SHEPHERD NEAME LIMITED ANNUAL REPORT

2018

Co. 138256

SHEPHERD NEAME

AN INDEPENDENT FAMILY BUSINESS
BRITAIN'S OLDEST BREWER

OUR VISION
To be a Great British Brewer and run the best pubs.

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

The Spitfire,
Kings Hill

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FINANCIAL HIGHLIGHTS

	2018	2017
Turnover	2018[1] £156.6M	2017[2] £156.2M
Underlying operating profit[3]	2018[1] £16.1M	2017[2] £15.3M
Statutory profit before tax	2018[1] £12.1M	2017[2] £11.8M
Underlying basic earnings per share[4]	2018[1] 63.0P	2017[2] 59.1P
Dividend per share	2018 29.20P	2017 28.35P
Net assets per share[5]	2018 £13.53	2017 £12.86

1 2018 was a 53 week year to 30 June 2018.
2 2017 was a 52 week year to 24 June 2017.
3 Profit before net finance costs, any profit or loss on the disposal of properties, investment property fair value movements and operating charges which are either material or infrequent in nature and do not relate to the underlying performance (see note 7).
4 Underlying profit less attributable taxation divided by the weighted average number of ordinary shares in issue during the period. The number of shares in issue excludes those held by the Company and not allocated to employees under the Share Incentive Plan, which are treated as cancelled.
5 Net assets at the balance sheet date divided by the number of shares in issue being 14,857,500 50p shares.

OUR STRATEGY

We aim to drive shareholder returns from four key strategic objectives

TO DRIVE FOOTFALL TO **OUR PUBS**

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

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PROGRESS

TO DRIVE FOOTFALL TO OUR PUBS

- Opened a new outlet, Pier Five Bar and Kitchen in Chatham Maritime
- Acquired two London pubs, the Samuel Pepys and the Savoy Tap
- Disposed of eight pubs that no longer fit our long-term strategy
- Three transformational investments in the managed estate at the Market House, Maidstone, the Spitfire, Kings Hill, West Malling and the Boathouse, Yalding

Performance against our Key Performance Indicators (KPIs)[1]

- Like-for-like ("LFL") sales in managed pubs are up +1.3% (2017: +8.1%)
- LFL EBITDAR[2] in our tenanted pubs[3] was up +2.1% (2017: +1.6%)
- Average EBITDAR per managed pub down -1.8% (2017: +1.8%)
- Average EBITDAR per tenanted pub up +5.8% (2017: +5.6%)

TO DEVELOP OUR OFFER TO ENHANCE THE CUSTOMER EXPERIENCE

- Invested significantly to upgrade our pubs bars
- Introduced craft beers and ciders, and premium international beers to sit alongside our core range
- Invested in technology to improve speed of service and pre-booking for our customers
- Expanded our range of healthy, lighter, vegan and low calorie options

Performance against our KPIs[1]

- Drinks LFL sales up +2.3% (2017: +8.0%)
- Food LFL sales down -1.3% (2017: +7.7%)
- Accommodation LFL sales up +2.9% (2017: +10.1%)
- Occupancy is 79% (2017: 79%)
- RevPAR[4] is £67 (2017: £66)

TO ATTRACT, RETAIN AND DEVELOP THE BEST PEOPLE

- Launched a programme for all employees called the 'Sheps Way', that sets out how we recruit, train and develop our people and articulates the Company's behaviours and values
- Introduced a new bonus and incentive structure in our managed pubs, aligned to deliver great service to our customers
- We continue to provide excellent support for our tenanted licensees through menu and drinks list development as well as comprehensive training

TO CREATE DEMAND AND BUILD AWARENESS FOR OUR BRANDS

- New brand identity signage rolled out in more than a quarter of the total pub estate
- Continued development of our portfolio with the launch of Five Grain Premium Lager and Bear Island East Coast Pale Ale
- Consolidated our customer databases to improve communication and enhance customer engagement

Performance against our KPIs[1]

- Total own beer volumes were down -10.6% (2017: +3.9%) following exit from Asahi contract
- Shepherd Neame own brand beer and cider volume was down -0.9% (2017: +1.4%)

1 All KPI information is on a 52 vs 52 week basis
2 Like-for-like earnings before interest, tax, depreciation, amortisation and rent payable
3 Comprises pubs operated by third parties under tenancy or tied lease agreements
4 Revenue Per Available Room

AT A GLANCE

We have made an encouraging start with **Five Grain Premium Lager**, which is pictured here in 330ml can.

Bear Island East Coast Pale Ale was a popular feature of this year's Craft Beer Rising festival, anticipating the growing trend for fuller flavoured beers.

We have carried out transformational investments at the **Market House, Maidstone**, the **Boathouse, Yalding** and the **Spitfire, Kings Hill**. All three opened in the final quarter of the year and the performance and customer reaction has been excellent.

Our two new acquisitions, the **Savoy Tap**, just off the Strand and the **Samuel Pepys**, our first riverside pub in London, have strengthened our presence in the capital and provide an excellent shop window for our beers.

Total number of pubs

321 PUBS

Tenanted pubs

242 PUBS

Managed pubs

68 PUBS

Commercial free of tie

11 PUBS

Total investment in existing pub estate[2]

£13.0M

New pubs acquired

2 PUBS

Pubs sold

8 PUBS

Freehold proportion of estate

86%

LFL managed drinks sales[1]

+2.3%

LFL managed accommodation sales

+2.9%

1 All KPI information is on a 52 vs 52 week basis   2 Comprises capital expenditure of £10.2m and repairs and decorations of £2.8m

CHAIRMAN'S STATEMENT

> "Shepherd Neame is a strong business with an enviable track record of delivering consistent growth."
>
> **MILES TEMPLEMAN**
> Chairman

I am delighted to report another successful period for the 53 weeks to June 30 2018 (2018 Financial Year).

Shepherd Neame is a strong business with an enviable track record of delivering consistent growth and this year has been no exception. We have made further good progress against our strategic objectives, and some great individual investments in our pubs. During the year we have restructured our brewing and brands business to focus on developing our own brand portfolio following the expiry of the Asahi contract. We have incurred one-off transitional costs of £1.8m.

A key strength of the company is the balance between the different financial and market characteristics of each division of the business which gives resilience in the face of more challenging market conditions.

The business has continued to absorb significant cost inflation from business rates and the National Living Wage and although revenue and margins have been under pressure in our managed pubs, our high quality tenanted pubs have performed well and the brewing and brands division has delivered a very satisfactory performance.

Our aim is to build an estate of well invested pubs and to create a portfolio of great beer brands. We operate wonderful pubs in unique locations and we invest to build their character and individuality, to develop their offer and enhance the overall customer experience. At our brewery we brew a wide portfolio of classic British ales and modern keg beers and lagers. We strive to develop our product quality, innovate with new tastes and flavours and invest to raise awareness of our brands. In all parts of the business a constant focus is to modernise our working practices and internal processes to drive productivity.

We have delivered sustained dividend and profit performance over a long period. Our strong cash flow and the recycling of non-core assets enable us to strengthen the balance sheet through selective pub acquisitions in our core trading areas of Kent, London and the South East.

We look to deliver future growth by continuing our successful strategy. A key factor in our thinking is the anticipated economic growth within our Kent heartland over the next 15 years. There is major house building planned in all major conurbations, with substantial development in and around Ashford and Ebbsfleet. Further transport and infrastructure projects are programmed including schemes such as the Lower Thames Crossing and further upgrades to the HS1 rail link. The population of Kent is forecast to grow by more than 20% by 2031. We aim to build the business to take advantage of these trends by ensuring we own and operate the best pubs in the key locations and develop them to their full potential for food, drinks and accommodation.

Financial Results

These results are for the 53 weeks ended 30 June 2018. All commentary is for the statutory periods unless indicated.

Total turnover for the 53 week period grew by +0.2% to £156.6m (2017: £156.2m). The 53rd week contributed broadly £3.0m of turnover. Turnover in our managed pubs was the key driver for growth, offset by an anticipated decline in brewing and brands as we sold less beer than in the prior year following the expiry of the Asahi contract in January 2018.

Underlying operating profit grew by +5.3% to £16.1m (2017: £15.3m). The 53rd week contributed broadly £0.5m of underlying operating profit. Statutory operating profit fell by -7.5% as a result of one-off charges in respect of restructuring costs and an impairment charge. Underlying profit before tax[1] grew by +5.4% to £11.8m (2017: £11.2m). Statutory profit before tax grew by +2.9% to £12.1m (2017: £11.8m).

