all ages, specifically those with disabilities and the long-term unemployed.




The Covid-19 pandemic had a significant impact on the level of support we have been able to give the RBLI and planned events across our teams and the business were unfortunately put on hold. As a result we will be working with the same charity into the next year. An area of progress that was achieved during the year was the introduction of Pennies, the digital charity box, within our managed pubs in a bid to boost funds for the Charity of the Year. Customers drinking and dining at selected sites were invited to make a 25 pence donation to the RBLI when they spend over £30 and pay on a card via Chip & Pin. Every penny from this route goes to charity.





PRINCIPAL RISKS AND UNCERTAINTIES




RISK MANAGEMENT OVERVIEW	
<p>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 area 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.</p> <p>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.</p>	
UK EXIT FROM THE EUROPEAN UNION	
<p>The key risks identified for the Company are disclosed below. A number of factors have been reviewed by an internal Brexit risk committee with mitigating steps put in place as appropriate:</p> <ul style="list-style-type: none">• 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 made arrangements to take additional local storage space to support higher stock levels.	
<ul style="list-style-type: none">• The overall proportion of EU nationals employed by the Company is relatively low. 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 CONTINUED

Key

-  Risk increasing
-  Risk unchanged
-  Risk decreasing

Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk
ECONOMIC AND POLITICAL			
COVID-19 pandemic	<p>The COVID-19 pandemic has had a profound impact on the UK hospitality market. Whilst the business has planned for a period of losing particular parts of its business or pub estate a scenario has not been envisaged where nearly all its revenue streams were closed down.</p> <p>During any period of closure company turnover and profits are reduced significantly.</p> <p>During trading restrictions that prevent our pubs and trade customers opening to their full potential further reductions in turnover and profitability are likely.</p>	<p>During periods of closure the Executive and Senior Management team have taken actions to minimise the level of cash leaving the Company, reducing costs to their lowest levels.</p> <p>Under new regimes we have acted quickly to adopt new policies and introduce technology to support our customers and people to enjoy our pubs safely.</p> <p>The Board continues to take a prudent view on projections and financing to ensure that the business comes out as strong as possible from any prolonged outbreak.</p>	
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.	<p>The Board maintains an updated view of the context of Brexit negotiations and of economic trends in the UK economy and hospitality sector.</p> <p>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.</p>	
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.	<p>We have continued to improve our communications and engagement 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.</p> <p>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.</p>	
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.	<p>It is still unclear as to whether there will be a 'Brexit Deal' or whether the UK will trade on World Trade Organisation rules. As we approach this new period 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.</p> <p>We actively work with our customers and pubs to look to ensure supply through periods of road delay.</p>	




Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk
REGULATORY Regulation and Taxation of the Sale of Alcohol	<p>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.</p> <p>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.</p>	<p>Legislative developments are monitored and we aim to continue to grow income streams from other sources such as non-alcoholic beverages, food and accommodation.</p> <p>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.</p>	
Regulation of Tied pub agreements	<p>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.</p> <p>The Company is currently not impacted by the statutory code as it owns and operates fewer than 500 tied pubs.</p> <p>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.</p>	<p>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.</p> <p>The Company works hard to ensure good relations with licensees, provides flexible agreements and continues to invest in property repairs and support. During the COVID-19 pandemic the Company has made significant rent concessions to support licensees.</p>	
Health and Safety	<p>Operating a large number of pubs and a brewery manufacturing site increases the complexity of operations and processes.</p> <p>Any non-compliance with health and safety legislation could have serious consequences for our customers, employees and licensees.</p>	<p>The Company has a Head of Health and Safety 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.</p> <p>Health and safety policies are approved and adhered to across all areas of the Company and we provide regular training to employees.</p> <p>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.</p> <p>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.</p>	

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk
REGULATORY Increases to the National Minimum Wage	The Company runs a number of managed pubs who employ over 1,400 people. A number of these employees are paid at, or close to, the National Minimum Wage. Future increases in this statutory level will increase costs and could reduce margins.	The Company uses an industry best practice labour scheduling system to ensure pubs have the right level of labour to provide excellent customer service and to mitigate cost. Policies are in place to ensure our people are not paid below minimum wage for the hours they work.	⬆️
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.	⬆️
OPERATIONAL Brands and Reputation	The Company has a range of strong brands and an excellent reputation in the market as Britain's oldest brewer. There is a risk that unexpected events or incidents could damage the reputation of our brands leading to lower sales and profitability.	The Company has a Head of Marketing, Brands and Communications who coordinates all brand communication and presentation and reports directly to the Chief Executive. 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.	⬆️
Partnerships, Brewing contracts and third party brewing arrangement	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. Loss of several of these agreements could lead to a reduction in sales and profitability.	There is regular inspection of quality and service levels by brewing partners, with the aim of providing reassurance and satisfaction for all parties, helping good relations to continue. We hold regular reviews of brand performance with our partners and set clear financial and brand targets across the business through the annual budget to ensure compliance with the arrangements in place.	⬆️

Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk
OPERATIONAL			
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. 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>	⬆️
Supply chain failure and reliance on suppliers	<p>We rely on a number of key suppliers to service both the brewery site and our managed pubs.</p> <p>Prolonged disruption to our supply chain could affect the quality and availability of our product.</p> <p>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.</p>	<p>We work with established and reliable suppliers wherever possible and maintain good relationships with them to assist with monitoring their stability and performance.</p> <p>In addition we maintain plans for alternative supply where suppliers may come into distress.</p> <p>The Company relies on Kuehne and Nagel Drinks Logistics (KNDL) as its sole warehousing and distribution partner. This company is currently in the process of being purchased by XPO logistics and any disruption this causes could lead to disruption in deliveries to customers. The Executive team is in close dialogue with KNDL management throughout this process to ensure any transition processes are carried out smoothly.</p>	⬆️

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk
OPERATIONAL Information technology failure	<p>The Company places significant reliance on information systems to operate the brewery site, head office functions and managed pubs.</p> <p>A prolonged failure of these systems could affect the Company's ability to trade and lead to reduced profitability.</p>	<p>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 was tested and introduced across the organisation to further protect against cyber-attack.</p> <p>Where operations use third party hosted systems we work closely with suppliers to ensure business continuity and security are maintained at the highest levels.</p>	
Beer and food product safety	<p>The Company produces and sells consumable products for human consumption. Any defects in quality, product life, or contamination could lead to injury to consumers.</p> <p>Legislation changes have increased the level of disclosure around potentially harmful allergen ingredients within consumer products.</p>	<p>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.</p> <p>A menu system called Ten Kites manages food menus within the managed estate and ensures allergens are fully disclosed.</p>	
FINANCIAL Banking covenant failure	<p>The Company has a series of interim covenant tests between 27 June 2020 and 30 September 2021 and returns to testing of its pre-COVID-19 covenants in September 2021.</p> <p>A failure to pass these covenant tests could lead to the Board having to sell more pub assets to reduce debt levels.</p>	<p>The Board had a flexible planning model and models a number of scenarios with an objective of managing the business to hit all covenants.</p> <p>If there are future shocks to business performance a number of options would be available to the Board to raise cash and reduce debt.</p> <p>The Board maintains good communication and relationships with its lenders to ensure these stakeholders have full visibility of financial models and performance.</p>	

SECTION 172 STATEMENT

STAKEHOLDER ENGAGEMENT

Under section 172 of the Companies Act 2006, the Directors of the Company are required to act in a way which promotes the success of the Company for the benefit of its members as a whole, having regard to the interests of stakeholders in their decision making.

This statement sets out how the Directors have acted in the way that they considered, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so had regard to:

S172

(a) The likely consequences of any decision in the long-term

(b) The interest of the Company's employees

(c) The need to foster the Company's business relationship with suppliers, customers and others

(d) The impact of the Company's operations on the community and the environment

(e) The desirability of the Company maintaining a reputation for high standards of business conduct

(f) The need to act fairly as between members of the Company

DIRECTORS STATEMENT

This is an integral part of the culture of a very long-established business, it is at the heart of all decisions taken by the Board

Commentary on the engagement with employees can be found through the Chief Executive Statement and in the Directors Report

Details of engagement with suppliers and customers can be found in the Directors Report

The business is focussed on the impact it has on its environment and commentary can be found in the sustainability and responsibility statement

The business has a consistent record of high standards which it seeks to maintain and embed in the culture of the company

The directors aim to balance the interests of a diverse shareholder base

See how we are maintaining open and positive dialogue with all our stakeholders on the following pages



SECTION 172 STATEMENT CONTINUED

We aim to maintain open and positive dialogue with all our stakeholders, considering their key interests and communicating with them on a regular basis. The principal stakeholder groups, as well as how they have been engaged with and been responded to, are as follows:

OUR TEAMS

Skilled team members are essential to the smooth-running of the Company. 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.

We engage with our team by carrying out biennial employee surveys, briefings, and weekly internal newsletters. We are keen to promote health and well-being, development opportunities, pay and benefits and ensuring that employees understand the Group's values, strategy and financial performance.

We have responded to team members' interests by:

- Offering mental health workshops, yoga and pilates sessions to employees, pre-COVID-19
- Launching "Think Tank" to encourage employees to share their ideas and suggest initiatives for improvements
- Delivering a programme to improve the kitchen working environments within Managed pubs and improved air conditioning
- Provision of training workshops, apprenticeship programmes and encouragement of social media activity
- Increasing the frequency of the newsletter during the COVID-19 pandemic to keep everybody involved as a team
- Use of an engagement app so all our people get corporate communications

CUSTOMERS

We aim to ensure that we nurture mutually beneficial relationships that deliver value and quality. We enhance the customer experience in our pubs by delivering great fresh food, providing accommodation of character and offering an interesting range of products.

We have responded to customer interests by:

- Providing updates and safely reopening pubs in the wake of the COVID-19 pandemic with particular focus on the Company website and social media channels
- Delivering ShepsWay, primarily intended as a trade fair to showcase our company and products
- Championing the Cask Club, to introduce a new product on a monthly basis
- Developing new products and dishes
- Introducing interactive online menus for our managed pubs to display and filter the menu based on food allergies/intolerances
- Facilitating automated table ordering
- Launching an online booking system
- Providing mobile bars

SUPPLIERS

The Company relies on the availability and top quality of the products sourced from its suppliers. Senior management meet with key suppliers to build good business relationships meaning that we develop mutually beneficial and lasting partnerships. We aim to use local producers as far as possible, with a fair contract and payment terms.

We have responded to suppliers' interests by:

- Using local producers as far as possible to support the local community
- Reviewing drink listings in our pubs to improve the range of offerings
- Inviting suppliers to our Shepsway trade fairs and other events

SHAREHOLDERS

The Board values regular dialogue with institutional shareholders, including half-yearly presentations after the announcement of the interim and year end results. In addition, the Board receives copies of analysts' reports and broker feedback.

The Company's AGM has always been used as a means of communicating directly with all shareholders with the opportunity to ask questions during the meeting and meet directors and senior management informally after the meeting.

Private shareholders are entitled to discounts at the Company's managed pubs and brewery shop.

We have responded to shareholder interests by:

- Providing updates on the Company situation during the COVID-19 pandemic
- Enabling a virtual AGM for 2020 during the COVID-19 pandemic to enable shareholders to participate

LENDERS

Our debt lenders are important to the long-term success of the Company for continued access to capital. As required under the terms of the loan facilities, the Company's lenders receive quarterly covenant compliance certificates.

We have responded to lenders' interests by:

- Increasing their understanding of our strategy and our operating and financial performance so that they can more accurately assess the opportunities to finance our business. This has resulted in negotiating a new revolving credit facility and amendment to the covenants during the COVID-19 pandemic, agreed just after the year end

PUB LICENSEES

Significant revenue is derived from rent payable by, and sales of products made to our licensees. We are keen to support licensees and help them to establish a long and successful tenure. Engagement is mainly through the business development managers who regularly visit all tenants to maintain an ongoing dialogue and periodically review their progress.

We are firm supporters of the Voluntary Code of Practice for the operation of tenanted and leased pubs.

We also have an annual celebration to recognise and reward the outstanding talent and successes of our licensees.

We have responded to their pub licensees' interests by:

- Providing rental support during the COVID-19 pandemic during enforced pub closures and different trading conditions
- Providing regular advice and guidance
- Providing training workshops
- Improving drink portfolios available
- Contributing to refurbishment projects

GOVERNMENT AND REGULATORY AUTHORITIES

We engage with the government and regulators through a range of different methods. We are in regular contact with local authorities in relation to property, licensing and health and safety matters. As a member of the BBPA we participate in government consultations.

During the COVID-19 pandemic contact with the government has been significant.

We have responded to government and regulatory interests by:

- Collaborating on the closure and subsequent re-opening of pubs during the COVID-19 pandemic
- Applying for government grants made available during the COVID-19 pandemic

PRINCIPAL DECISIONS

For the purposes of this statement, the Directors regard their principal decisions as not only those that are material to the Company but also those that are significant to any of the Company's principal stakeholder groups. Set out below are the principal decisions made by the directors during the period.