Cash flow was strong and underlying EBITDA[2] grew by +5.5% to £24.6m (2017: £23.4m). Margins in the business as a whole increased, as the mix of business changed, with underlying operating profit margin at 10.3% (2017: 9.8%) and EBITDA margin at 15.7% (2017: 15.0%). Underlying basic earnings per share are up +6.6% to 63.0p (2017: 59.1p) and basic earnings per share are down slightly at 68.1p (2017: 69.1p) due to a higher tax charge in 2018.

1 Profit before any profit or loss on the disposal of properties, investment property fair value movements and exceptional items.
2 Underlying profit before tax pre net finance costs, depreciation, amortisation, profit or loss on sale of fixed assets excluding property and free trade loan discounts.

Dividend
The Board is proposing a final dividend of 23.45p (2017: 22.73p) making the total dividend for the year 29.20p (2017: 28.35p), an increase of +3.0%. This represents underlying dividend cover of 2.2 times (2017: 2.1 times). In line with our policy we will continue to target underlying dividend cover at or above 2 times. The final dividend will be paid on 19 October 2018 to shareholders on the register at the close of business on 5 October 2018.

Capital and investment
Capital expenditure was £14.7m (2017: £38.0m). This is below the prior year when we acquired 14 new pubs, with two new pubs purchased in 2018.

We continue to actively manage our property assets and have realised £6.0m (2017: £5.9m) from property disposals in the period.

As a result of good cash management and lower capital expenditure, net debt has reduced to £74.8m at June 2018 from £78.1m in June 2017 and the leverage ratio of net debt to EBITDA has reduced to 3.0 times (2017: 3.3 times). We have no outstanding final salary pension liabilities.

Political and economic environment
The 2016 referendum decision to leave the EU has created uncertainty for business. It is still far from clear what future trading relationship we will have with the EU. However, it is clear that attracting and retaining the right talent will be a critical success factor for all businesses going forward. We are reviewing our current practices to ensure we are the employer of choice in our region. Thankfully, we are building on a good base as a long established and well respected business with a strong reputation as a good employer.

Summary
The Board is focussed on investing for the long term benefit of shareholders with the vision of being a Great British Brewer and running the best pubs in our region. Recent years have seen great strides in developing the business and the quality of our brand and pub portfolio has improved materially.

The three operating divisions - brewing and brands, managed pubs and tenanted pubs - have different characteristics. The tenanted pubs division is the largest division by contribution, with many excellent pubs in the estate driving relatively low variability of earnings. The managed pub division, which includes some superb coastal sites, is more exposed to seasonal factors and has incurred a significant level of cost inflation, but makes an excellent contribution to overall results. The performance this year in the brewing and brands business has been very satisfactory given the transition underway and demonstrates that the division was able to retain its highly desirable cash-generating characteristics despite lower turnover.

The combination of divisions results in a business as a whole which remains strongly cash generative and whose balance between activities helps to ensure sustainability for the long term.

The coming year has more political and economic uncertainty than most of us can remember. But, whatever the short term impact, we believe that we are well positioned to take advantage of opportunities that arise in our local region and in the wider industry.

Miles Templeman
Chairman

OUR STRATEGY

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

TO DRIVE FOOTFALL TO OUR PUBS

The newly refurbished
Spitfire, Kings Hill

Design innovation
The **Crown and Cushion, Minley,** which was crowned the Shepherd Neame Pub of the Year in 2018.

Raising standards
Following the launch of the new brand identity in the prior year, we have completed signage schemes in more than a quarter of the total pub estate.

Stylish interiors
Great pub design plays a hugely important part in creating a premium experience and we have excellent in-house design skills.

CHIEF EXECUTIVE'S REVIEW

"Good progress in all areas of the business despite more challenging market conditions."

JONATHAN NEAME
Chief Executive

I am pleased to announce a strong set of results for the period, with further good progress in all areas of the business, despite more challenging market conditions.

After a period of record investment in the prior year, the 2018 financial year was going to be a period of consolidation of the recent acquisitions. Further, we had to deal with the challenge of repositioning the brewing and brands business to focus on our own beers after the expiry of the Asahi contract.

A key trend in the hospitality sector in the 2018 financial year has been the slowdown in food sales offset by a stronger performance for drinks-led businesses. Shepherd Neame runs pubs, not restaurants. Eating out in pubs provides a different experience from that in a casual dining restaurant. The resilience of our pubs comes from the differentiation in our offer, the quality of our service, the provenance of our menus and the character, heritage and authenticity of our outlets, thereby giving a unique pub experience.

A further significant factor in the 2018 financial year has been the less favourable weather trends compared to the prior year, with a particularly cold spring in 2018, when trade was materially below normal trading levels. A number of our key coastal sites were affected by this. But as soon as the weather improved these same sites performed strongly.

The fact that the company has continued to deliver a good profit outturn for the period in these conditions is testimony to the premium quality of our business and the balance of the revenue streams.

We have achieved this performance by pursuing a consistent strategy over a long period based around four key objectives:

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

Throughout the last few years we have invested in our head office team to ensure we have the right skills to exploit the opportunities in the market. We have a talented team who are passionate about the business and committed to driving future success. During this period we have strengthened the senior team with the appointment of Joanna Richardson as Head of Marketing, Brands and Communications and Michael Unsworth as Head of Production.

Tenanted and Managed Pub Operations

Overview

At the year end we operated 321 pubs and hotels (2017: 327) of which 276, 86% of our outlets, are freehold (2017: 285). Of our total pubs, 68 (2017: 66) were managed at the year end and 242 (2017: 253) were tenanted or leased and 11 (2017: 8) were operated under commercial free of tie leases. Approximately two thirds of our total pubs are in Kent, 35 in Greater London and the rest in Essex, Sussex, Surrey, Berkshire, Hampshire and Middlesex. We are looking to acquire pubs throughout this core territory with gradual geographical expansion as appropriate.

We seek sites with unique character in landmark or high footfall locations and then invest in them to create a premium and differentiated customer experience. We aim to own and operate the stand-out pubs in each community we serve. In general, we look to grow through selective single site acquisitions but small pub groups are attractive to us if the right opportunity arises.

During the last five years, we have acquired 22 pubs and disposed of 51. These acquisitions and disposals have transformed the profile of our pub estate, with average EBITDAR per managed pub increasing by +21.0% in five years and average EBITDAR per tenanted pub growing by +34.5%.

In the 2018 financial year, we have opened a new outlet in Chatham Maritime, Pier Five Bar and Kitchen. This is a new waterside destination in a modern bar environment in this fast-developing area of the Medway Towns. The bar offers a premium range of craft beers, craft spirits and cocktails alongside great food and artisan coffee. This has a different trading style from our traditional offer and we are encouraged by its performance since opening.

We also acquired two new pubs in London, the Samuel Pepys, our first riverside pub on the Thames opposite the Tate Modern, and the Savoy Tap, in Savoy Place, off the Strand. Both have undergone subsequent refurbishments and the Savoy Tap re-opened in mid-August 2018. These pubs help to strengthen our profile in central London and provide an excellent shop window for our beers.

Since the year end we have acquired the Wheatsheaf in Farnham. This is a premium pub with a strong reputation for food and drinks, centrally located in this affluent town. We are also planning to build a new pub hotel in Castle Hill in the centre of the vast Ebbsfleet Garden City development zone, where approximately 15,000 houses are planned to be built in the next ten years. The site is halfway between the Ebbsfleet International Station and Bluewater Shopping Centre, in a landmark location. We have other potential new build sites in the pipeline in and around the major new developments in our heartland.

All of the above will be operated as managed pubs.

As we strengthen the quality and profile of our pub estate, we continue to dispose of those outlets that no longer fit our strategy. We have realised £6.0m of proceeds (2017: £5.9m) from the sale of eight pubs (2017: 15 pubs) and one (2017: two) unlicensed property.

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

This year we have invested £10.2m (2017: £8.3m) in capital expenditure to improve the look and feel of our tenanted and managed pubs and £2.8m (2017: £2.4m) in repairs and decorations.