1. Consequences of the coronavirus

An overview of the various actions and steps taken by the Company in light of the coronavirus and the Government's decision to order the closure of all pubs in the UK is set out in the Strategic Report. These decisions were made with regard to the interests of the Company's employees; the need to foster the Company's business relationships with suppliers, customers and others; the impact of the operations on the community and desirability of the Company to maintain a reputation for high standards of business conduct among other factors.

2. Payment of a final dividend in respect of 2019 and the decision not to recommend a payment of any dividend in respect of 2020

The Board recognises the importance of dividends to our shareholders. The decision resulted from the Directors considering non-payment of the interim dividend to be most likely to promote the long term success of the Company for the benefit of its members as a whole, balancing the need to act fairly between members of the Company.

3. Approval of annual budget and three year plan

This year's budget and rolling three year plan were approved by the Board following a comprehensive review of our strategic priorities and risks to our business. This considered the correct level of capital allocation, cash flow and capital investment priorities combined with investment in our brands and teams across the business.

The decision to carry out managed pub redevelopments at the Woolpack, Banstead and the Wharf, Dartford aimed to result in operational improvements to enhance the quality of our offer and help to attract the best people. This promotes the success of the Company with a positive impact on the local communities.

In the brewery we have installed a new yeast plant to improve the efficiency and quality of the brewing process.

4. Acquisitions, Disposals and Active Property Management

The acquisitions and disposals during the year are explained in the strategic report and continue to improve the quality of our pub portfolio in order to strengthen our asset base. We look to grow in the long term through selective single site acquisitions or small pub groups if the right opportunity arises.

This strategic report was approved by the Board of Directors on 3 November 2020 and signed on its behalf by:

JONATHAN NEAME
Chief Executive



BOARD OF DIRECTORS

MILES TEMPLEMAN (72)**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 was previously a trustee of The Howard Partnership Trust. He is currently Chairman of Chop'd Limited, Chairman of Governors at Handcross Park School and a Governor of Brighton College.

JONATHAN NEAME DL (56)**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 was appointed a Director of the Brewers of Europe in 2020. He was Chairman of Visit Kent from 2015 until 2020. He has been a Trustee of the Leeds Castle Foundation since 2011. He is the Upper Warden of the Worshipful Company of Brewers and a Deputy Lieutenant of Kent. He was awarded an Honorary Doctorate from the University of Kent in 2016.

MARK RIDER (44)**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 (66)**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 (53)**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 (63)**Non-Executive Director**

Appointed to the Board in April 2016. She was most recently a Non-Executive Director of ASOS Plc until April 2020 and previously a Non-Executive Director of Shaftesbury Plc, London and Partners Limited, Chief Executive of the British Fashion Council, a Managing Director of Rubicon Retail and a member of the Management Board of Arcadia. She holds a directorship in Swan Quay LLP, The Alexander Centre CIC and most recently became a Board member and director of The Canterbury Festival.

RICHARD OLOFIELD OBE (64)**Non-Executive Director,****Chairman of the Audit Committee**

Appointed to the Board in June 2016. He is Chairman of Oldfield Partners LLP, 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.

BILL BRETT (55)**Non-Executive Director,****Chairman of the Remuneration Committee**

Appointed to the Board in September 2013. He is Executive Chairman of Robert Brett & Sons Ltd.

KEVIN GEORGE (50)**Non-Executive Director****from November 2020**

He was appointed Chief Executive of St Austell Brewery in January 2020 having previously been the Chief Executive of Admiral Taverns. He has worked in the UK pub and brewing sector for over 20 years holding senior sales, marketing and operations roles at Molson Coors and Punch Taverns. He was previously non-executive chairman of Dartmoor Brewery and is currently a director of the British Beer & Pub Association.

ROBIN DUNCAN (64)**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.

GLENDIA FLANAGAN (55)**Company Secretary designate**

Joined the Company in 2006 as Finance Manager and subsequently headed the finance department. She has previously held senior finance roles in both the hospitality and technology industries. She is a Fellow of the Institute of Chartered Accountants having qualified as a chartered accountant with BDO.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their Annual Report and Accounts for the 52 weeks ended 27 June 2020.

ACTIVITIES AND REVIEW OF BUSINESS

The principal activities of the Group, being Shepherd Neame and its subsidiary companies, 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 2 – 35. The Strategic Report includes information on the Group's strategy and provides further details of the Group's performance for the 52 weeks ended 27 June 2020, significant events which have occurred since the balance sheet date and likely future developments.

DIVIDENDS

The Company did not pay an interim dividend (2019: 5.87p per ordinary share) and no final dividend is recommended (2019: 24.21p per ordinary share). The total dividend for the year is nil (2019: 30.08p per ordinary share).

For the year ended 29 June 2019, the total final dividend on ordinary shares was £3,573,000 which together with the 2019 interim dividend paid of £866,000 made total dividends of £4,439,000.

DIRECTORS

The names of the Directors at 27 June 2020 are set out on pages 36 and 37. Details of all Directors' interests are set out in the Remuneration Report on pages 45 – 49. All of the Directors served throughout the period and no other person was a director during the period. Changes in Directors since the year end include the resignation of Miles Templeman who will retire at the Annual General Meeting. Richard Oldfield will become Chairman at this time. On the recommendation of the Nominations Committee, Kevin Georgel was appointed as a director by the Board with effect from 27 November 2020. In accordance with the Articles of Association, his appointment will be subject to the approval of the shareholders at the Annual General Meeting.

Nigel Bunting retires from the Board by rotation and will be offering himself for re-election.

PURCHASE OF OWN SHARES

During the year the Company purchased a total of 25,300 ordinary shares at a total cost of £290,000 representing 0.2% of the Company's issued share capital (2019: 57,000 ordinary shares at a total cost of £595,000 being 0.4% 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 22 to the accounts.

EMPLOYEES

We are justifiably proud of our dedicated staff, many of whom have very long service. Communication with employees is a top priority. There is regular communication on company strategy, developments, events, the Company's financial position and matters of concern to employees via staff newsletters, presentations and team meetings. Employees also have access to an app that can be used for communicating events and newsletters.

The Company's appraisal and development process was introduced a few years ago, and was designed to improve conversations about employee development and personal aspirations. To encourage further involvement and interest in the Group's performance, the Company operates a bonus scheme for eligible employees. Qualifying employees also continue to participate directly in the success of the business through the Share Incentive Plan.

Prior to COVID-19, Directors regularly visited pubs within the estate, providing opportunities to engage with team members. Quarterly CEO lunches also gave the opportunity for employees to interact with different teams and the CEO. An initiative called 'ThinkTank' was launched to encourage employees to share their ideas and suggestions for improvements.

We are keen to promote health and well-being as well as development opportunities. To this end, mental health workshops, yoga and pilates sessions, as well as training workshops were offered prior to COVID-19.

This engagement with employees has enabled the directors to have regard to employee interests. The principal decisions taken by the Company during the year are included in the strategic report, and where applicable, detail is provided concerning regard paid to employee interests.

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.

ENGAGEMENT WITH SUPPLIERS, CUSTOMERS AND OTHERS IN A BUSINESS RELATIONSHIP WITH THE COMPANY

The following should be read in conjunction with the Section 172(1) statement on pages 33 – 35, which gives details of engagement with stakeholders.

The brewery has been operating for many years and the Company was incorporated in 1914. This long and successful history is in part due to the strong relationships that have been built with suppliers, customers and other stakeholders. The Board seeks to foster these relationships in order to continue to promote the long-term success of the Company and ensure that the stakeholders also benefit.

The Company engages with suppliers, customers and tenants in a variety of ways such as meetings, conversations, and business reviews and reviews any feedback. Engagement via social media is also important using platforms including Facebook, Twitter and Instagram. Steps have been taken to continue to develop relationships such as: reviewing and amending drink listings available in pubs to enhance the offer, promotional activities and improving the speed of service in pubs.

Customers have also enjoyed membership of the Cask Club, which was launched in 2019 and features a new cask beer every month to provide a range of experimental and innovative ales, with exciting international collaborations and classic seasonal favourites. A total of 165 pubs across the South East have signed up to stock the beers, which have been widely acclaimed.

The Board places strong focus on fostering long term business to business relationships. Engagement with these stakeholders reflects the regard the Directors have to the need to foster the Company's business relationships. The principal decisions taken by the Company during the year are included in the strategic report, and where applicable, detail is provided concerning regard paid to these relationships.

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 (2019: 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

3 November 2020

Registered in England number 138256

CORPORATE GOVERNANCE

**THE BOARD IS
LOOKING TO FURTHER
STRENGTHEN ITS
CORPORATE
GOVERNANCE
THROUGH ADOPTING
THE QCA CORPORATE
GOVERNANCE CODE
AND BY TRANSITIONING
FROM FRS102 TO IFRS.**

The Company is a private company limited by shares. These shares are quoted on the AQSE Growth Market Stock Exchange Growth Market, which enjoys certain personal tax advantages for our shareholders compared to a full stock market listing.

As an Aquis company, Shepherd Neame Limited is not currently required to comply with any corporate governance code. However, the Board is committed to maintaining the highest standards within the Group. I am pleased that moving into the new financial year the Board is looking to further strengthen its corporate governance through adopting the QCA corporate governance code and by transitioning from FRS102 to IFRS. The QCA Corporate Governance Code is a corporate governance code published by the Quoted Companies Alliance (QCA). It is the corporate governance code adopted by the majority of companies on the AIM market in the UK. Transitioning to IFRS will support our shareholders and will make the comparison of the company's performance and asset value more aligned to its peers and competitors.

THE BOARD

The Board comprises the Non-Executive Chairman, the Chief Executive, three Non-Executive and three Executive Directors. The biographical details on pages 36 and 37 show the broad range of experience and skills the Directors bring to the Board. All Directors of the Company are expected to provide sufficient time to the role so that they can carry out their responsibilities.

Any significant commitment or role outside of the business or potential conflict of interest is declared by the Director concerned and approved by the Chairman.

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 can be found at www.shepherdneame.co.uk/investor-relationsgovernance/matters-reserved-board which distinguishes the types of decision that are taken by the Board or delegated to management. The Chair of each Committee reports to the Board on proceedings of Committee meetings as appropriate.

The Board meets regularly throughout the year and during this financial year developed the nature of its meetings to include an evening visiting pubs and local customers before the meeting. In addition an annual Board strategy day takes place each year where the Board receive reports in relation to progress against the company's strategic objectives and spends time visiting a number of the company's pubs so Directors can engage directly with managers, licensees, team members and customers. Since the COVID-19 outbreak Board meetings and the 2020 strategy day were held remotely.

The Board's 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 below:

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 Richard Oldfield as Chairman, the appointment of Kevin Georgel as Non-Executive Director and the appointment of Glenda Flanagan as Company Secretary. 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.

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Disclosure Committee
Number of meetings	17	4	6	3	2
Executive Directors					
George Barnes	17	-	-	-	-
Nigel Bunting	16	-	-	-	-
Jonathan Neame	17	*	*	*	2
Mark Rider	17	*	-	-	2
Non-Executive Directors					
Bill Brett	15	4	6	3	-
Richard Oldfield	15	4	6	3	*
Hilary Riva	15	4	6	3	-
Miles Templeman	15	4	6	3	2

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

CORPORATE GOVERNANCE STATEMENT

CONTINUED

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.

Remuneration

The activities of the Remuneration Committee are explained fully in the Remuneration Report on pages 45 - 49.

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 Aquis Stock Exchange website (www.acquis.eu/company).

AUDIT COMMITTEE REPORT

THE COMMITTEE REVIEWS THE FINANCIAL REPORTING PROCESS, THE SYSTEM OF INTERNAL CONTROL AND MANAGEMENT OF FINANCIAL RISKS.

The Committee consists of the Non-Executive Directors and is chaired by Richard Oldfield. We have had four meetings during the 52 weeks to 27 June 2020. The attendance of members at this meeting can be seen on page 41. Periodically the Company auditor, Chief Executive and the Finance and IT Director attend meetings by invitation. During any meeting with the external auditors it is the policy of the committee that the non-executive members meet with the Company auditor with neither the Chief Executive nor the Finance and IT Director present.

The Committee has defined terms of reference which can be found at www.shepherdneame.co.uk/investor-relations/governance/audit-committee-terms-reference. The Committee reviews the financial reporting process, the system of internal control and management of financial risks, the audit process and the Company's process for monitoring compliance with laws and regulations and its own code of business conduct. In performing its duties, the Committee maintains effective working relationships with the Board of Directors, management team, the external auditors and any specialist advisor that is engaged to support the committee in its work.

IDENTIFICATION OF FRAUD

A key item for the committee to consider during the year was reported in the Interim Report to shareholders. During the financial year management identified a transaction in one of their ledgers that gave cause for concern. Following investigation, it was discovered that a series of erroneous charges had been made against certain accounts, as a result of unlawful action by one employee. These issues were reported to the Board and the Audit Committee in January 2020.

A meeting of the committee was held on 19 February 2020 to understand the progress in the investigations and to discuss the accounting treatment of the fraud in the Interim Report. The Finance and IT Director and the company's auditor were present at this meeting.

Following investigation, it was discovered that a series of fraudulent charges totalling £861,000 had been made, as a result of unlawful actions by one employee, against certain accounts over a number of years. These issues were reported to the Board and the Audit Committee in January 2020. We understand that £369,000 of this had previously been recognised by the company as bad debt and consequently a further charge of £492,000 has been recognised in respect of this in the current year. Further details of this case are included in the financial review on page 21. The committee considered whether the fraud should be accounted for by means of recognising the losses within the financial year of the 52 weeks to 27 June 2020 or by making a prior year adjustment to previous years to reflect the period over which the fraud took place.

AUDIT COMMITTEE REPORT CONTINUED

The committee's view supported by the Company's auditor was that the losses should all be recognised in the profit and loss account for the 52 weeks to 27 June 2020.

A further meeting of the committee was held on 20 May 2020 to consider whether the internal and external investigations had been both thorough and comprehensive. The Finance and IT Director was asked to present the position on these matters and then left the meeting for the committee to consider its conclusion. In reviewing these matters the committee considered reports from FTI Consulting who had been appointed as forensic auditors by the Board. These reports included reviewing any sign of collusion by the individual concerned with any other employee as well as the control weaknesses that had allowed the fraud to take place. After consideration it was felt that the investigations completed were thorough and comprehensive and that the work involved with the control weaknesses identified was to be completed.

SIGNIFICANT FINANCIAL JUDGEMENTS

The Audit Committee receives reports from the Finance and IT Director and external auditors on the key accounting issues and areas of significant judgement within the proposed financial statements. In recommending the financial statements for signing by the Board the Audit Committee has reviewed the following key matters beyond those of the fraud identified in the year covered above:

Impairment of fixed assets

The committee reviewed management's projections for each of its pubs and other property assets given that the outbreak of COVID-19 had provided an indication of impairment for all sites. Beyond this the growth rates and discount rates used by management were considered to ensure they were consistent with previous approaches and were still relevant to be used. The conclusion is that the committee feels the accounting, disclosure and sensitivities included within the annual report around impairment are considered reasonable.

Designation of underlying and non-underlying items with a particular focus on the COVID-19

The committee considered management's classification of items associated with the COVID-19 outbreak and the National Minimum Wage enquiry by HMRC to understand if the methodology and treatment was consistent with the company's accounting policies. The items excluded from underlying results are considered reasonable.

Going Concern

The Committee considered management's projections of turnover, profits and cash flows as well as banking facilities, covenants and cash levels. Whilst the committee recognises that management have sufficient plans in place to enable the accounts to be presented on the basis of the company being a going concern it recognises that there is material uncertainty around banking covenants that require further disclosure within the annual report.

Investment Property values

The committee reviewed the results of the annual revaluation of the company's investment properties which are carried out by the company's own professionally qualified valuers. These valuations were considered in the light of the current property market and status of planning permission where appropriate. The valuations were considered reasonable.

AUDITORS

Deloitte LLP has been the Company's auditor since 2009. Their performance is reviewed by the Committee which considers their effectiveness, independence and partner rotation, which last occurred at the start of 2017. The Committee considers that the auditors remain independent.

The auditors presented their strategy to the committee ahead of the audit in June 2020. Subsequently the auditors presented their findings and conclusions of the audit to the Committee in October 2020.

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 2020 Deloitte provided audit services in respect of the Group accounts of £122,000, tax services of £27,000, and other services of £35,000.

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 COMMITTEE REPORT

THE COMMITTEE AIMS TO ENSURE THAT REMUNERATION PACKAGES FOR EXECUTIVE DIRECTORS ARE COMPETITIVE AND COMPARABLE WITH COMPANIES OF A SIMILAR SIZE, COMPLEXITY AND ACTIVITY.

OVERVIEW

The Board has voluntarily included a remuneration report.

The Remuneration Committee is chaired by Bill Brett and 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 incentive 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.

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.

Salary levels for Executive Directors are reviewed annually in line with the overall company pay review process. In response to the immediate financial pressures faced by the Company as a result of the COVID-19 outbreak, all Executive Directors agreed a temporary cut of 20% to their salaries for the period of lock down being April to June 2020 and there will be no increase in Directors' salaries for the year to June 2021.

REMUNERATION COMMITTEE REPORT CONTINUED

For performance related pay, the Remuneration Committee has considered whether the various components remain appropriate in the broader business environment resulting from the COVID-19 pandemic, and concluded that at present the overall framework should continue to apply but with the modification as set out below:

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.

For the year to June 2020, it was considered inappropriate to pay cash bonuses and for the following year any award will be a share based option rather than a cash bonus, with performance targets set subject to 'gateway' conditions (relating to the Company trading within its normal financial covenants) being met.

- 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 plus dividends per share and total shareholder return over the three-year period. Directors are not expected to sell the vested shares for a further two years.

All share options granted in 2017, which were subject to review in October 2020, have been forfeited as a result of the targets not being met.

For the 2020 share option grant (review in Oct 2023), targets will be re-based to incentivise recovery.

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 and 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.

The clawback provision where specified at the time of grant 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. The Non-Executive Directors took a voluntary fee reduction of 20% from 1 April until 30 September 2020.

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 27 June 2020 £'000	52 weeks ended 29 June 2019 £'000
Aggregate amount:		
Salary ¹	1,020	1,059
Annual bonus ²	-	125
Salary in lieu of pension contributions ³	183	178
Taxable benefits	100	97
Share Incentive Plan ⁴	10	13
Directors emoluments	1,313	1,472
Primary and secondary share options vesting in the year ⁵	163	180
Pension contributions	10	10
	1,486	1,662
The number of Directors who:		
Had pension benefits accruing under money purchase schemes	4	4
Exercised options over shares in the scheme	4	3
Had awards receivable in the form of shares under a long-term incentive plan	4	4
Details of Directors' share options are shown on pages 48 - 49		
Highest paid Director:		
Salary ¹	255	261
Annual bonus ²	-	44
Salary in lieu of pension contributions ³	62	60
Taxable benefits	40	39
Share Incentive Plan ⁴	3	3
Primary and secondary share options vesting in the year ⁵	51	56
	411	463

1. The average salary increase for Executive Directors in July 2019 for the 2020 financial year was 7.5% (2019: 2.5%). The salary increase for the highest paid Director was 2.5% (2019: 2.5%). During the period 1 April to 30 June, the Executive Directors took a 20% pay cut to support the Company during the COVID-19 lock down.

2. No bonus was accrued in 2020 relating to performance in the 2020 financial year.

The aggregate bonus paid to Executive Directors in the 2020 financial year relating to the 2019 financial year was £124,000 or 15% of the 2019 executive salaries.

3. The highest paid Director and two other Executive Directors are not contributing members of the Company pension scheme. In addition, the pension contributions for the remaining Executive Director are capped.

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

5. 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.

6. In 2020, options were exercised by the highest paid Director over 4,304 shares (2019: 18,015). The gross gain, not included above, made by the highest paid Director on the exercise of share options was £48,000 (2019: 197,000). This gain is subject to tax.

REMUNERATION COMMITTEE 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 27 June 2020	52 weeks ended 29 June 2019
All Executive Directors		
Cash bonus	-	£125,000
Bonus as a percentage of the 2020 executive salaries (2019: percentage of the 2019 executive salaries)	-	14.7%
Share options granted to Executive Directors in the year that will vest in future years:		
Secondary options ¹	53,657	57,844
Share options vesting in the year:		
Primary options	8,858	10,653
Secondary options	5,000	7,358
Percentage of Secondary share options granted, approved to vest ²	32%	44%
Highest Paid Director		
Cash bonus	-	£44,000
Bonus for highest paid Director as a percentage of 2020 salary (2019: percentage of 2019 salary)	-	17.0%
Share options granted to the highest paid Director in the year that will vest in future years:		
Secondary options ¹	16,563	17,856
Share options vesting in the year:		
Primary options	2,751	3,315
Secondary options	1,553	2,290
Percentage of Secondary share options granted, approved to vest ²	32%	44%

1. For the reference period 2019 to 2022 (2019: reference period 2018 to 2021). These options will vest by reference to performance criteria to be measured against the 2022 result (2019: 2021 result).

2. Secondary options granted in October 2016 (2019: granted October 2015), performance measured against criteria set at the date of the award based on performance between 2016 to 2019 (2019: 2015 to 2018).

No secondary option award for the reference period to 2020 will be made.

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

Subject to performance conditions being met, options over the Company's ordinary shares held by Directors at 27 June 2020 (29 June 2019) are as follows:

	At 2019	Granted	Exercised	Forfeited	At 2020	Exercise price £	Date from which exercisable	Expiry date
George Barnes	1,843	-	(1,843)	-	-	1	0.50	14/10/19
	3,291	-	-	(2,251)	1,040	2	0.50	14/10/19
	1,232	-	-	-	1,232	1	0.50	13/10/20
	9,814	-	-	-	9,814	2	0.50	13/10/20
	12,312	-	-	-	12,312	2	0.50	19/10/21
	-	11,421	-	-	11,421	2	0.50	18/10/22
	28,492	11,421	(1,843)	(2,251)	35,819			
Nigel Bunting	2,414	-	(2,414)	-	-		0.50	16/10/18
	1,667	-	(1,667)	-	-	2	0.50	16/10/18
	2,020	-	(2,020)	-	-	1	0.50	14/10/19
	3,607	-	(1,140)	(2,467)	-	2	0.50	14/10/19
	1,312	-	-	-	1,312	1	0.50	13/10/20
	10,449	-	-	-	10,449	2	0.50	13/10/20
	13,110	-	-	-	13,110	2	0.50	19/10/21
	-	12,161	-	-	12,161	2	0.50	18/10/22
	34,579	12,161	(7,241)	(2,467)	37,032			

	At 2019	Granted	Exercised:	Forfeited	At 2020	Exercise price £	Date from which exercisable	Expiry date	
Jonathan Neame	2,751	-	(2,751)	-	-	1	0.50	14/10/19	14/10/26
	4,913	-	(1,553)	(3,360)	-	2	0.50	14/10/19	14/10/26
	1,787	-	-	-	1,787	1	0.50	13/10/20	13/10/27
	14,232	-	-	-	14,232	2	0.50	13/10/20	13/10/27
	17,856	-	-	-	17,856	2	0.50	19/10/21	19/10/28
	-	16,563	-	-	16,563	2	0.50	18/10/22	18/10/29
	41,539	16,563	(4,304)	(3,360)	50,438				
Mark Rider	2,244	-	(2,244)	-	-	1	0.50	14/10/19	14/10/26
	4,008	-	(1,267)	(2,741)	-	2	0.50	14/10/19	14/10/26
	1,458	-	-	-	1,458	1	0.50	13/10/20	13/10/27
	11,610	-	-	-	11,610	2	0.50	13/10/20	13/10/27
	14,566	-	-	-	14,566	2	0.50	19/10/21	19/10/28
	-	13,512	-	-	13,512	2	0.50	18/10/22	18/10/29
	33,886	13,512	(3,511)	(2,741)	41,146				
	138,496	53,657	(16,899)	(10,819)	164,435				

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

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

The exercise of the primary share options is conditional upon Directors remaining in employment with the Company for three years from the date of grant of the options. The exercise of 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 27 June 2020 was £8.28 (29 June 2019: £10.10) and the range during the year was £6.75 to £12.40 (2019: £9.85 to £11.00).

DIRECTORS' INTERESTS

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

The interests of the current Directors in the Company's shares at 27 June 2020 (29 June 2019) are as follows:

		Beneficial	Ordinary shares as trustees	Under SIP
George Barnes	2020	49,881	-	3,546
	2019	47,278	-	3,235
Nigel Bunting	2020	19,597	-	2,676
	2019	16,097	-	2,365
Bill Brett	2020	28,767	-	-
	2019	28,767	-	-
Jonathan Neame	2020	161,041	461,706	3,181
	2019	160,041	146,037	2,870
Richard Oldfield	2020	4,250	-	-
	2019	4,250	-	-
Mark Rider	2020	6,495	-	2,023
	2019	4,719	-	1,712
Miles Templeman	2020	8,905	-	-
	2019	8,905	-	-

The holdings under the SIP were allocated in all years from 2003 to 2019 with the exception of 2009 and are held in trust for a qualifying period of three years before ownership vests unconditionally (see note 30a).

DIRECTORS' RESPONSIBILITIES STATEMENT

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Group and Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

GOING CONCERN

The Directors have reviewed the current financial projections, together with the bank facilities, as discussed in the Cash Flow and Financing sections of the Financial Review on pages 21 – 23 and in accordance with the capital and risk management process set out in note 22; and, on the basis of reasonable expectation, have concluded that, despite the material uncertainty disclosed in note 1 to the accounts on page 61, 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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

1. 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 27 June 2020 and of the group's loss for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and

- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated profit and loss account;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the accounting policies; and
- the related notes 2 to 33.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

2. 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.