In the managed estate, we carried out three transformational investments and are delighted by the results. We invested £0.9m at the Market House (formerly Earls), Maidstone, a further £1.0m at the Spitfire, Kings Hill, West Malling, and a further £1.2m at the Boathouse (formerly the Anchor), Yalding. All three opened in the final quarter of the year and made limited contribution to the overall results, but the performance and customer reaction have been excellent. In each, we have created superb outside space, in particular at the Boathouse, and offer a premium drinks range and a distinctive food offer.

In the tenanted estate, we carried out major developments at the Dover Castle, Teynham, the Early Bird, Maidstone, the Britannia, Dungeness and the Rose and Crown, Elham. We co-invested with our licensees at various sites such as the Bull, Newick.

Following the launch of the new brand identity in the prior year, we have completed new signage schemes in more than a quarter of the total pub estate.

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

We operate a well invested, balanced portfolio of pubs. In our managed business drinks sales represents 56% of the sales mix (2017: 56%), with food sales 34% (2017: 33%) and accommodation 9% (2017: 10%). Within our tenanted estate our pubs are also well positioned across drinks, food and accommodation income streams. There are 294 letting rooms in the managed estate and 220 in the tenanted estate.

We have upgraded several of our bars and introduced new brands of our own and a wider range of premium and keg beers. In several outlets, we have introduced craft beers and ciders and premium international beers to sit alongside our core range. Our own beers have performed well in this context and this wider choice has been well received by our customers. Now that our commitments to licensed partners are reduced, we can be more flexible with new products and innovation going forward.

Our wine offer is responsive to market trends and we work with independent family producers around the world. We have continued to derive benefit from the interest in premium and local spirits and have increased our range significantly in recent times.

Like-for-like drinks sales in the managed estate grew by +2.3%, following a strong period in the prior year (2017: +8.0%).

Trends in the eating out market are becoming more challenging and competition is increasing. Our managed like-for-like food sales declined marginally during the year by -1.3% against strong comparables in the prior year (2017: +7.7%).

The consumer wants well-presented and interesting food with great service in attractive surroundings. To ensure that our offer remains competitive and differentiated, we have launched a number of initiatives in the 2018 financial year in our managed pubs:
- improved presentation of top dishes such as burgers, steaks and Sunday lunch;

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

Colourful, inventive fresh food for a great shared experience

TO DEVELOP OUR OFFER TO ENHANCE THE CUSTOMER EXPERIENCE

Accommodation of character
We refurbished 16 bedrooms including those at the **Conningbrook, Ashford**, as part of our ongoing programme to maintain high standards in our managed pubs.

Award-winning pubs
Many of our pubs continue to excel with the **Sportsman, Seasalter** being named Britain's best gastropub for the third time and the **Compasses, Crundale** making the top 50 gastropubs, as well as earning the title of **Food Pub of the Year** at the Great British Pub Awards.

Premium range
Our offer includes a premium range of craft beers, craft spirits and cocktails alongside great food and artisan coffee.

- expanded range of healthy, lighter, vegan and low calorie options;
- introduced more sharing dishes; and
- using technology to improve speed of service and pre-booking

Our food development team and head chefs work closely with local suppliers such as family butcher, Joseph and Henry, part of J C Rook & Sons Limited, and R J Kingsland & Son Limited sourcing fresh and local produce for our menus. We work with all our suppliers to develop menus and to roll out training and demonstrations to the chef teams. We share best practice and best prices with our tenants.

Our managed like-for-like accommodation sales grew by +2.9% against significant growth in the prior year (2017: +10.1%). During the period we refurbished 16 bedrooms (2017: 37) as part of our ongoing programme to maintain high standards in our managed pubs. Despite a more challenging consumer environment, we maintained occupancy at the high level of the prior year of 79% (2017: 79%), whilst RevPAR grew marginally to £67 (2017: £66).

Managed Pub Performance
Our continuous investment within a consistent strategic framework has again enabled us to perform ahead of the market. The Coffer Peach Business Tracker[1] recorded growth in the market of +0.7% for the 12 months to June 2018.

Total divisional turnover in the managed estate grew by +7.7% to £65.3m (2017: £60.7m). Divisional underlying operating profit was £8.7m (2017: £9.0m). Underlying operating margins in this division were down by -1.5%, -0.5% of which related to the timing of major developments in the year, -0.9% incremental costs of the National Living Wage, apprenticeship levy and higher business rates, -0.3% food inflation and +0.2% mitigating savings.

Same outlet like-for-like sales grew by +1.3% (2017: +8.1%). Average EBITDAR per managed pub was down -1.8% (2017: +1.8%).

Tenanted Pub Performance
Total divisional turnover in tenanted pubs grew by +2.7% to £35.4m (2017: £34.4m) and divisional underlying operating profit grew by +1.9% to £13.2m (2017: £13.0m).

Same outlet like-for-like EBITDAR in tenanted pubs grew by +2.1% (2017: +1.6%) and average EBITDAR per pub grew by +5.8% (2017: +5.6%). We have continued to increase investment in property repairs and capital expenditure meaning underlying operating margin was down -0.3%.

Brewing and Brands
Overview
The 2018 financial year has seen a significant change in our brewing and brands business as we focus our energies into developing our own portfolio. We intend to allocate more of our limited capacity to build own brands and focus on those areas of the market where we have a competitive advantage or a strong position. Simultaneously we have taken action to streamline our sales management structure, to reduce operating costs in the brewery in line with the reduced volume expectations, and to modernise our plant. Specifically we have invested £0.9m in installing a new high speed labeller and upgraded our filler to enhance productivity on the bottling line.

These changes have resulted in considerable upheaval in the business and we have incurred one-off transitional costs of £1.8m.

We completed the final six months period of the Asahi licence in January 2018. We enjoyed overall volume growth in the first half and then, as anticipated, volume reduced in the second half. Asahi represented 28,000 barrels, or 14% of the 2018 brewed volume (2017: 51,000 barrels or 23% of total brewed volume). Our volume will fall again in 2019 as we exit contracts to brew certain third party private label beer in line with our strategy. However we have renewed our partnership with leading US craft brewer Boston Beer Company to give us broader access to their wide and highly successful craft beer portfolio.

We have received good reactions from our customers for the changes made to our portfolio and have expanded distribution for our own brands.

We have enjoyed considerable success with Spitfire Lager, the Lager of Britain, and made an encouraging start with Five Grain Premium Lager and have introduced it in 330ml can.

The Whitstable Bay Collection continues to deliver growth in volume and distribution. Spitfire and Bishops Finger continue to hold their place in the top 10 premium bottled ales.

Orchard View Cider has had an excellent year, particularly with the fine weather over the summer of 2018, and Bear Island East Coast Pale Ale, with its hop-forward character, has got off to a superb start, in exploiting the trends for fuller flavour beers.

As a result of the change in the Brewing and Brands strategy we will focus on our core own brands excluding contract, licence and third party private label. In this year of transition these volumes declined marginally by -0.9%. The UK beer market in the same period grew by +0.4%.

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

In the 2018 financial year we took some important steps to align and consolidate our customer databases to improve communication and enhance customer engagement. We also raised awareness for Whitstable Bay with advertising on the London Underground as part of a Visit Kent campaign and ran a successful promotion to win a beach hut. It was pleasing to note that Whitstable Bay won an award for Best Merchandise at the Beer and Cider Awards 2017.

We intend to increase investment in our brands and pubs marketing and develop our consumer engagement. We also intend to invest in our Visitor Centre to make it a great destination for beer lovers and an outstanding experience when they visit Britain's Oldest Brewer.

Brewing and Brands Performance
Divisional turnover declined by -8.9% to £54.4m (2017: £59.8m) in line with total own beer sales volume down -10.6% to 196,000 barrels (2017: 219,000 barrels). However, divisional underlying operating profit grew by a healthy +46.9% to £2.3m (2017: £1.6m) and divisional underlying EBITDA grew to £4.4m (2017: £3.9m) ahead of the previous

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

guidance of £3.5m, at a margin of 8.2% as a result of production efficiency on a simpler portfolio.

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

We have continued to develop the training and development of our pub staff. We now employ 1,403 managed pub staff (2017: 1,372). Given the historically high level of staff turnover in the hospitality sector, it is important to retain great staff and enhance their skills.

We have personal development plans to support the training and qualifications of employees and we run frequent chef and supplier forums and menu training sessions in our pubs. Most sites have customer service and coffee champions to help develop the front of house team and our head chef mentor programme is working well. We are investing more on air conditioned kitchens to ensure a quality working environment. We have reviewed the pay, incentives and conditions of our managed pub staff and have introduced a new bonus and incentive structure, aligned to deliver a great service to our customers, for managers and chefs in the 2019 financial year.