3. Material uncertainty relating to going concern

We draw attention to note 1 on page 61 in the financial statements, which indicates that the economic outlook remains highly uncertain with the government response to the COVID-19 pandemic making future trading difficult to predict. The Group has existing facilities of £107.5m, plus additional facilities of £25m which have been agreed post year end. The directors state in note 1 that while they believe there are sufficient internally generated cash inflows and undrawn long-term bank facilities to meet all of the Group's liquidity needs for the foreseeable future having a minimum headroom of £40m for the next twelve months, a strong freehold asset backed balance sheet and note that trading has been positive since reopening, the facilities are dependent on certain covenants being met. The Government's announcement on 31 October of a further lockdown for a minimum four week period without a compensating post lock down increase in trade is such that the company does not expect to meet the required covenant in September 2021, which will require the company to agree further covenant revisions with its lenders. In addition, any extension to the four week lockdown or further COVID related disruption may also give rise to a breach of covenant in either March or June 21.

In response to this, we have:

- Obtained an understanding of relevant controls in place in preparing the forecasts and assessing the going concern assumption, including the board review of the group's cashflow forecast and the uncertainty disclosed;
- Challenged cash flow forecasts prepared by assessing the assumptions taken by management in their expectation of the timings in the return of drinking and dining at their pubs when social distancing is eased;
- Challenged the sensitivities performed by management and recalculated the potential impact on covenant compliance in the case of a potential reduction in forecasted results;
- Obtained support for all debt facilities within the group;
- Recalculated management's "break case" scenario and confirmed the viability of mitigating actions that are within management's control, which management can take;
- Obtained an understanding of the timing of the various cash outflows (e.g. tax and rent payable to commercial landlords); by confirming the deferred payments to agreements with the respective creditors; and
- Assessed the Going Concern disclosures included within the financial statements.

These events or conditions, along with the other matters as set forth in note 1 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the group's and the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

4. Summary of our audit approach

Key audit matters

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

- Going concern (see material uncertainty relating to going concern section);
- The discount rate and EBITDA growth rate used as part of the tangible fixed asset impairment review;
- Valuation of the investment property portfolio; and
- Completeness and accuracy of the provision made in respect of the fraud identified in the year.

Materiality

The materiality that we used for the group financial statements was £500,000 which was determined based on an appropriate amount when considering both revenue and underlying operating profit. This is a revised approach from 2019, where materiality was £640,000, determined based on 6% of underlying profit before tax, however we note that the determined materiality is consistent year-on-year at 0.4% of revenue.

Scoping

We performed full scope audit procedures over the entire group.

Significant changes in our approach

As a result of the impact of the COVID-19 pandemic, we identified two new key audit matters relating to going concern and valuation of the investment property portfolio, and revised our basis for determining materiality. In addition, the completeness and accuracy of provision made in respect of fraud was included as a new key audit matter in response to the erroneous charges identified, as a result of fraud perpetrated by one employee.

5. 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. In addition to the matter described in the material uncertainty relating to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

5.1. The discount rate and EBITDA growth rate used as part of the tangible fixed asset impairment review

Key audit matter description

The Group has property, plant and equipment with a net book value of £300m as at 27 June 2020 (29 June 2019: £306m). 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 EBITDA growth 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 lower level at which a group of assets (in this case, the land, building and fixtures and fittings) generate independent cash inflows.

There is a significant element of judgement in determining the recoverable amount of assets, specifically the assumptions used by Management in the value in use calculations, which also give 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 including COVID-19.

The discount rate and forecast EBITDA growth therefore have a high degree of judgement and carry a higher level of inherent risk of material error. These areas therefore have been considered by the audit committee on page 44 and form a key audit matter for our audit purposes.

Refer to accounting policies (page 62) and note 14 of the group financial statements (page 74).

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:

1. Obtained an understanding of the relevant controls relating to the internal challenge of the key assumptions within the impairment model;
2. Involved our valuations specialists to benchmark discount rates against market data and competitors and also performed sensitivity analysis using our independently developed range of discount rate;

3. Performed peer analysis for similar entities to determine whether the discount rate and long-term EBITDA growth rates applied within the value in use calculations are appropriate;
4. Challenge management's growth forecasts and assumptions used through detailed discussions with management and a retrospective review of budget accuracy and historic growth;
5. Considered the level of profits and losses on disposal of tangible fixed assets in the current year and concluded that where a Fair Value has been used in the impairment considerations, there is evidence of these being reasonable; and
6. Challenged the appropriateness of management's sensitivity analysis; and

Key observations

We are satisfied Management's assumptions in the discount rate and EBITDA growth rate used in the impairment review performed are reasonable.

5.2. Valuation of the investment property portfolio

Key audit matter description

The Group owns a portfolio of property and development assets across Kent. The portfolio is valued at £10m (29 June 2019: £9m) as at 27 June 2020.

The valuation of the investment and development property portfolio is a key source of estimation uncertainty and includes a number of assumptions including capitalisation yields and estimated rental values (ERVs). Due to the high level of estimation required in determining the valuation, we have determined that there is a potential fraud risk in the balance. The audit committee have discussed their response to this risk on page 44.

The Group uses a professionally qualified internal valuer to fair value the Group's portfolio bi-annually. The valuer performs their work in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standards.

As detailed in note 14, in applying the RICS Valuation Global Standards 2020 ('Red Book'), the Group's valuer has declared a 'material valuation uncertainty' in their valuation report on the portfolio as at 27 June 2020.

This is on the basis that market activity as a whole has been so significantly impacted by the effects of COVID-19 such that as at the valuation date they consider that they can attach less weight to previous market evidence for comparison purposes to inform opinions of value and that a higher degree of caution should be attached to their valuation.

Please see critical judgements and key sources of estimation uncertainty on page 66, and note 14 on page 75 to the financial statements.

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

We have performed testing of the property valuations and critically assessed the assumptions and estimates made. These procedures included:

1. We obtained an understanding of relevant controls in the valuation process, including the process by which the Board assessed the key assumptions taken by the valuer;
2. Selected a sample of properties and confirmed the accuracy of the information included in the valuation by agreeing rental information to the underlying lease;
3. Confirmed the completeness of the investment property listing by reconciling the movements noted from the listing audited in the prior year, the transfers made from tangible fixed assets in the period and the revaluations identified;
4. Benchmarked the valuations against known market conditions to determine if the fair value appears reasonable; and
5. Involved our real estate specialists to determine the appropriateness of the valuation methodologies and assumptions applied and to challenge the key assumptions taken for a sample of properties that have movements that are out of line with the market expectations;
6. Confirmed the disclosures made in respect of the increased estimation uncertainty as a result of COVID-19 are appropriate.

Key observations

We considered the assumptions applied in arriving at the fair value of the Group's investment and development property portfolio, when considered in aggregate, to be within an acceptable range and the valuations to be suitable for inclusion in the financial statements as at 27 June 2020.

5.3. Completeness and accuracy of the provision made in respect of the fraud identified in the year

As disclosed on page 43, in January 2020 management discovered a fraud. An employee misappropriated £0.9m primarily relating to tenant cash payments and had created a number of fictitious journals as a result. These journals created fictitious debits in tenant loan accounts held on the balance sheet, some of which have since been written off as bad debt whilst the others were paid by the tenants concerned. £0.4m has been previously written off as bad debt and the residual amount of £0.5m is to be paid back to tenants. There were additional costs in the year in respect of the interest and legal and professional fees, which increased the total charge for the year to £0.9m. The provision in the year end accounts is £0.4m. These costs are excluded from underlying operating profit, as disclosed in note 7 on page 70.

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

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

We have performed the following audit procedures to respond to the identified risk:

1. Obtained an understanding of the relevant controls designed to calculate the provision;
2. Obtained details of user access requirements for the employee concerned and involved our IT specialists to evaluate the appropriateness of such access;
3. Engaged our forensic accounting specialists to confirm the nature and extent of our procedures were appropriate;
4. Selected a sample of transactions posted by the employee concerned from a complete download of journals posted to the system and obtained supporting evidence to establish whether the underlying transaction was fraudulent or genuine;
5. Selected a sample of the specific journal type, used by the employee to perpetrate the fraud, posted by all users since SAP implementation and obtained supporting evidence to establish whether the journal was fraudulent or genuine;

6. Obtained a report of all amounts that were paid to the employee since SAP implementation and confirmed that all payments to the employee were related to payroll;
7. Obtained the breakdown of the bad debt write offs made in respect of tenant loan accounts and confirmed the arithmetic accuracy of management's workings for the amounts owed back to tenants;
8. Used data analytics to reperform the amount calculation of the total owed to tenants;
9. Traced a sample of payments made to tenants to supporting evidence and bank statements;
10. Obtained calculations for interest, VAT, penalties and compensation for the amounts fraudulently recorded and recomputed amounts provided and challenged any judgmental inputs (e.g. interest rate); and
11. Assessed whether the disclosure made in the financial statements was appropriate.

Key observations

We are satisfied that the extent of the fraudulent transactions have been identified and that the amounts outstanding at year-end have been appropriately recognised.

6. Our application of materiality

6.1. 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	£500,000 (2019: £640,000)	£495,000 (2019: £633,600)
Basis for determining materiality	We have determined a materiality of £500,000 (FY19: £640,000) considering both revenue and underlying operating profit as benchmarks. This is a revised approach from 2019, where materiality was £640,000, determined based on 6% of underlying profit before tax, however we note that the determined materiality is consistent year-on-year at 0.4% of revenue.	Parent company financial statement materiality was capped at 99% (2019: 99%) of Group materiality.
Rationale for the benchmark applied	The Group made an underlying loss for the year and therefore we concluded that this was not an appropriate benchmark for determining materiality for the current year. We have therefore calculated a materiality based upon revenue and operating profit.	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.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

- Our risk assessment, including our assessment of the Group's overall control environment;
- A greater than normal fraud risk in the year, as a result of fraud identified in the year; and
- Our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior period.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £25,000 (2019: £32,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

The Group's operations are all conducted in the United Kingdom. The audit was performed centrally alongside the Group finance team. The Group's results are 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, this subsidiary had been liquidated.

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.

8. 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.

9. 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.

10. Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit 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.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. 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 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.

12. Matters on which we are required to report by exception

12.1. 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.

12.2. 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.

13. 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

3 November 2020

CONSOLIDATED PROFIT AND LOSS ACCOUNT

52 WEEKS ENDED 27 JUNE 2020

	note	52 weeks ended 27 June 2020			52 weeks ended 29 June 2019		
		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	123,619	-	123,619	145,801	-	145,801
Operating charges	5, 7	(122,675)	(9,082)	(131,757)	(130,543)	(168)	(130,711)
Operating profit/(loss)	3	944	(9,082)	(8,138)	15,258	(168)	15,090
Finance costs	6	(3,857)	(185)	(4,042)	(3,901)	(9,820)	(13,721)
Fair value movements on financial instruments charged to profit and loss		-	35	35	-	(952)	(952)
Net finance costs		(3,857)	(150)	(4,007)	(3,901)	(10,772)	(14,673)
(Loss)/profit on disposal of property	7	-	(6)	(6)	-	2,848	2,848
Investment property fair value movements	7	-	50	50	-	206	206
(Loss)/profit before taxation		(2,913)	(9,188)	(12,101)	11,357	(7,886)	3,471
Taxation	8	285	66	351	(2,401)	1,519	(882)
(Loss)/profit after taxation		(2,628)	(9,122)	(11,750)	8,956	(6,367)	2,589
(Loss)/earnings per 50p ordinary share	10						
Basic				(79.8)p			17.6p
Diluted				(79.8)p			17.5p
Underlying basic				(17.8)p			60.9p

All results are derived from continuing activities.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

52 WEEKS ENDED 27 JUNE 2020

	note	52 weeks ended 27 June 2020 £'000	52 weeks ended 29 June 2019 £'000
(Loss)/profit after taxation		(11,750)	2,589
(Losses)/gains arising on cash flow hedges during the period	20	(96)	248
Transfers to the profit and loss account on cash flow hedges	20	-	10,660
Gains arising on revaluation of tangible fixed assets	14	17	-
Tax relating to components of other comprehensive income	8	(490)	(1,931)
Other comprehensive (losses)/gains		(569)	8,977
Total comprehensive (loss)/income		(12,319)	11,566

CONSOLIDATED AND PARENT COMPANY BALANCE SHEET

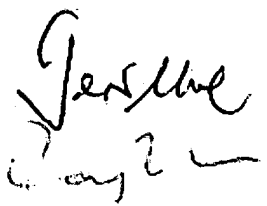
AS AT 27 JUNE 2020

	note	Group 27 June 2020 £'000	Group 29 June 2019 £'000	Company 27 June 2020 £'000	Company 29 June 2019 £'000
Fixed assets					
Intangible fixed assets	13	557	760	557	760
Tangible fixed assets	14	309,363	314,728	309,363	314,728
Investments and loans	15	5	10	27	5,519
		309,925	315,498	309,947	321,007
Current assets					
Stocks	16	8,230	7,111	8,230	7,111
Debtors	17	9,968	12,945	9,968	12,945
Deferred tax asset	23	1,354	1,058	1,354	1,058
Cash at bank and in hand		9,861	116	9,861	116
		29,413	21,230	29,413	21,230
Creditors: amounts falling due within one year					
Bank loans and overdrafts	19	(94,262)	(933)	(94,262)	(1,068)
Creditors	18	(27,846)	(23,096)	(27,868)	(28,470)
		(122,108)	(24,029)	(122,130)	(29,538)
Net current liabilities		(92,695)	(2,799)	(92,717)	(8,308)
Total assets less current liabilities		217,230	312,699	217,230	312,699
Creditors: amounts falling due after more than one year					
Bank loans	19	-	(81,160)	-	(81,160)
Derivative financial instruments	21	(7,107)	(6,822)	(7,107)	(6,822)
Deferred lease liability		(2,693)	(2,547)	(2,693)	(2,547)
Provisions for liabilities	23	(15,184)	(14,073)	(15,184)	(14,073)
Net assets		192,246	208,097	192,246	208,097
Capital and reserves					
Called-up share capital	24	7,429	7,429	7,429	7,429
Share premium account	25	1,099	1,099	1,099	1,099
Revaluation reserve	25	70,409	71,858	70,409	71,858
Own shares	25	(1,328)	(1,551)	(1,328)	(1,551)
Hedging reserve	25	(4,963)	(4,990)	(4,963)	(4,990)
Profit and loss account	25	119,600	134,252	119,600	134,252
Equity shareholders' funds		192,246	208,097	192,246	208,097

The loss attributable to the Shareholders of the Company for the 52 weeks ended 27 June 2020 was £11,750,000 (2019: profit £2,618,000 for the 52 weeks ended 29 June 2019).

These accounts for Shepherd Neame Limited (Registered in England number 138256) were approved by the Board of Directors on 3 November 2020 and were signed on its behalf by:

MILES TEMPLEMAN
JONATHAN NEAME
Directors



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

52 WEEKS ENDED 27 JUNE 2020

	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 30 June 2018		7,429	1,099	73,532	(1,588)	(13,867)	134,547	201,052
Profit for the financial year		-	-	-	-	-	2,589	2,589
Gains arising on cash flow hedges during the year	20	-	-	-	-	248	-	248
Transfers to the profit and loss account on termination of interest rate swaps	20	-	-	-	-	9,875	-	9,875
Transfers to the profit and loss account on hedge ineffectiveness of remaining interest rate swaps	20	-	-	-	-	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)
Transfer of realised revaluation		-	-	(1,674)	-	-	1,674	-
Accrued share-based payments	30	-	-	-	-	-	396	396
Purchase of own shares	25	-	-	-	(595)	-	-	(595)
Distribution of own shares	25	-	-	-	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
Loss for the financial year		-	-	-	-	-	(11,750)	(11,750)
Losses arising on cash flow hedges during the year	20	-	-	-	-	(96)	-	(96)
Gains on revaluation of fixed assets	14	-	-	17	-	-	-	17
Tax relating to components of other comprehensive income	8	-	-	(613)	-	123	-	(490)
Total comprehensive (loss)/income		-	-	(596)	-	27	(11,750)	(12,319)
Ordinary dividends paid	9	-	-	-	-	-	(3,573)	(3,573)
Revaluation reserve realised on disposal of properties		-	-	(853)	-	-	853	-
Accrued share-based payments	30	-	-	-	-	-	318	318
Purchase of own shares	25	-	-	-	(290)	-	-	(290)
Distribution of own shares	25	-	-	-	353	-	(340)	13
Unconditionally vested share awards		-	-	-	160	-	(160)	-
Balance at 27 June 2020		7,429	1,099	70,409	(1,328)	(4,963)	119,600	192,246

There are no differences in the Parent Company Statement of Changes in Equity and the Consolidated Statement Changes in Equity above for the 52 weeks to 27 June 2020. For the 52 weeks to 29 June 2019 there were also no differences other than the Parent Company profit for that financial year being £2,618,000.

FINANCIAL STATEMENTS

CONSOLIDATED CASH FLOW STATEMENT

52 WEEKS ENDED 27 JUNE 2020

	52 weeks ended 27 June 2020 £'000	52 weeks ended 29 June 2019 £'000
Net cash flows from operating activities (note 26)	15,253	22,497
Cash flows from investing activities		
Proceeds of sale of tangible fixed assets	1,752	7,825
Purchase of tangible fixed assets	(12,025)	(13,710)
Purchase of intangible fixed assets	(92)	-
Customer loan redemptions	2	61
Acquisition of subsidiaries	(151)	(5,594)
Cash acquired on acquisition	-	347
Net cash flows from investing activities	(10,514)	(11,071)
Cash flows from financing activities		
Dividends paid	(3,573)	(4,341)
Interest paid	(3,211)	(3,526)
Settlement of derivative financial instruments	-	(9,610)
Repayment of loans	-	(54,500)
New loans	13,000	59,500
Issue costs of new loans	-	(815)
Purchase of own shares	(290)	(595)
Share option proceeds	13	19
Net cash flows from financing activities	5,939	(13,868)
Net increase/(decrease) in cash and cash equivalents	10,678	(2,442)
Cash and cash equivalents at beginning of the period	(817)	1,625
Cash and cash equivalents at end of the period	9,861	(817)

NOTES TO THE ACCOUNTS

27 JUNE 2020

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 38. 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 amendments to FRS 102 following the Triennial Review (December 2017) have been adopted in the period but no material changes have arisen as a result of this.

The Group adopted FRS 102.18 regarding accounting for all intangible assets other than goodwill and intangible assets held by an entity for sale in the ordinary course of business on 30 June 2019 prospectively. There is no impact on comparative periods which are presented as previously reported.

The Group has adopted the Financial Reporting Exposure Draft (FRED) 74 amendments to FRS 102 which will apply until the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows that the Group is exposed ends.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 – 35 and include the section entitled 'Principal Risks and Uncertainties' on pages 27 – 32. The Financial Review section on pages 21 – 23 describes the financial position of the Group, its cash flows and liquidity position. In addition, note 22 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, borrowing facilities, and its exposure to credit risk and liquidity risk.

Going Concern

The Group has prepared the 2020 financial statements on a going concern basis. The Board is confident that in current circumstances the Group has sufficient internally generated cash inflows and undrawn bank facilities to meet all of its needs for the foreseeable future having headroom on facilities of £36m, with a further £10m available on request as at the signing date and a strong freehold asset backed balance sheet.

The economic outlook remains highly uncertain with the COVID-19 pandemic and the government response to it making future trading difficult to predict. The Board keeps the situation under review at all times and has adjusted its business model to reflect the current climate. A base model has been prepared assuming significantly reduced trading which demonstrates that headroom for the next 12 months does not fall below £40m at any point and with predicted cash inflows for the financial years to June 2022 and June 2023.

At 27 June 2020, the Group had existing facilities of £107.5million. Since the year end the Group has increased its available facilities by accessing the Coronavirus Large Business Interruption Loan Scheme. The loan means that £25 million is available from 1 July 2020 to 30 June 2022. The existing facilities are subject to two main covenants, which are tested quarterly: net debt to rolling 12 month EBITDA (leverage) and rolling 12 month EBITDA to net finance charges. In July 2020, in recognition of the current macroeconomic uncertainty, the Group's banks have revised the covenant tests for the quarters ending September 2020, December 2020, March 2021 and June 2021. As the previous covenant tests were still in place at the year end the Group has reclassified all loans to current rather than long-term on the balance sheet as the covenants were breached. This has resulted in a net current liabilities position of £93m.

NOTES TO THE ACCOUNTS CONTINUED

27 JUNE 2020

1 ACCOUNTING POLICIES CONTINUED

a General Information and basis of accounting continued

Whilst trading since pubs re-opened in July has been positive and the Board remain confident in the future prospects of the Group, the headroom on the March, June and September 2021 covenants was limited. The forecast headroom on the September 2021 test has been eradicated by the Government's announcement on 31 October of a further lockdown for a minimum four week period as this test is based on 12 month EBITDA which will now include this closure period. Without a compensating increase in trade versus the assumed position post lockdown the Group would not expect to meet this covenant test in September 2021. On the basis of a four week lockdown only, covenant headroom remains limited in March and June 2021. An extension to the lockdown or further COVID-19 related disruption may eradicate the current headroom above the covenant level forecast in these tests. The Board believes this represents a material uncertainty which may cast significant doubt as to the Group's ability to continue as a going concern. The Board is engaging on an ongoing basis with, and has good relationships with its lenders. Whilst recognising a material uncertainty, the Board believes that it will be able to agree further covenant revisions and has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, the Board is continuing to adopt the going concern basis in preparing the Annual Report and Accounts.

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 27 June 2020 (2019: 52 weeks ended 29 June 2019). 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

Intangible assets with finite useful lives are carried at cost less accumulated amortisation and impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful life of between three and five years. Provision is made for any impairment.

d Business combinations and 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.

e 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.

f 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. Gains or losses on the sale of properties are calculated by reference to the carrying value at the end of the previous reporting date, adjusted for subsequent capital expenditure.

g 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.

h 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.

NOTES TO THE ACCOUNTS CONTINUED

27 JUNE 2020

1 ACCOUNTING POLICIES CONTINUED

I 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.

J 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.

K Impairment of assets

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

Non-financial assets

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

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

Financial assets

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

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

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

L 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.

m 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. Government assistance described below is also recognised in turnover.

n Government assistance

Government grants are recognised based on the accrual model and are measured at the fair value of asset received or receivable, when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Amounts received are recognised in the profit and loss account on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

o 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.

p 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.

q 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.

r 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 the rates of exchange prevailing at that date. All differences are taken to the profit and loss account.

s Dividends

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

t 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.

u 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.

NOTES TO THE ACCOUNTS CONTINUED

27 JUNE 2020

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 Directors have considered whether it is appropriate to provide a sensitivity in relation to COVID-19 and particularly in light of the recent government announcement regarding a four week lockdown in November. Given the inherent uncertainty around the extent of this and any future lockdowns, whether this will apply to the pub sector, and the extent of any government support, the directors have concluded that it is not appropriate to provide a Covid sensitivity over and above the cashflow sensitivity provided below.

The net impact on the impairment charge of property assets 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	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Increased impairment resulting from	2,690	866	1,918	689	1,693	689

Investment property valuations

Investment properties 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 and average yields earned on comparable properties from publicly available information and for residential properties on comparable market evidence. For 27 June 2020, the rapid spread of COVID-19 has disrupted activity in real estate markets creating heightened valuation uncertainty for the Company's valuers. As a result, the valuation includes a clause which highlights a 'material valuation uncertainty'. This clause serves as a precaution and does not invalidate the valuation and does not mean that the valuation cannot be relied upon. Rather it is intended to highlight that due to current extraordinary circumstances, less certainty can be attached to the valuation than would otherwise be the case.

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 27 June 2020	Brewing and Brands £'000	Managed Pubs £'000	Tenanted Pubs £'000	Unallocated £'000	Total £'000
Turnover	41,724	55,108	25,224	1,563	123,619
Underlying operating (loss)/profit	(307)	2,367	6,979	(8,095)	944
Items excluded from underlying results	-	(6,771)	(1,161)	(1,150)	(9,082)
Divisional operating (loss)/profit	(307)	(4,404)	5,818	(9,245)	(8,138)
Net underlying finance costs					(3,857)
Finance costs excluded from underlying results					(185)
Fair value movements on ineffective element of cash flow hedges					35
Loss on disposal of property					(6)
Investment property fair value movements					50
Loss before taxation					(12,101)

52 weeks ended 27 June 2020	Brewing and Brands £'000	Managed Pubs £'000	Tenanted Pubs £'000	Unallocated £'000	Total £'000
Other segment information					
Capital expenditure - tangible and intangible fixed assets	1,126	6,730	3,894	720	12,470
Depreciation and amortisation	1,702	3,551	2,712	528	8,493
Underlying divisional EBITDA	1,423	5,998	9,755	(7,520)	9,656
Number of pubs	-	69	234	16	319

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					(932)
Profit on disposal of property					2,848
Investment property fair value movements					205
Profit before taxation					3,471

Other segment information					
Capital expenditure - tangible and intangible fixed assets	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

NOTES TO THE ACCOUNTS CONTINUED

27 JUNE 2020

3 SEGMENTAL REPORTING CONTINUED

Geographical Information

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

	52 weeks ended 27 June 2020 £'000	52 weeks ended 29 June 2019 £'000
Turnover		
UK	121,495	143,581
Rest of the World	2,124	2,220
	123,619	145,801

4 TURNOVER AND REVENUE

An analysis of the Group's revenue (including turnover) by category is as follows:

	52 weeks ended 27 June 2020 £'000	52 weeks ended 29 June 2019 £'000
Sale of goods and services	111,568	136,757
Rental income	6,639	9,044
Grants	5,412	-
	123,619	145,801

In the current year, grant accounting has been applied to the Coronavirus Job Retention Scheme launched as part of HM Government's response to the COVID-19 pandemic. The scheme is designed to compensate for staff costs, so amounts received are recognised in the profit and loss account over the same period as the costs to which they relate and disclosed within other income. Eligible managed pubs have also benefitted from the Retail, Hospitality and Leisure Grant Fund.