We continue to provide excellent support for our tenanted licensees through menu and drinks list development as well as comprehensive training. We work closely with our licensees to identify the key areas where we can support their business to help them succeed. We are developing an enhanced regulatory compliance package for our licensees in the coming year.

Our approach to our licensees is one of flexibility, within the framework of a traditional tenancy agreement. We work with them to create a common business plan and then provide the investment and support to help both parties achieve their goals. We adapt the tenure and rent structure to reflect the plan and have modernised our tenancy agreement to reflect this approach.

During the last year, we have launched a programme for all employees called the 'Sheps Way', that sets out how we recruit, train and develop our people and articulates the Company's behaviours and values.

It was wonderful to see the Crown and Cushion, Minley crowned the Shepherd Neame Pub of the Year in 2018. Throughout the business, we take great pleasure in recognising and rewarding the outstanding achievements, at the annual Shepherd Neame Staff Oscars and Annual Licensees Awards.

Investment Property
The Company owns £7.9m of investment property, as revalued June 2018 (2017: £6.8m). We actively manage our non-core property portfolio and have achieved considerable success in the last year in selling several smaller sites for housing development. Our principal asset remains the former farmland at Queen Court, Ospringe. During the year, the company made a planning application for 50 houses on a seven acre site. The planning application was refused but we are in the process of appealing this decision.

Current Trading
The sustained warm weather in July and August has enabled the company to start the new year strongly. Our coastal sites have enjoyed a particularly good summer. The FIFA World Cup, as expected, was good for drinks sales. In the 11 weeks to 15 September 2018, same outlet like-for-like managed sales were up +5.1% (2017: +1.4%). In the 9 weeks to 1 September 2018 like-for-like EBITDAR in the tenanted estate was up +6.2% (2017: +0.6%). In the same period, total own beer volume fell by -27.4% (2017: +3.6%) in line with expectations, but Shepherd Neame own brand beer and cider volumes was up +6.4% (2017: -6.5%).

Summary
The principal objectives this year were to consolidate the prior year acquisitions, deliver three large and complex managed investments and undertake the change in direction in the brewing and brands business.

I am delighted with the way the team has responded to these challenges and the outcome in all three operating divisions has been very satisfactory. The profit performance of the brewing and brands division is particularly pleasing, although we are still in a transition phase.

Whilst we planned for these objectives, and anticipated the cost pressures arising in the sector, we did not expect the tougher trading conditions that prevailed for most of the financial year. As such, it is most encouraging that we were able to deliver a good overall performance.

We have a clear strategy to grow the business and are excited about how we are positioning ourselves to take advantage of the long term economic prospects in our heartland. We are confident that we have great sites in the right locations. As we continually improve our offer, we need to invest in brand and pub marketing and in consumer engagement, to make our pubs the centre of their community life, our beers the go-to brands and the company the employer of choice.

Despite the considerable political and economic uncertainty that will exist throughout 2019, our prospects for sustaining the steady long-term growth we have delivered over many years remain good.

Jonathan Neame
Chief Executive

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.

TO ATTRACT, RETAIN AND DEVELOP THE BEST PEOPLE

Attracting talent
We have strengthened our senior team with the appointment of Joanna Richardson as **Head of Marketing, Brands and Communications** and Michael Unsworth as **Head of Production.**

Inspiring licensees
We work closely with licensees with character and creative flair to support and build their business.

Building loyalty
At our annual pub awards we celebrate longer term success including three generations of the Pemble family who have operated the **Pepperbox, Ulcombe** for over 60 years.

The team at the Market House, Maidstone

OTHER FINANCIAL COMMENTARY

Finance costs
Net finance costs increased to £4.3m (2017: £4.1m) following the impact of the acquisition of Village Green Restaurants Limited in November 2016 which increased finance charges in the first half of the 2018 financial year. Underlying interest cover was 3.7 times (2017: 3.7 times).

Items excluded from underlying results
Total items excluded from underlying results were a net credit of £0.4m (2017: net credit of £0.6m). This year's items comprised four elements:

- One-off operating charges of £1.8m were incurred in the year in relation to restructuring costs following a review of strategy for the brewing and brands division associated with the expiry of the Asahi contract. In the previous financial year exceptional costs of £0.3m were incurred in relation to a food safety and hygiene regulation fine and associated legal costs at the Royal Wells Hotel, Tunbridge Wells;
- The annual impairment review resulted in an impairment charge of £0.6m relating to three properties (2017: £0.2m charge in relation to two properties);
- Property profits of £1.9m (2017: £0.6m) on the sale of eight pubs and one unlicensed property (2017: 15 pubs and two unlicensed properties) were recognised as the business continues to dispose of predominantly small community wet led pubs and unlicensed assets that no longer fit with the Group's long-term strategy; and
- The annual revaluation to fair value of investment properties on the balance sheet resulted in an increase in value of £0.8m (2017: £0.5m). The total value of this asset category sits at £7.9m (2017: £6.8m).

Summary rates of taxation	2018 Profit £'000	Tax £'000	Rate %	2017 Profit £'000	Tax £'000	Rate %
Profit before tax and tax thereon	**12,119**	**2,104**	**17.4**	11,780	1,568	13.3
Operating charges excluded from underlying results	**1,759**	**334**	**-**	270	-	-
Impairment	**622**	**118**	**-**	199	39	-
Profit on disposal of property	**(1,908)**	**102**	**-**	(588)	605	-
Investment property fair value movements	**(823)**	**(156)**	**-**	(496)	(98)	-
Effect of reduction in CT rate on deferred tax provision	**-**	**-**	**-**	-	315	-
Underlying profit before tax and underlying tax thereon	**11,769**	**2,502**	**21.3**	11,165	2,429	21.8

Taxation
The total tax charge was £2.1m (2017: £1.6m), an effective rate of 17.4% (2017: 13.3%) following reduction in deferred tax balances. The average statutory rate of corporation tax in the UK for the period was 19.0% (2017: 19.75%). The underlying tax rate was 21.3% (2017: 21.8%). The net tax charge on items excluded from underlying results was a credit of £0.4m (2017: credit of £0.9m).

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

Earnings per share and dividends
Underlying basic earnings per ordinary share increased by 6.6% to 63.0p (2017: 59.1p) following the increase in underlying operating profits. Basic earnings per ordinary share decreased to 68.1p (2017: 69.1p) due to a higher tax rate than the previous financial year. The tax charge in the previous year had benefited from the enactment of the Finance Act 2017 resulting in deferred tax balances being revalued at 17% which will be effective from 1 April 2020.

Dividend per share paid and proposed in respect of the year increased by 3.0% to 29.20p per ordinary share (2017: 28.35p per ordinary share) to give total dividends of £4.3m (2017: £4.2m). Total dividend cover has fallen to 2.3 times (2017: 2.4 times) due to the higher overall tax rate but underlying dividend cover increased to 2.2 times (2017: 2.1 times).

Cash Flow
The increase in underlying operating profits meant underlying EBITDA increased by +5.5% to £24.6m (2017: £23.4m). Working capital improved by £2.3m (2017: £1.4m) following the greater mix of managed pub sales. Tax cash payments increased to £2.8m following higher profits. As a result of these three factors the net cash inflow from operating activities increased by £0.5m to £22.6m (2017: £22.1m).

The total cash cost of interest and dividends increased by £1.1m to £9.2m (2017: £8.1m). Due to the 2018 financial year being 53 weeks in length five quarterly interest payments were incurred. The 2019 financial year will revert to four quarterly payments. Dividend payments reflect the increase in payment of the final 2017 and interim 2018 dividends.