5 OPERATING CHARGES

	Before items excluded from underlying results 52 weeks ended 27 June 2020 £'000	Items excluded from underlying results 52 weeks ended 27 June 2020 £'000	Total 52 weeks ended 27 June 2020 £'000	Total 52 weeks ended 29 June 2019 £'000
Production costs and costs of goods used in retailing	51,327	-	51,327	56,080
Change in stocks of finished goods and work in progress	(1,119)	-	(1,119)	(270)
Staff costs:				
Wages and salaries	29,868	-	29,868	29,961
Social security costs	2,329	-	2,329	2,500
Other pension costs	1,048	-	1,048	969
Amortisation of intangible fixed assets (note 13)	155	-	155	118
Impairment of intangible fixed assets (note 13)	-	140	140	-
Depreciation of tangible fixed assets (note 14)	8,338	-	8,338	8,180
Impairment of tangible fixed assets (note 14)	-	7,498	7,498	652
Reversal of impairment of tangible fixed assets (note 14)	-	-	-	(484)
Loss on sale of fixed assets (excluding properties)	216	-	216	92
Property repairs	2,519	-	2,519	2,950
Operating lease rentals - land, buildings, vehicles and equipment	4,448	-	4,448	4,360
Foreign exchange loss	-	-	-	15
Impairment of stock recognised as an expense	682	-	682	460
Other operating charges	22,864	1,444	24,308	25,128
Total operating charges	122,675	9,082	131,757	130,711

The analysis of auditor's remuneration is as follows:

	52 weeks ended 27 June 2020 £'000	52 weeks ended 29 June 2019 £'000
Fees payable to Deloitte LLP for the audit of the Group's annual accounts	122	120
Fees payable to Deloitte LLP for other services to the Group:		
Tax advisory services	27	26
Other services	35	10
Total fees payable to Deloitte LLP	184	156

Other services comprised fees concerning the fraud identified during the year (2019: advice regarding swap accounting).

6 NET FINANCE COSTS

	52 weeks ended 27 June 2020			52 weeks ended 29 June 2019 Total statutory £'000
	Underlying results £'000	Items excluded from underlying results £'000	Total statutory £'000	
Interest payable: Bank loans and overdrafts	3,833	-	3,833	3,938
Interest payable: Other	32	-	32	-
Investment income: Income from fixed asset investments	(12)	-	(12)	(18)
Other finance income: Unwinding of discounts on provisions	4	-	4	(19)
Settlement of interest rate swaps associated with refinancing	-	-	-	9,386
Write-off of unamortised finance costs following refinancing	-	-	-	434
Cost related to putting in place CLBLS loan	-	185	185	-
Ongoing fair value movements on financial instruments charged to profit and loss	-	(35)	(35)	952
Net finance costs	3,857	150	4,007	14,673

The ongoing fair value movements on financial instruments charged to profit and loss represent a £77,000 fair value gain on the non-hedge accounting ineffective portion of the interest rate swap and a £42,000 fair value loss on the interest rate cap.

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 "underlying operating profit", "underlying profit before tax", "underlying basic earnings per share", "underlying earnings before interest, tax, depreciation, and amortisation" as 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 CONTINUED

27 JUNE 2020

7 NON-GAAP REPORTING MEASURES CONTINUED

	27 June 2020 £'000	29 June 2019 £'000
Underlying EBITDA	9,656	23,673
Depreciation and amortisation	(8,493)	(8,298)
Free trade loan discounts	(3)	(25)
Loss on sale of assets (excluding property)	(216)	(92)
Underlying operating profit	944	15,258
Net underlying finance costs	(3,857)	(3,901)
Underlying (loss)/profit before taxation	(2,913)	11,357
 (Loss)/profit on disposal of properties	 (6)	 2,848
Investment property fair value movements	50	206
Operating charges – items excluded from underlying results	(9,082)	(168)
Settlement of interest rate swaps associated with refinancing	-	(9,386)
Write-off of unamortised finance costs following refinancing	-	(434)
Cost related to putting in place CLBILS loan	(185)	-
Other fair value movements on financial instruments charged to profit and loss	35	(952)
(Loss)/profit before taxation	(12,101)	3,471

Operating charges – items excluded from underlying results comprise:

- An impairment charge of £7,638,000 (2019: 168,000) in relation to 26 licensed properties (see notes 13 and 14).
- A one-off net charge of £946,000 relating to the correction of erroneous charges made against certain accounts as a result of unlawful action by one employee, acting independently.

These entries were made in the period July 2008 to September 2019 and the majority of the charges related to previous accounting periods. Since the sums involved, although significant cumulatively, were not significant in any single year, and are not in aggregate material in the context of the Company's overall finances, the Directors feel that it is appropriate to recognise the charge within items excluded from underlying results, in the current period.

The gross value of the erroneous charges amounted to £861,000. However, this exposure has been reduced by £369,000 in respect of the net write-off of associated debt not recovered by the Company in the prior accounting periods.

The net balance represents repayments due, and we are in the process of reimbursing fully all those accounts affected, together with interest amounting to £107,000. We have incurred additional charges of £347,000 in respect of fees relating to this matter and are taking action to attempt to recover our loss (see financial review on page 21).

- A provision of £498,000 in respect of potential charges relating to an enquiry opened by HMRC relating to the provision of uniforms and training to employees. This investigation is at an early stage and as such the quantum of any liability is uncertain. Whilst we do not accept any liability, we have made a prudent estimate including a 100% uplift of any balance owed to employees in respect of the fine that HMRC would levy should a liability be assessed.

Finance costs – items excluded from underlying results

During the 52 weeks ended 27 June 2020, the Company incurred £185,000 of adviser fees in relation to putting in place a CLBILS loan following the COVID-19 outbreak.

During the 52 weeks ended 29 June 2019, £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.

8 TAXATION

a Tax on (loss)/profit

	52 weeks ended 27 June 2020			52 weeks ended 29 June 2019		
	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% (2019: 19.0%)	(165)	(206)	(371)	2,455	(1,959)	496
Prior year under provision	6	187	193	1	-	1
Total current tax	(159)	(19)	(178)	2,456	(1,959)	497
Deferred tax						
Origination and reversal of timing differences	(116)	(887)	(1,003)	(59)	440	381
Effect of increase in tax rate	-	1,021	1,021	-	-	-
Prior year (over)/under provision	(10)	(181)	(191)	4	-	4
Total deferred tax	(126)	(47)	(173)	(55)	440	385
Total tax (credited)/charged to profit and loss	(285)	(66)	(351)	2,401	(1,519)	882
Tax charged to other comprehensive income						
Deferred tax						
(Losses)/gains arising on cash flow hedges in the period			(18)			1,931
Effect of increase in future rate of corporation tax			508			-
Total tax charged to other comprehensive income			490			1,931

b Reconciliation of the total tax charge

	52 weeks ended 27 June 2020 £'000	52 weeks ended 29 June 2019 £'000
Group (loss)/profit before taxation	(12,101)	3,471
Tax on Group (loss)/profit at average UK corporation tax rate of 19.0% (2019: 19.0%)	(2,299)	659
Expenses not deductible for tax purposes	168	85
Profit on sale of property less chargeable gains	757	133
Effect of a change in tax rate	1,021	-
Prior year under provision	2	5
Total tax (credited)/charged to profit and loss	(351)	882

c Factors that may affect future tax charges

The Finance Bill 2016 had previously enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020 and accordingly the deferred tax at 29 June 2019 had been calculated at this rate. However, in the March 2020 Budget it was announced that the reduction will not occur and the Corporation Tax Rate will be held at 19%. The Provisional Collection of Taxes Act was used to substantively enact the revised 19% tax rate on 17 March 2020 and accordingly the deferred tax balances have been re-calculated to 19% at the year-end.

During the 52 weeks beginning 28 June 2020, the net reduction of deferred tax liabilities expected to be credited to the profit and loss account is estimated at £200,000 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.

NOTES TO THE ACCOUNTS CONTINUED

27 JUNE 2020

9 DIVIDENDS

	52 weeks ended 27 June 2020 £'000	52 weeks ended 29 June 2019 £'000
Declared and paid during the year		
Final dividend for 2019: 24.21p (2018: 23.45p) per ordinary share	3,573	3,475
Interim dividend for 2020: nil (2019: 5.87p) per ordinary share	-	866
Dividends paid	3,573	4,341

No final dividend has been proposed for approval at the Annual General Meeting due to the Board wishing to preserve cash for the long term health of the Company and the terms and conditions of the new financing arrangements that prohibit payment of dividends by the Group whilst the CLBILS facility and alternative covenants remain in place. (2019: the Directors proposed a final dividend of 24.21p per 50p ordinary share totalling £3,573,000 for the 52 weeks ended 29 June 2019).

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 27 June 2020 £'000	52 weeks ended 29 June 2019 £'000
(Loss)/profit attributable to equity shareholders	(11,750)	2,589
Items excluded from underlying results	9,122	6,367
Underlying (loss)/earnings attributable to equity shareholders	(2,628)	8,956
	Number	Number
Weighted average number of shares in issue	14,733	14,717
Dilutive outstanding options	-	114
Diluted weighted average share capital	14,733	14,831
(Loss)/earnings per 50p ordinary share		
Basic	(79.8)p	17.6p
Diluted	(79.8)p	17.5p
Underlying basic	(17.8)p	60.9p

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 47 and 48.

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 27 June 2020 Number	52 weeks ended 29 June 2019 Number
Brewery, head office & visitor centre	249	254
Managed pubs	1,489	1,430
	1,738	1,684

13 INTANGIBLE FIXED ASSETS

Group and Company	Other intangibles £'000	Goodwill £'000	Total £'000
Cost			
At 29 June 2019	-	1,074	1,074
Additions	92	-	92
At 27 June 2020	92	1,074	1,166
Amortisation			
At 29 June 2019	-	314	314
Charge for the period	17	138	155
Impairment	-	140	140
At 27 June 2020	17	592	609
Net book value			
At 27 June 2020	75	482	557
At 29 June 2019	-	760	760

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% (2019: 2.0%). The pre-tax discount rate used in this review was 7.98% (2019: 7.54%).

NOTES TO THE ACCOUNTS CONTINUED

27 JUNE 2020

14 TANGIBLE FIXED ASSETS

Group and Company	2020 £'000	2019 £'000
Property, plant and equipment	299,702	305,934
Investment properties	9,661	8,794
Total tangible fixed assets	309,363	314,728

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 29 June 2019	257,600	942	8,060	35,945	87,893	1,239	391,679
Additions	2,350	-	68	350	7,755	1,625	12,148
Disposals	(783)	-	(197)	(12)	(1,121)	(242)	(2,355)
Transfers	(1,681)	(942)	943	163	(267)	(659)	(2,443)
At 27 June 2020	257,486	-	8,874	36,446	94,260	1,963	399,029
Accumulated depreciation							
At 29 June 2019	5,692	182	4,237	28,906	46,726	2	85,745
Charge for year	604	-	283	1,084	6,367	-	8,338
Impairment	4,688	-	814	-	1,952	44	7,498
Revaluation	(6)	-	-	-	(11)	-	(17)
On disposals	(89)	-	(197)	(12)	(826)	-	(1,124)
Transfers	(765)	(182)	182	-	(348)	-	(1,113)
At 27 June 2020	10,124	-	5,319	29,978	53,860	46	99,327
Net book values							
At 27 June 2020	247,362	-	3,555	6,468	40,400	1,917	299,702
At 29 June 2019	251,908	760	3,823	7,039	41,167	1,237	305,934

Included in additions is £45,000 (2019: £70,000) of own labour capitalised and £14,000 (2019: £4,000) of capitalised interest.

Disposals includes an amount of £764,000 (2019: £689,000) 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 £199,533,000 are included in the valuation or cost of the freehold properties at 27 June 2020 (2019: £202,276,000).

If they had not been revalued, freehold properties would have been carried in the balance sheet at 27 June 2020 and at 29 June 2019 at:

Group and Company	2020 £'000	2019 £'000
Cost	174,615	172,804
Accumulated depreciation	(11,226)	(6,855)
Net book amount	163,389	165,949

The Company has entered into certain operating leases as lessor. The gross cost of assets held for use under these leases amounted to £24,174,000 (2019: £26,390,000), the related accumulated depreciation charges amounted to £524,000 (2019: £658,000) and the aggregate rentals receivable amounted to £985,000 (2019: £1,370,000).

A net impairment loss of £7,638,000 was recognised in the year in respect of 26 licensed properties to write them down to their recoverable amount (2019: £168,000 in respect of five licensed properties). There was no reversal of impairment in the current year (2019: reversal in respect of two licensed properties).

Impairment was assessed at the income-generating unit level, considered to be on the basis of each individual pub. Whether an asset was impaired or not was determined by comparing the carrying value against its estimated 'recoverable amount'. The recoverable amount was taken as the higher of either the net realisable value or its value in use. The value in use was determined by conducting a net present value review of all relevant cash flows from the asset based upon the budget for the forthcoming financial year approved by the Directors. Cash flows beyond the budget period are extrapolated in perpetuity for freehold properties and over the length of the remaining lease for leasehold properties. The long term growth rates applied are 2.0% (2019: 2.0%) for managed pubs and 2.0% (2019: 1.5%) for tenanted pubs. The pre-tax discount rate used in this review was 7.98% (2019: 7.54%).

Any impairment loss must be allocated first to reduce the carrying value of any goodwill allocated to the income-generating unit and then to the other classes of asset in the cash generating unit. As such £140,000 of the impairment charge relating to two licensed properties has been charged against goodwill for those sites with the remaining £7,498,000 charged against property, plant and equipment.

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.

For 27 June 2020, the rapid spread of COVID-19 has disrupted activity in real estate markets creating heightened valuation uncertainty for the Company's valuers. As a result, the valuation includes a clause which highlights a 'material valuation uncertainty' which is as follows:

As at the valuation date, there is a shortage of market evidence for comparison purposes, to inform opinions of value. Our valuation is therefore reported on the basis of 'material valuation uncertainty' as set out in VP3 and VPGA 10 of the RICS Valuation - Global Standards. Consequently, less certainty - and a higher degree of caution - should be attached to the valuation than would normally be the case.

This clause serves as a precaution and does not invalidate the valuation and does not mean that the valuation cannot be relied upon. Rather it is intended to highlight that due to current extraordinary circumstances, less certainty can be attached to the valuation than would otherwise be the case.

Group and Company	2020 £'000	2019 £'000
Valuation:		
Carrying value at start of year	8,794	7,869
Additions	230	21
Disposals	(743)	(1,225)
Transfers	1,330	1,923
Fair value movement	50	206
Carrying value at end of year	9,661	8,794

The investment property rental income during the year was £334,000 (2019: £334,000).

If the investment properties had not been revalued, they would have been carried in the balance sheet at 27 June 2020 at a cost of £4,464,000 (2019: £5,023,000).

The contracted future minimum rentals receivable for investment properties and property, plant and equipment are included in Note 28b.

NOTES TO THE ACCOUNTS CONTINUED

27 JUNE 2020

15 INVESTMENTS AND LOANS

	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Investment in subsidiaries	-	-	22	5,509
Loans to customers	5	10	5	10
Carrying value	5	10	27	5,519

a Investment in subsidiaries

At 27 June 2020 the parent Company and the Group had investments in the following subsidiary undertakings:

Subsidiary undertakings	Holding	Proportion held
Invicta Inns Limited ¹	£1 Ordinary shares	50%
Royal Albion Hotel (Broadstairs) Limited	£1 Ordinary shares	100%
Shepherd Neame (Trustees) Limited ¹	£1 Ordinary shares	100%
SN Finance plc ¹	£1 Ordinary shares	50%
	£0.25 Ordinary shares	100%
The Place Sandwich VCT Limited	£0.01 Ordinary shares	100%
Thomas Grant & Sons Limited ¹	£1 Preference shares	100%
	£1 Ordinary shares	99.9%
Todd Vintners Limited ¹	£1 Ordinary shares	50%
Village Green Restaurants Limited	£1 Ordinary shares	100%

¹ These companies were dormant throughout the period.

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

Investment in principal subsidiaries

Company	2020 £'000	2019 £'000
Cost		
At beginning of period	5,509	11,583
Additions	-	5,487
Disposals	(5,487)	(11,561)
	22	5,509
Provisions for impairment		
At beginning of period	-	(11,420)
Disposals	-	11,420
	-	-
Carrying value at end of period	22	5,509

On 16 April 2019, the Company acquired 100% of the issued share capital of The Horse and Groom (Dartford) Limited for £5,745,000. The trade and assets of that company were subsequently transferred to Shepherd Neame Limited. On 1 June 2020 a dividend of £5,486,000 was paid to the parent company and this subsidiary company was liquidated.

During the 52 weeks ended 29 June 2019, Village Green Restaurants Limited, Ultimate Entertainment Services Limited and Mexxa Mexxa Limited were liquidated.

These movements are eliminated on consolidation of the Group.

b Loans to customers

Group and Company	2020 £'000	2019 £'000
Carrying value at start of period	10	76
Redemptions	(2)	(61)
Loan discounts awarded	(3)	(25)
Unwinding of discounts on loans receivable	-	20
Carrying value at end of period	5	10

c The maturity profile of the loans is:

Group and Company	2020 £'000	2019 £'000
Recoverable within one year	-	3
Recoverable between one and five years	5	7
	5	10

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 £5,000 is expected to be repaid by offset against discounts to be earned but not received by customers (2019: nil and £10,000 respectively). The level of discounts awarded and the interest and fees charged depends on the trading performance of each customer against individual targets.

16 STOCKS

Group and Company	2020 £'000	2019 £'000
Raw materials and consumables	2,624	2,357
Work in progress	402	362
Finished goods including goods for resale	5,204	4,392
	8,230	7,111

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

17 DEBTORS

Group and Company	2020 £'000	2019 £'000
Trade debtors	6,354	9,396
Other debtors	12	369
Derivative financial instruments (see note 20)	14	56
Prepayments	3,493	3,124
Corporation tax	95	-
	9,968	12,945

Amounts due after more than one year comprised £210,000 (2019: £267,000) included in trade debtors.

The trade debtors balance is shown net of the provision for bad debts. A charge for specific trade debts which are not considered recoverable of £307,000 (2019: £297,000) was recognised in profit and loss during the year.

NOTES TO THE ACCOUNTS CONTINUED

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18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Trade creditors	4,148	7,123	4,148	7,122
Amounts owed to subsidiary undertakings	-	-	22	5,397
Corporation tax	-	269	-	269
Other tax and social security	12,578	6,042	12,578	6,023
Accruals and deferred income	8,080	7,472	8,080	7,469
Trade deposits	1,909	1,857	1,909	1,857
Other creditors	1,131	333	1,131	333
	27,846	23,096	27,868	28,470

19 BORROWINGS

Group and Company	2020 £'000	2019 £'000
Amounts falling due after more than one year:		
Bank loans	-	47,000
Other loans	-	35,000
Less: loan arrangement fees	-	(840)
	-	81,160

Bank 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 £37.5m on the revolving credit facility. Due to a technical breach of covenants as at the year end these loans are classified as due within one year. On 1 July 2020, the Company agreed new facilities with their lenders. As part of the arrangements, the lenders agreed to waive any technical defaults arising from the COVID-19 outbreak and to amend the Group's financial covenants through to September 2021, set at a level based on a minimum level of EBITDA and liquidity.

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 in note 21. 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, £7.5m (2019: £20.5m) of the total £45.0m (2019: £45.0m) committed revolving credit bank facility was available and undrawn as well as the £5m overdraft facility.

Since the year end, the Group has an additional revolving credit facility (see note 33).

The loans and overdraft are repayable as follows:

	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Amounts payable on demand or within one year	95,000	933	95,000	1,068
Amounts payable between one and five years	-	29,300	-	29,300
Amounts payable after five years	-	52,700	-	52,700
Less: loan arrangement fees	(738)	(840)	(738)	(840)
	94,262	82,093	94,262	82,228

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

20 FINANCIAL INSTRUMENTS

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

	2020 Notional principal £'000	2020 Weighted average interest rate %	2020 Weighted average period for which rate fixed (years)	2019 Notional principal £'000	2019 Weighted average interest rate %	2019 Weighted average period for which rate fixed (years)
Bank loans	22,500	6.48	6.5	22,500	5.77	7.5
Other loans	35,000	3.99	18.3	35,000	3.99	19.3
Revolving credit facility	37,500	2.58	-	24,500	2.55	-
Overdraft facility	5,000	2.00	-	5,000	2.00	-

Three-month LIBOR was 0.14% at 27 June 2020 (29 June 2019: 0.774%). The overdraft facility bears interest at 1.25% (2019: 1.25%) above the Bank of England base rate which was 0.10% at 27 June 2020 (29 June 2019: 0.75%).

Categories of financial assets and liabilities

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

	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Financial assets				
Debt instruments measured at amortised cost				
• Loans receivable from customers	345	478	345	478
Measured at fair value through profit and loss				
• Interest rate cap	14	56	14	56
Measured at undiscounted amount receivable				
• Cash	9,861	116	9,861	116
Financial liabilities				
Measured at fair value and designated in an effective hedge relationship				
• Derivative financial liabilities	(7,107)	(6,822)	(7,107)	(6,822)
Measured at amortised cost				
• Fixed rate loan notes	(34,590)	(34,576)	(34,590)	(34,576)
• Variable rate bank loan	(59,672)	(46,584)	(59,672)	(46,390)
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:

	2020 £'000	2019 £'000
Interest income and expense		
Total interest (expense)/income for financial assets at amortised cost	(4)	20
Total interest expense for financial liabilities at amortised cost	(2,956)	(12,927)
Fair value gains and losses		
On interest rate cap	(42)	(107)
On derivative financial liabilities designated in an effective hedging relationship	(96)	248
Transfers to profit and loss account on cash flow hedges	-	10,660

NOTES TO THE ACCOUNTS CONTINUED

27 JUNE 2020

21 DERIVATIVE FINANCIAL INSTRUMENTS

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

Interest rate swaps

At 27 June 2020 the Group held one (2019: one) interest rate swap contract for a nominal value of £25m (2019: £25m). 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 (2019: £22.5m) were hedged by the interest rate swap at a fixed rate of 5.1% (2019: 5.1%), which expires in December 2026.

A loss of £96,000 (2019: gain of £248,000) was recognised in other comprehensive income in respect of the swaps in cash flow hedges. During the 52 weeks ended 29 June 2019, the Group terminated interest rate swap contracts with a total nominal value of £35m which resulted in an accumulated loss of £9,875,000 being recycled from the hedging reserve to the profit and loss account. In addition a further £785,000 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 (2019: £20m) of the Group and Company's borrowings were hedged by an interest cap at a rate of 2% (2019: 2%), which expires in 2023.

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, which 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	
	2020 %	2019 %	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Interest rate cap	2.0	2.0	20,000	20,000	14	56
Interest rate swap	5.1	5.1	25,000	25,000	(7,107)	(6,822)

22 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 loan notes, a term loan, a five-year revolving credit facility and a short-term committed overdraft facility all of which are secured by a first floating charge over the assets of the Group. All except the £35.0m loan notes 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 and revolving credit facility.

One component is attached to the level of bank margin. The other 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 19 and 20. LIBOR is currently subject to interest rate benchmark reform. The Group has been monitoring the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority (FCA)) regarding the transition away from LIBOR to the Sterling Overnight Index Average Rate (SONIA). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR. The Group will apply the Financial Reporting Exposure Draft (FRED) 74 amendments to FRS 102 until the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows that the Group is exposed ends. The Group has assumed that this will be not be until fall back clauses have been agreed with the Group's lenders that reference the new interest rate benchmarks.

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 but £20m of the risk is capped at 2%. 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 £37.5m (2019: £24.5m) of the revolving credit loan facility and none (2019: £0.9m) of the overdraft facility was being utilised. Subsequent to the year end, the Group has arranged an additional revolving credit facility (see note 33).

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 considers 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 19), cash and shareholders' equity, comprising share capital, reserves and retained earnings (see notes 24 and 25). 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 reviews the Group's dividend policy and funding requirements regularly throughout the year.

NOTES TO THE ACCOUNTS CONTINUED

27 JUNE 2020

23 PROVISIONS FOR LIABILITIES

	2020 £'000	2019 £'000
Group and Company		
Onerous lease provisions	29	29
Deferred taxation	14,657	14,044
Historic taxation provision	498	-
	15,184	14,073

a Onerous lease provisions

	2020 £'000	2019 £'000
Group and Company		
As at start of period	29	60
Credited to profit and loss	-	(31)
As at end of period	29	29

The onerous lease provision is in respect of one property and will unwind over the life of the lease being a period of one year.

b Deferred tax

	Asset 2020 £'000	Liability 2020 £'000	Net 2020 £'000	Asset 2019 £'000	Liability 2019 £'000	Net 2019 £'000
Group and Company						
As at start of period	1,058	(14,044)	(12,986)	2,992	(12,610)	(9,618)
Credited/(charged) to profit and loss	173	-	173	(3)	(382)	(385)
Credited/(charged) to other comprehensive income	123	(613)	(490)	(1,931)	-	(1,931)
Acquired in the year	-	-	-	-	(852)	(852)
As at end of period	1,354	(14,657)	(13,303)	1,058	(14,044)	(12,986)

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

	Asset 2020 £'000	Liability 2020 £'000	Net 2020 £'000	Asset 2019 £'000	Liability 2019 £'000	Net 2019 £'000
Derivative financial instruments	1,164	-	1,164	1,042	-	1,042
Corporate interest restriction carried forward	174	-	174	-	-	-
Accelerated capital allowances	-	(2,552)	(2,552)	-	(2,454)	(2,454)
Revaluation of freehold pubs	-	(7,209)	(7,209)	-	(7,420)	(7,420)
Rolled over capital gains	-	(4,598)	(4,598)	-	(4,034)	(4,034)
Others	16	(298)	(282)	16	(136)	(120)
As at end of period	1,354	(14,657)	(13,303)	1,058	(14,044)	(12,986)

24 CALLED-UP SHARE CAPITAL

	2020 £'000	2019 £'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.

25 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 unrealised gains generated from the revaluations of freehold land and buildings upon transition to FRS102 on 28 June 2014 and any transfers between Property, Plant and Equipment, and investment property.