In order to service the Company's future obligations under employee incentive plans 2,200 shares were purchased (2017: 124,514) at an average market price

Cash flow and net debt

Summary cash flow statement	2018 £'000	2017 £'000
Underlying EBITDA	**24,639**	23,352
Working capital and other operating cash flows	**2,266**	1,427
Tax	**(2,831)**	(2,668)
Operating charges excluded from underlying results	**(1,475)**	(31)
Cash flow from operations	**22,599**	22,080
Dividends paid	**(4,197)**	(4,102)
Interest paid	**(4,970)**	(3,994)
Purchase of own shares and share option proceeds	**(1,326)**	(610)
Issue costs of new loan	**-**	(292)
Disposal of fixed assets	**6,008**	5,876
Internally generated free cash flow	**18,114**	18,958
Core capital expenditure	**(14,015)**	(13,212)
Net loans to customers	**75**	82
Cash flow pre acquisitions and debt repayment	**4,174**	5,828
Acquisition of pubs	**(733)**	(12,456)
Acquisition of subsidiaries	**-**	(12,378)
Cash acquired on acquisition	**-**	827
Repayment of borrowings	**(2,000)**	-
New bank loans raised	**-**	19,000
Net cash inflow for the period	**1,441**	821
Movement in loan issue costs	**(155)**	172
Closing net debt	**(74,797)**	(78,083)

of £11.25 (2017: £13.22). Within the year all the consideration for shares purchased was settled, combined with a further £1.3m of consideration from shares purchased in the 2017 financial year.

Total disposal proceeds of £6.0m (2017: £5.9m) were realised from the sale of eight pubs and one unlicensed property (2017: 15 pubs and two unlicensed properties).

Taking these items together internally generated free cash flow was lower at £18.1m (2017: £19.0m) largely due to the additional quarterly interest payment. A portion of this cash generation has been used to reduce net debt and the remainder has been invested aligned to our long-term strategy as follows:

- Cash spend on core capital expenditure was £14.0m, up from £13.2m in 2017 as we continue to invest to strengthen the pub and brewery asset base. This was driven by the developments at the Market House, Maidstone, the Spitfire, Kings Hill, West Malling and at the Boathouse, Yalding, an increase in tenanted developments and brewery infrastructure projects.
- A further £0.7m was invested in the acquisition of two new leasehold sites in central London, the Samuel Pepys and Savoy Tap. In 2017 £24.8m was invested in the acquisition of eight freehold pubs from Ei Group plc and the purchases of Ultimate Entertainment Services Ltd and Village Green Restaurants Ltd.

Financing and loan facilities

The Company is funded by a £45m 5-year revolving credit facility maturing in 2020 and a £60m 20-year term loan maturing in 2026 together with a £2m overdraft facility which is renewable in December 2018. Amortisation of this term loan starts in 2021 with annual repayments of £1.6m with the balance repayable in December 2026.

The floating element of interest on the 20-year term loan was fixed by swap contracts to give an effective rate of interest of 5.78%. These swap contracts are revalued annually to fair value taking into account current prevailing long-term interest rates. The value of these derivatives at 30 June 2018 was a liability of £17.0m (2017: £21.9m). The policy for managing treasury and financial risk is as set out in note 22.

Balance sheet

There was a £2.1m increase in fixed assets (2017: increase of £26.4m) and a fall in net debt of £3.3m to £74.8m (2017: £78.1m). Balance sheet gearing at the year end was 37% (2017: 41%) and the leverage ratio of net debt to EBITDA at the year end was 3.0 times (2017: 3.3 times).

Shareholders funds at 30 June 2018 were £201.1m (2017: £191.1m) meaning net assets per share showed an increase of +5.2% to £13.53 (2017: £12.86).

2019 Financial Year

The 2019 financial year will be a 52 week period to 29 June 2019 and hence will have one trading week less.

OUR STRATEGY

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

The Savoy Tap, London

Customer engagement
We are strengthening our customer engagement with our new publication **'OAST'**.

Developing our range
This year has seen a significant change in our brewing business as we focus on developing our own brand range.

Building awareness
We raised awareness for **Whitstable Bay** with an advertising campaign on the London Underground. The brand won an award for Best Merchandise at the **Beer and Cider Awards 2017**.

TO CREATE DEMAND AND BUILD AWARENESS FOR OUR BRANDS

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk trend
ECONOMIC AND POLITICAL			
Strength of the Economy and the United Kingdom's exit from the European Union	A fall in consumer confidence and a weakening economy could lead to customers drinking and eating at our pubs and hotels less frequently which in turn could lead to lower profitability.	The Board maintains an updated view of the context of Brexit negotiations and of economic trends in the UK economy and hospitality sector. We respond to these changes by reviewing investment levels in our brands and pubs and through active property management in order to continue to encourage a variety of customers to our products and pubs	↑
The United Kingdom's exit from the European Union could lead to a reduction in the UK's hospitality workforce and a skills shortage	A significant number of EU nationals are key employees within our brewery and within our pubs and are key to us delivering great service to our customers. Any reduction in this workforce may make recruitment more difficult or expensive and may lead to labour shortages and higher costs.	We have looked to improve our development opportunities, working conditions and employee engagement to retain our existing workforce and to ensure Shepherd Neame are the employer of choice in our heartland territory.	↑
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 increasing costs to the business.	We monitor inventory levels carefully to ensure that we have adequate buffer supplies of key supply materials to protect against periods of supply delay. We actively work with our customers and pubs to look to ensure supply through periods of road delay.	↑
REGULATORY			
Regulation and Taxation of the Sale of Alcohol	The drinks industry is tightly regulated and heavily taxed through excise duty. There is a risk that future increases or changes in taxation could affect customer demand for our products and our profitability.	Legislative developments are monitored and we aim to grow income streams from other sources such as non-alcoholic beverages, food and accommodation. We are committed to acting responsibly and promote safe drinking. The company has membership of the BBPA and Directors are members of key industry bodies where regulatory matters are discussed and influenced.	↔
Regulation of Tied pub agreements	The company operates a number of arrangements under the tied pub model. This model continues to attract a level of political scrutiny in the light of the introduction of the new statutory pub code which came into place in 2016. The company is currently not impacted by the statutory code as it owns and operates fewer than 500 tied pubs. If the code were to change and apply to operators of fewer than 500 tied pubs this could lead to higher costs and lower profits.	Regulatory developments are monitored and the Company has membership of the BBPA and Directors are members of key industry bodies where regulatory matters are discussed and influenced. The Company works hard to ensure good relations with tenants, provides flexible agreements for licensees and continues to invest in property repairs.	↔
Health and Safety	Operating a large number of pubs and a brewery manufacturing site increases the complexity of operations and processes. Any non-compliance with health and safety legislation could have serious consequences for our customers, employees and tenants.	The Company has a new Head of Health and Safety and has further invested in an assistant resource in the 2019 financial year. The Head of Health and Safety reports directly to the Executive Board on all health and safety matters across the organisation and carries out all key risk assessments. Health and safety policies are approved and adhered to across all areas of the company and we provide regular training to employees. A panel of employees act as health and safety representatives for their respective areas of the business at the brewery site to ensure risks are identified and procedures are followed.	↔

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. 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 invested in a new Head of Marketing, Brands and Communications in the 2018 financial year 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.	↔
Brewing contracts and third party brewing arrangement	The Company is engaged in various contracts to brew, sell and market brands under licence from third-party brewers and customers. Such contracts 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 beer 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. The Company has specific plans in place to mitigate the impact of exiting such contracts centred around new brand development and cost reduction.	↓
Site Dependency	The Company's operations are managed from its sole brewery site in Faversham. A disaster at this site may seriously disrupt operations and the profitability of the Company.	We have developed a disaster recovery plan to mitigate disruption where all or part of the Faversham site is damaged or cannot operate effectively. We have a maintenance programme and undertake regular site inspections. Our finished product is decentralised and held in a number of warehouse locations through the Kuehne and Nagel Drinks Logistics network.	↔
Water Recovery	The Company operates a water recovery plant to clean waste water from the brewery site. If this plant were to experience a sustained failure it could lead to periods of ceased production and could breach our discharge consent with statutory bodies which could increase costs and lower profitability.	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.	↔
Supply chain failure and reliance on suppliers	We rely on a number of key suppliers to service both the brewery site and our managed pubs. Prolonged disruption to our supply chain could affect the quality and availability of our product. If we were unable to brew, package and distribute our own beers for a long period we could suffer reputational and brand damage, loss of revenue and profitability.	We work with established and reliable suppliers wherever possible and maintain good relationships with them to assist with monitoring their stability and performance. In addition we maintain plans for alternative supply where suppliers may come into distress.	↔
Information technology failure	The Company places significant reliance on information systems to operate the brewery site, head office functions and managed pubs. A prolonged failure of these systems could affect the company's ability to trade and lead to reduced profitability.	The IT function has back-up systems, virus protection, a cyber protection strategy, a business continuity plan, external support agreements for hardware and software and a disaster recovery plan, which aims to ensure that in the event of any problem normal trading would be restored quickly. Where operations use third party hosted systems we work closely with suppliers to ensure business continuity and security are maintained at the highest levels.	↔

Risk management overview

↑ **Risk increasing** ↔ **Risk unchanged** ↓ **Risk decreasing**

This strategic report was approved by the Board of Directors on 25 September 2018 and signed on its behalf by:

Jonathan Neame
Chief Executive

COMMITMENT TO THE COMMUNITY

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

AT THE HEART OF OUR COMMUNITY

Helping raise money
We supported a charity bike ride through Kent led by Olympian **Dame Kelly Holmes**, which called in at the brewery and the **Boathouse, Yalding** for refreshments.