Own shares

The own shares held reserve arises in connection with the employee share schemes. The Company held 113,744 ordinary shares at 27 June 2020 with a market value of £941,000 (2019: 130,968 and £1,323,000). During the year, prior to the COVID-19 outbreak, the Company purchased 25,300 ordinary shares at an average cost of £11.45 per share (2019: 57,000 shares at an average cost of £10.45).

Of the own shares held 59,191 are allocated to employees under the Share Incentive Plan but have not yet vested.

A further 75,537 shares, held by the Company, have vested unconditionally and as such are no longer treated as own shares held (2019: 53,437 and 75,168 respectively). Of these shares 52,602 can be distributed to employees free of tax (2019: 51,497).

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.

26 NOTES TO THE CASH FLOW STATEMENT

a Reconciliation of operating (loss)/profit to cash generated by operations

	52 weeks ended 27 June 2020			52 weeks ended 29 June 2019		
	Underlying results £'000	Excluded from underlying results £'000	Total £'000	Underlying results £'000	Excluded from underlying results £'000	Total £'000
Operating (loss)/profit	944	(9,082)	(8,138)	15,258	(168)	15,090
Adjustment for:						
Depreciation and amortisation	8,493	-	8,493	8,298	-	8,298
Impairment of tangible fixed assets	-	7,498	7,498	-	652	652
Impairment of intangible fixed assets	-	140	140	-	-	-
Reversal of impairment of tangible fixed assets	-	-	-	-	(484)	(484)
Share-based payments expense	318	-	318	396	-	396
Increase in stocks	(1,119)	-	(1,119)	(254)	-	(254)
Decrease in debtors and prepayments	3,027	-	3,027	1,168	-	1,168
Increase/(decrease) in creditors and accruals	4,106	884	4,990	(938)	-	(938)
Free trade loan discounts	3	-	3	25	-	25
Loss on sale of assets (excluding property)	216	-	216	92	-	92
Interest received	10	-	10	18	-	18
Income tax paid	(185)	-	(185)	(1,566)	-	(1,566)
Net cash inflow/(outflow) from operating activities	15,813	(£60)	15,253	22,497	-	22,497

NOTES TO THE ACCOUNTS CONTINUED

27 JUNE 2020.

26 NOTES TO THE CASH FLOW STATEMENT CONTINUED

b Reconciliation of movement in cash to movement in net debt

	52 weeks ended 27 June 2020 £'000	52 weeks ended 29 June 2019 £'000
Opening cash and overdraft	(817)	1,625
Closing cash and overdraft	9,861	(817)
Movement in cash in the period	10,678	(2,442)
Cash from increase in bank loans	(13,000)	(59,500)
Cash used to repay bank loans	-	54,500
Movement in loan issue costs	(102)	262
Movement in net debt resulting from cash flows	(2,424)	(7,180)
Net debt at beginning of the period	(81,977)	(74,797)
Net debt at end of the period	(84,401)	(81,977)

c Analysis of net debt

	June 2019 £'000	Cash flow £'000	Reclassification of long-term loans £'000	New loans £'000	Amortisation of issue costs £'000	June 2020 £'000
Cash	116	9,745	-	-	-	9,861
Bank overdraft	(933)	933	-	-	-	-
Cash and cash equivalents	(817)	10,678	-	-	-	9,861
Debt due in less than one year	-	-	(94,262)	-	-	(94,262)
Debt due after more than one year	(81,160)	-	94,262	(13,000)	(102)	-
Total	(81,977)	10,678	-	(13,000)	(102)	(84,401)

27. CAPITAL COMMITMENTS - GROUP AND COMPANY

Contracts for capital expenditure not provided for in the accounts amounted to £1,300,000 (2019: £877,000).

28 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 2020 £'000	Plant and machinery 2020 £'000	Land and buildings 2019 £'000	Plant and machinery 2019 £'000
Within one year	3,916	308	3,873	338
Between one and five years	15,250	315	14,879	369
After five years	48,988	-	50,515	-
	68,154	623	69,267	707

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 2020 £'000	Other property, plant and equipment 2020 £'000	Investment properties 2019 £'000	Other property, plant and equipment 2019 £'000
Within one year	257	989	279	1,283
Between one and five years	455	1,544	511	2,477
After five years	200	-	1	-
	912	2,533	791	3,760

29 DIRECTORS' INTERESTS

The interests of the Directors in the Company's shares and options over the Company's ordinary shares held by Directors at 27 June 2020 and 29 June 2019 are included in the tables and footnotes on pages 48 and 49.

30 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.

Awards made under the Employee Share Incentive Plan (SIP) and Primary options granted under the Restricted Share Schemes are exercisable three years after they are awarded subject, normally, to the grantee remaining in the Company's employment and have no other vesting conditions. As such the charge to be recognised is spread over the 36 month vesting period.

Secondary options granted under the restricted share schemes are conditional both upon the grantee remaining in employment for three years post the option award date and also on the Group achieving future specified performance targets. The share based payment charge is spread over the three year vesting period with and the share based payment charge is adjusted each year in line with the assessment of likely vesting % with reference to the Group's current projected future performance.

In the light of the Covid-19 impact on future project performance it is not anticipated that any secondary options granted which have not yet vested will do so. As such, no charge has been recognised in respect of these options for the current year and a credit of £21,000 has been recognised in respect of prior year charges.

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 2019 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 2020 or 2019.

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

	2020 Number	2019 Number
Outstanding shares at start of year	128,605	126,095
Granted during the year	23,540	25,205
Forfeited during the year	(2,674)	(3,494)
Distributed during the year	(14,743)	(19,201)
Outstanding shares at end of year	134,728	128,605
Distributable at end of year	75,537	75,168

NOTES TO THE ACCOUNTS CONTINUED

27 JUNE 2020

30 SHARE-BASED PAYMENT CONTINUED

a The Shepherd Neame Employee Share Incentive Plan continued

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 £10.19 (2019: £10.49).

The weighted average fair value of the shares granted in November 2019 was £11.55 (November 2018: £10.80). The fair value, taking into account the terms and conditions upon which the shares were granted, equates to the market price at the date of grant.

The expense recognised for share-based payments made under SIP in respect of employee services during the year to 27 June 2020 was £235,000 (2019: £224,000).

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 27 June 2020 had a remaining contractual life of 2.6 years.

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

	2020 Number	2020 Weighted average exercise price	2019 Number	2019 Weighted average exercise price
Outstanding at start of year	2,141	£0.83	16,006	£0.75
Exercised	-	-	(13,865)	£0.73
Forfeited during the year	-	-	-	-
Outstanding options at end of year	2,141	£0.83	2,141	£0.83
Exercisable at end of year	2,141	£0.83	2,141	£0.83

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 27 June 2020 (2019: nil).

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 25,300 shares at an average cost of £11.45 (2019: 57,000 shares at an average cost of £10.45). These shares were purchased prior to Covid-19 based on previous projections of the requirement for the SIP as well as the Restricted Share Scheme requirements.

The contractual life of each option granted is ten years and the options outstanding at 27 June 2020 had a remaining contractual life of 8.2 years.

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

	2020 Number	2020 Weighted average exercise price	2019 Number	2019 Weighted average exercise price
Outstanding at start of year	167,999	£0.50	130,683	£0.50
Granted during the year	53,657	£0.50	66,014	£0.50
Exercised	(27,420)	£0.50	(19,410)	£0.50
Forfeited during the year	(10,819)	£0.50	(9,288)	£0.50
Outstanding options at end of year	183,417	£0.50	167,999	£0.50
Exercisable at end of year	7,864	£0.50	11,098	£0.50

The weighted average fair value of the options granted during the year was £8.98 (2019: £8.02). 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 27 June 2020 and 29 June 2019:

	2020	2019
Expected share price volatility	13%	12%
Risk-free interest rate	0.48%	0.80%
Dividend yield	2.60%	2.78%
Expected life of option (years)	3	3
Weighted average share price	£11.55	£10.50

A charge of £83,000 was recognised for share-based payments made under the Shepherd Neame 2015 Restricted Share Scheme in respect of employee service during the year to 27 June 2020 (2019: £172,000).

NOTES TO THE ACCOUNTS CONTINUED

27 JUNE 2020

31 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 £1,048,000 (2019: £969,000). Contributions of £148,000 (2019: £174,000) were payable to the schemes at the year end. One of the executive Directors (2019: one) is a contributing member of one of the Company's defined contribution schemes. The highest paid Director and two other executive Directors are no longer contributing members of this scheme although they do have entitlement to deferred benefits.

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

32 RELATED PARTY TRANSACTIONS

The key management personnel of the Group are considered to be the Executive Directors, the total remuneration for whom was £1,486,000 for the year (2019: £1,662,000) being remuneration of £1,313,000 (2019: £1,469,000) and share-based payment expenses of £173,000 (2019: £193,000) as disclosed in the Remuneration Report on pages 45 - 49. The Directors are granted discounts on purchases from the Company, in line with the discount given to all other staff.

No advances were paid to Directors in either the current or the prior year.

Jonathan Neame, Chief Executive of Shepherd Neame Limited, was Chairman of Visit Kent until March 2020. During the year ended 27 June 2020 fees and sponsorship activity paid to Visit Kent amounted to £10,000 including VAT (2019: £12,000). There was no balance owed to Visit Kent Limited at either 27 June 2020 or 29 June 2019.

George Barnes is an executive director of Shepherd Neame Limited. Mr A J A Barnes, a close member of George Barnes' family, was up until 31 December 2019 a partner of Clarke Barnes Solicitors LLP and since 1 January 2020 has been a partner at Barnes Solicitors LLP, which both provided legal services during the year to 27 June 2020 at a cost of £13,000 and £39,000 respectively, including VAT and disbursements to third parties (2019: £33,000 and nil). No balance was owed to either partnership by Shepherd Neame Limited as at 27 June 2020 (2019: 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 (2019: nil) but made sales to the value of £115,000 (2019: £212,000) to Davy and Company Limited and its associated companies. At the year end, £1,000 was owed by Shepherd Neame Limited to the Davy Group of companies (2019: nil) and no balance was owed to the Group by the Davy Group of companies (2019: £14,000, including VAT).

All the transactions referred to above were made in the ordinary course of business and outstanding balances were not overdue. There is no overall controlling party of Shepherd Neame Limited.

33 POST BALANCE SHEET EVENTS

Since the year end, the Group's banking lenders Lloyds Banking plc and Santander UK plc agreed to increase the Group's overall debt facilities utilising the UK Government's CLBILS. The banks will provide the Group with a £25m revolving credit facility of which £15m is committed and the further £10m available on request, which will mature on 1 July 2022. The other facilities remain unchanged.

Following the Government's announcement on 31 October requiring the closure of all pubs for a minimum of four weeks, the Directors have considered the impact on Going Concern which is as disclosed in note 1a of the notes to the accounts on page 61.

FINANCIAL CALENDAR AND COMPANY ADVISORS

FINANCIAL CALENDAR

2020

December Annual General Meeting

2021

March Announcement of interim results

September Preliminary results announcement

October Annual General Meeting

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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.	
Average income per tenanted pub	Calculated by dividing total tenanted pub income by the average number of tenanted pubs trading in a financial period.	
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 both 52 week periods.	

Measure	Definition	Location of reconciliation to GAAP measure
Net debt	Net debt comprises cash, bank overdrafts, bank and other loans less unamortised loan fees.	Note 26
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 Review
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.	

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 inclusive of VAT 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 2020 £'000	52 weeks Group 2019 £'000	53 weeks Group 2018 £'000	52 weeks Group 2017 £'000	52 weeks Company 2016 £'000
Profit and loss					
Turnover	123,619	145,801	156,567	156,198	139,890
Underlying operating profit	944	15,258	16,064	15,259	14,235
Operating items excluded from underlying results	(9,082)	(168)	(2,381)	(469)	(495)
Net underlying finance costs	(3,857)	(3,901)	(4,295)	(4,094)	(3,898)
Net non-underlying finance costs	(150)	(10,772)	-	-	-
Profit on disposal of property	(6)	2,848	1,908	588	4,235
Investment property fair value movements	50	206	823	496	282
(Loss)/profit on ordinary activities before taxation	(12,101)	3,471	12,119	11,780	14,359
Taxation	351	(882)	(2,104)	(1,568)	(1,940)
(Loss)/earnings available to shareholders	(11,750)	2,589	10,015	10,212	12,419
Assets employed					
Fixed assets	309,925	315,498	308,733	306,599	280,205
Current assets	29,413	21,230	25,494	31,020	29,193
Current liabilities	(122,108)	(24,029)	(24,614)	(31,145)	(27,430)
Non-current liabilities	(24,984)	(104,602)	(108,561)	(115,363)	(98,091)
Net assets	192,246	208,097	201,052	191,111	183,877
Per 50p ordinary share	2020	2019	2018	2017	2016
Basic (loss)/earnings	(79.8)p	17.6p	68.1p	69.1p	84.0p
Underlying earnings available to shareholders	(17.8)p	60.9p	63.0p	59.1p	54.7p
Dividends (interim and proposed final)	-	30.08p	29.20p	28.35p	27.50p
Net assets	£12.94	£14.01	£13.53	£12.86	£12.38
Dividend cover	-	0.6	2.3	2.4	3.1
Underlying dividend cover	-	2.0	2.2	2.1	2.0

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