Supporting the arts
Paula the Polar Bear, a life-size puppet visited the brewery and the **Bear Inn, Faversham** as a thank you for our support for her presence at the Turner Contemporary Gallery, Margate.

Promoting local sport
The **Whitstable 10K** was one of the many local sporting events we supported this year.

The Whitstable Oyster Festival

BOARD OF DIRECTORS

MILES TEMPLEMAN (70)
Chairman
Chairman of the Nomination Committee

Appointed to the Board in March 2002 and became Chairman in October 2005. He stepped down as Director General of the Institute of Directors in September 2011 and was formerly Group Marketing Director of Whitbread, Managing Director of the Whitbread Beer Company and a Non-Executive Director of Fairgrove Partners Limited. He is currently a trustee of The Howard Partnership Trust, Chairman of Chop'd Limited and is a Governor of Brighton College.

JONATHAN NEAME DL (54)
Chief Executive
Pension Trustee

Joined the Company in 1991. Was Company Secretary until July 1994 and Tied Trade Director until 1999 when he was appointed Managing Director; he was appointed Chief Executive in 2003. He is a Barrister-at-law and was a Management Consultant with the COBA Group from 1987 to 1991. He 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 is currently Chairman of Visit Kent since 2015 and a Trustee of the Leeds Castle Foundation since 2011. He was appointed Renter Warden of Brewers Company from July 2018. He is a Deputy Lieutenant of Kent and was awarded an Honorary Doctorate from the University of Kent in 2016.

MARK RIDER (42)
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.

HILARY RIVA OBE (61)
Non-Executive Director

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

RICHARD OLDFIELD OBE (62)
Non-Executive Director
Chairman of the Audit Committee

Appointed to the Board in June 2016. He is Chairman of Oldfield Partners LLP, a director of Witan Investment Trust Plc and a trustee of the Royal Marsden Cancer Charity and Clore Duffield Foundation. He was previously Chief Executive of Alta Advisers Limited and Chairman of Oxford University Endowment Management Ltd and of Keystone Investment Trust Plc.

BILL BRETT (53)
Non-Executive Director
Chairman of the Remuneration Committee

Appointed to the Board in September 2013. He is Executive Chairman of Robert Brett & Sons Ltd and a Director and past Chairman of the Mineral Products Association.

GEORGE BARNES (64)
Property & Services Director

Joined the Company in 1978. He is a chartered surveyor and was appointed to the Board in January 2001. Became Property and Services Director with effect from July 2014. He is also a Director of the Institute of Licensing and a Director of the Pub Governing Body.

NIGEL BUNTING (51)
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.

ROBERT NEAME, CBE DL DCL (84)
President
Chairman of the Pension Trustees

Joined the Company in 1956 and was appointed to the Board in 1957. Was appointed Executive Chairman in 1971 and served in this role until October 2005. He retired from the Board in June 2006. He is the Company's first President and retired as Chairman of the trustees of the Shepherd Neame Company Retirement Account in 2018. In July 2008 he received an Honorary Doctorate in Civil Law at the University of Kent and in 2010 he was appointed an Honorary Alderman by Kent County Council in recognition of his service to the County Council and the people of Kent.

ROBIN DUNCAN (62)
Company Secretary

Joined the Company in 1975 and was appointed as Company Secretary in December 2013, in addition to his role as Head of Human Resources. He has held several management positions within the Company and is a Fellow of the Chartered Institute of Personnel and Development and a Member of the Institute of Brewing and Distilling.

CORPORATE GOVERNANCE

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

As a NEX company, Shepherd Neame Limited is not required to comply with all aspects of the UK Corporate Governance Code. However, the Board is committed to maintaining the highest standards within the Group.

The Board

The Board currently comprises the Non-Executive Chairman, the Chief Executive, three Non-Executive and three Executive Directors. One Executive Director retired from the Board in September 2017. The biographical details on pages 26 and 27 show the broad range of experience and skills the Directors bring to the Board.

Each Director is subject to re-election at the third Annual General Meeting after the meeting at which he or she was previously elected or re-elected. Non-Executive Directors serving a period beyond nine years are subject to annual re-election. All newly appointed Directors stand for election at the Annual General Meeting following their appointment.

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

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

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

Committees of the Board

Executive

The Executive Committee of the Board comprises the Executive Directors and is chaired by the Chief Executive. It meets monthly to review operating performance and has delegated authority from the Board to deal with operational matters such as the approval of minor capital projects and refurbishments, the agreement and approval of minor contracts with third parties and employee appointments.

Nomination

The Nomination Committee is chaired by Miles Templeman and comprises the Non-Executive Directors. The Committee met four 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 Group's succession plans for Board members, and determining what skills, knowledge and experience will be necessary. Other matters considered during the year included the re-election of directors.

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

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

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

Disclosure

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

Audit

The Audit Committee is chaired by Richard Oldfield. It comprises the Non-Executive Directors. The Executive Directors and external auditor attend its meetings by invitation. The Committee has defined terms of reference, reviews the audit appointment periodically, discusses the audit plan with the auditor

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Disclosure Committee
Number of meetings	**10**	**1**	**4**	**4**	**2**
Executive Directors					
G H A Barnes	9	*	-	-	-
N J Bunting	10	*	-	-	-
G R Craig[1]	2	*	-	-	-
J B Neame	10	*	*	*	2
M J Rider	10	*	-	-	1
Non-Executive Directors					
W J Brett	10	1	3	3	-
R J Oldfield	8	1	4	4	*
H S Riva	9	1	4	4	-
M H Templeman	9	1	4	4	1

1 G R Craig resigned from the Board on 22 September 2017.

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

and agrees the scope of work, and also recommends approval of the financial statements to the Board. It is responsible for reviewing internal financial controls and risk management systems. The Committee had one meeting during the year which the Chief Executive and Finance and IT Director also attended.

The Audit Committee receives reports from the Finance and IT Director and external auditor on the key accounting issues and areas of significant judgement. The key matter for this financial year was the results of the annual impairment exercise. The Chairman of the Committee is in regular contact with the audit partner to discuss matters relevant to the Group. The financial statements and interim results were reviewed in detail prior to their submission to the Board.

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

The auditor provides taxation advisory services in addition to audit services and from time to time may provide non-audit services to the Group. In relation to 2018 Deloitte provided audit services in respect of the Group accounts of £114,000 and tax services of £22,000.

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

Remuneration
The activities of the Remuneration Committee are explained fully in the Remuneration Report on pages 30 to 34.

Internal control
The Board acknowledges its ultimate responsibility for the system of internal control within the Group and for its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has carried out an assessment of the key operational and financial risks for the Group, the control exercised at Board level, the controls relied upon by the Board and the exceptions for consideration by the Board. This review is updated on a regular basis.

The responsibility for the implementation and day-to-day operation of the systems of internal control within the business is delegated to the Chief Executive and Executive Directors and through them to members of management and staff. Key features of the system of internal control include a detailed review of performance against budgets and forecasts which are subject to scrutiny and approval, reports to the Board from each operating area, a requirement for authorisation of capital expenditure following formal investment appraisals and a close involvement of the Executive Directors in the operation of the business.

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

Investor relations
The Board believes in an open and regular dialogue with its shareholders. Information is provided to shareholders in the interim and annual financial statements. The Chairman, Chief Executive and Finance and IT Director make an annual presentation of the Group's results to professional investors and analysts. This presentation is simultaneously posted on the Company's website. The Board offers to hold individual briefings with its major shareholders and twice a year meets with the Family Council, which was established in 2014 to improve communications with major family shareholders, to make presentations on the Company's performance. The Chairman and Chief Executive discuss governance and strategy with major shareholders and the Board receives updates on these meetings which helps develop the Non-Executive Directors' understanding of the views of major shareholders. The Chairman and Chief Executive update them on the Group's performance and progress.

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

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

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

Employees and pensioners
The health and wellbeing of our employees are paramount. We strive to improve their safety at work by undertaking regular risk assessments and training. We believe in open and transparent communication with our employees and hold regular briefings on relevant matters such as the performance of the business, forthcoming events, initiatives and targets.

We encourage employees to participate in activities beyond their daily jobs and to contribute to the Group's community involvement. We are supportive of their participation in local government, and in other voluntary services and we support various sporting and social activities for employees. We place an emphasis on longevity of service and loyalty and reward it.

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

REMUNERATION REPORT

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

The Remuneration Committee is chaired by Bill Brett. It comprises the Non-Executive Directors. The Chief Executive attends the meetings by invitation. The work of the Committee is set out in its terms of reference which are available on the Company's website. It meets regularly and determines on behalf of the Board the remuneration package of the Executive Directors.

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

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

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

In coming to these decisions the Remuneration Committee considers the overall performance of the business and of the individual Directors and Senior Managers and the performance of our national and regional competitors when appropriate. External consultants are used periodically to help with these decisions. In 2017 the Remuneration Committee engaged the services of Aon Hewitt to support a review of the Company's Executive remuneration arrangements, considering best practice, competitiveness in the market and the alignment between the executive remuneration structure and business strategy.

The report produced by Aon Hewitt set out key design alternatives for each element of remuneration, and detailed design recommendations. Following consideration of these recommendations, the Remuneration Committee have implemented the changes set out below:

PERFORMANCE RELATED REMUNERATION	PREVIOUS BASIS	NEW BASIS
Cash Bonus	Directors could earn bonus up to 20% of salary based on a series of financial and non-financial targets. These targets were set at the start of the financial year and performance evaluated after the financial year is complete. Bonuses paid in September.	Directors can earn bonus up to 30% of salary based on a series of financial and non-financial targets. These targets are set at the start of the financial year and performance evaluated after the financial year is complete. Bonuses to be paid in September.
Primary Share Options	Primary options over ordinary shares with a value of up to 20% of salary in accordance with the rules of the 2015 Restricted Share Scheme. These options are tied to financial performance targets of the business which are set at the start of the financial year to which the targets relate and evaluated at the end of the financial year. In order for these options to then vest, the Director has to remain in employment three years after the financial year in which the performance of the Group has been evaluated.	Primary options are no longer issued to Executive Directors.
Secondary Share Options	Secondary options over ordinary shares granted annually to a value of up to 25% of salary in accordance with the rules of the 2015 Restricted Share Scheme. Under this scheme options are granted every year but only vest three years after grant by reference to growth in earnings per share and return on capital employed over the three-year period.	Secondary options over ordinary shares granted annually to a value of up to 70% of salary in accordance with the rules of the 2015 Restricted Share Scheme. Under this scheme options are granted every year but only vest three years after grant by reference to performance in underlying earnings per share, net asset value per share, dividend growth and total shareholder return over the three-year period. Directors are then expected not to sell the vested shares for a further two years.
Share Incentive Plan	Executive Directors were 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.	This incentive is unchanged.

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 terms of the 2015 Scheme are similar to the 2005 Scheme except certain terms have been updated to reflect current market practice. Like the 2005 Scheme, the 2015 Scheme aims to make awards which are closely aligned to Company performance and the interests of shareholders over the long term. The 2015 Scheme includes features consistent with prevailing market and best practices, including malus and clawback provisions, which may apply, at the discretion of the Remuneration Committee, to awards made under this scheme.

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

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

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

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

Group and Company	53 weeks ended 30 June 2018 £'000	52 weeks ended 24 June 2017 £'000
All Executive Directors		
Cash bonus	**£165,000**	£123,000
Bonus as a percentage of the 2018 executive salaries (2017: percentage of the 2017 executive salaries)	**17.1%**	12.3%
Share options granted to Executive Directors in the year that will vest in future years:		
Primary options (i)	**-**	10,918
Secondary options (ii)	**46,105**	19,498
Share options vesting in the year:		
Primary options	**10,710**	-
Secondary options	**13,770**	13,357
Percentage of Secondary share options granted, approved to vest (iii)	**72%**	52%
Highest Paid Director		
Cash bonus	**£55,000**	£31,000
Bonus for highest paid Director as a percentage of 2018 salary (2017: percentage of 2017 salary)	**21.4%**	12.3%
Share options granted to the highest paid Director in the year that will vest in future years:		
Primary options (i)	**-**	2,751
Secondary options (ii)	**14,232**	4,913
Share options vesting in the year:		
Primary options	**2,787**	-
Secondary options	**3,583**	13,357
Percentage of Secondary share options granted, approved to vest (iii)	**72%**	52%

(i) Primary options granted in respect of the 2017 financial year (2017: 2016 financial year).

(ii) For the reference period 2017 to 2020. (2017: reference period 2016 to 2019). These options will vest by reference to performance criteria to be measured against the 2020 result (2017: 2019 result).

(iii) Secondary options granted in October 2014 (2017: granted October 2013), performance measured against criteria set at the date of the award based on performance between 2014 to 2017 (2017: 2013 to 2016).

Subject to the approval of the accounts the Remuneration Committee will consider secondary option awards for the reference period to 2018 in October 2018.

Directors' emoluments

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

Group and Company	53 weeks ended 30 June 2018 £'000	52 weeks ended 24 June 2017 £'000
Aggregate amount:		
Salary (i)	**1,172**	1,200
Annual bonus (ii)	**165**	123
Salary in lieu of pension contributions (iii)	**187**	183
Taxable benefits	**109**	109
Cash payment in lieu of share options	**16**	-
Share Incentive Plan (iv)	**15**	18
Directors emoluments	**1,664**	1,633
Primary and secondary share options vesting in the year (v)	**176**	163
Compensation for loss of office	**126**	-
Pension contributions	**25**	30
	1,991	1,826

The number of Directors who:		
Had pension benefits accruing under money purchase schemes	**5**	5
Exercised options over shares in the scheme	**4**	4
Had awards receivable in the form of shares under a long-term incentive plan	**4**	5

Details of Directors' share options are shown on page 33

Highest paid Director:		
Salary (i)	**255**	250
Annual bonus (ii)	**55**	31
Salary in lieu of pension contributions (iii)	**59**	55
Taxable benefits	**36**	34
Share Incentive Plan (iv)	**3**	4
Primary and secondary share options vesting in the year (v)	**46**	43
	454	417

(i) The average salary increase for Executive Directors in July 2017 for the 2018 financial year was 2.0% (2017: 2.5%). The salary increase for the highest paid Director was 2.0% (2017: 2.0%).

(ii) The annual bonus accrued in 2018 relates to performance in the 2018 financial year and will be paid in September 2018. The aggregate bonus paid to Executive Directors in the 2018 financial year relating to the 2017 financial year was £122,000 or 11.5% of the 2017 executive salaries.

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

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

(v) Option benefit is calculated as the share price at the date the shares vest (less the exercise price) multiplied by the number of options vesting in the year. The vesting of the primary share options is conditional upon Directors remaining in employment with the Company for three years from the date of grant of the options. The vesting of the secondary share options is conditional upon the achievement of certain performance criteria in the financial years ending in the three years following the grant, and exercise of options is conditional upon Directors remaining in employment with the Company for three years from the date of grant of the options.

(vi) No options were exercised by the highest paid Director in either 2018 or 2017 so no gain was made on exercise of shares.

The information in this table is subject to audit and as required to be disclosed in note 30.

Subject to performance conditions being met, options over the Company's ordinary shares held by Directors at 30 June 2018 (24 June 2017) are as follows:

	At 2017	Granted	Exercised	Forfeited	At 2018		Exercise price £	Date from which exercisable	Expiry date
George Barnes	1,862	-	(1,862)	-	-	*	0.50	17/10/17	17/10/24
	3,325	-	(2,394)	(931)	-	**	0.50	17/10/17	17/10/24
	2,221	-	-	-	**2,221**	***	0.50	16/10/18	16/10/25
	3,470	-	-	-	**3,470**	****	0.50	16/10/18	16/10/25
	1,843	-	-	-	**1,843**	***	0.50	14/10/19	14/10/26
	3,291	-	-	-	**3,291**	****	0.50	14/10/19	14/10/26
	-	9,814	-	-	**9,814**	****	0.50	13/10/20	13/10/27
	16,012	9,814	(4,256)	(931)	**20,639**				
Nigel Bunting	1,836	-	(1,836)	-	-	*	0.50	17/10/17	17/10/24
	3,279	-	(2,361)	(918)	-	**	0.50	17/10/17	17/10/24
	2,414	-	-	-	**2,414**	***	0.50	16/10/18	16/10/25
	3,772	-	-	-	**3,772**	****	0.50	16/10/18	16/10/25
	2,020	-	-	-	**2,020**	***	0.50	14/10/19	14/10/26
	3,607	-	-	-	**3,607**	****	0.50	14/10/19	14/10/26
	-	10,449	-	-	**10,449**	****	0.50	13/10/20	13/10/27
	16,928	10,449	(4,197)	(918)	**22,262**				
Graeme Craig	1,961	-	(1,961)	-	-	*	0.50	17/10/17	17/10/24
(resigned 22 September 2017)	3,501	-	(2,521)	(980)	-	**	0.50	17/10/17	17/10/24
	2,483	-	(2,483)	-	-	***	0.50	16/10/18	16/10/25
	3,879	-	(931)	(2,948)	-	****	0.50	16/10/18	16/10/25
	2,060	-	(2,060)	-	-	***	0.50	14/10/19	14/10/26
	3,679	-	(858)	(2,821)	-	****	0.50	14/10/19	14/10/26
	17,563	-	(10,814)	(6,749)	-				
Jonathan Neame	2,501	-	-	-	**2,501**	*	1.00	19/10/15	19/10/22
	3,539	-	-	-	**3,539**	**	1.00	18/10/16	18/10/23
	2,787	-	-	-	**2,787**	*	0.50	17/10/17	17/10/24
	4,977	-	-	(1,394)	**3,583**	**	0.50	17/10/17	17/10/24
	3,315	-	-	-	**3,315**	***	0.50	16/10/18	16/10/25
	5,180	-	-	-	**5,180**	****	0.50	16/10/18	16/10/25
	2,751	-	-	-	**2,751**	***	0.50	14/10/19	14/10/26
	4,913	-	-	-	**4,913**	****	0.50	14/10/19	14/10/26
	-	14,232	-	-	**14,232**	****	0.50	13/10/20	13/10/27
	29,963	14,232	-	(1,394)	**42,801**				
Mark Rider	2,264	-	(2,264)	-	-	*	0.50	17/10/17	17/10/24
	4,043	-	(2,911)	(1,132)	-	**	0.50	17/10/17	17/10/24
	2,703	-	-	-	**2,703**	***	0.50	16/10/18	16/10/25
	4,224	-	-	-	**4,224**	****	0.50	16/10/18	16/10/25
	2,244	-	-	-	**2,244**	***	0.50	14/10/19	14/10/26
	4,008	-	-	-	**4,008**	****	0.50	14/10/19	14/10/26
	-	11,610	-	-	**11,610**	****	0.50	13/10/20	13/10/27
	19,486	11,610	(5,175)	(1,132)	**24,789**				
Total	**99,952**	**46,105**	**(24,442)**	**(11,124)**	**110,491**				

* Primary share option rights under the Shepherd Neame 2005 Restricted Share Scheme (see note 31b).

** Secondary share option rights under the Shepherd Neame 2005 Restricted Share Scheme (see note 31b).

*** Primary share option rights under the Shepherd Neame 2015 Restricted Share Scheme (see note 31c).

**** Secondary share option rights under the Shepherd Neame 2015 Restricted Share Scheme (see note 31c).

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 30 June 2018 was £10.85 (24 June 2017: £13.20) and the range during the year was £10.25 to £13.20 (2017: £11.55 to £13.60).

Directors' interests
The information in this table is subject to audit and as required to be disclosed in note 30.

The interests of the current Directors in the Company's shares at 30 June 2018 (24 June 2017) are as follows:

		Beneficial	Ordinary shares as trustees	Under SIP
George Barnes	**2018**	**44,663**	**-**	**2,902**
	2017	40,407	-	2,622
Nigel Bunting	**2018**	**16,097**	**-**	**2,032**
	2017	14,100	-	1,752
Bill Brett	**2018**	**15,735**	**-**	**-**
	2017	15,810	-	-
Jonathan Neame	**2018**	**144,226**	**146,037**	**2,537**
	2017	146,026	81,790	2,257
Richard Oldfield	**2018**	**2,000**	**-**	**-**
	2017	2,000	-	-
Mark Rider	**2018**	**2,873**	**-**	**1,379**
	2017	2,873	-	1,099
Miles Templeman	**2018**	**8,905**	**-**	**-**
	2017	8,905	-	-

The holdings under the SIP were allocated in all years from 2003 to 2017 with the exception of 2009 and are held in trust for a qualifying period of three years before ownership vests unconditionally (see note 31a).

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their Annual Report and Accounts for the 53 weeks ended 30 June 2018.

Activities and review of business
The principal activities of the Group are the brewing and packaging of beer; the wholesaling and retailing of beer, cider, wines, spirits and minerals; property ownership and public house and hotel management. This report should be read in conjunction with the Strategic Report which comprises the statements and reviews on pages 3 to 23. The Strategic report includes information on the Group's strategy and provides further details of the Group's performance for the 53 weeks ended 30 June 2018 and likely future developments.

Dividends
The Company paid an interim dividend of 5.75p per ordinary share (2017: 5.62p). The Directors now recommend a final dividend of 23.45p per ordinary share (2017: 22.73p). This makes a total dividend for the year of 29.20p per ordinary share (2017: 28.35p).

The total proposed final dividend on ordinary shares will be £3,466,000 (2017: £3,348,000) which together with the 2018 interim dividend paid of £849,000 (2017: £834,000) will make total dividends of £4,315,000 (2017: £4,182,000).

Directors
The names of the Directors at 30June 2018 are set out on pages 26 and 27. Changes in Directors during the year include the resignation of Graeme Craig on 22 September 2017. Details of all Directors' interests are set out in the Remuneration Report on pages 30-34.

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

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

Purchase of own shares
During the year the Company purchased a total of 2,200 ordinary shares at a total cost of £25,000 representing 0.01% of the Company's issued share capital (2017: 124,514 ordinary shares at a total cost of £1,647,000 being 0.84% 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
It is the Group's policy to give full consideration to suitable applications for employment by disabled persons.

Opportunities also exist for employees who become disabled to continue in their employment or to be trained for other positions in the Group's employment.

The Group provides employees with a regular summary of its financial position and continually aims to provide them with information on matters of concern to them as employees.

Employees continue to participate directly in the success of the business through the Share Incentive Plan.

Third-party indemnity provisions
The Company has in place a Directors' and Officers' Liability Insurance Policy which indemnifies the Directors and Officers from any claim or claims on them in the course of their business activities to the extent that they do not relate to acts of fraud or dishonesty.

Political Contributions
The Group made no political contributions during the year (2017: £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

25 September 2018

Registered in England number 138256

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE FINANCIAL STATEMENTS

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

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

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

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

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

Going concern
The Directors have reviewed the current financial projections, together with the bank facilities, as discussed in the Cash Flow and Financing sections of the Other Financial Commentary on pages 18 to 19 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 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

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 30 June 2018 and of the Group's profit for the year then ended;
- the Parent Company and the Group financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated Profit and Loss Account;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Balance Sheet;
- the Consolidated and Parent Company Statement of Changes in Equity;
- the Consolidated Cash Flow Statement; and
- the related notes 1 to 33.

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

Basis for opinion

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

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

Summary of our audit approach

Key audit matters

The key audit matter that we identified in the current year was the discount rate and forecast growth rates used as part of the tangible fixed assets impairment review.

Materiality

The materiality that we used for the Group financial statements was £706,000 which was determined on the basis of 6% of underlying profit before taxation.

Scoping

We performed full scope audit procedures over the entire Group.

Significant changes in our approach

The key audit matter identified in the previous year was the fair value of the assets and liabilities acquired under FRS 102 Section 19, Business Combinations. The risk is no longer relevant in the current year as no business combination took place in the year.

Materiality has been calculated at 6% of underlying profit before taxation (2017: 5%). Considering the fact that there have been no significant changes in the Group's business this year, we agreed with the Group's Audit Committee that we increase the percentage applied for materiality calculation.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Key audit matters

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

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

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

Key audit matter description

The Group has property, plant and equipment with a net book value of £300m as at 30 June 2018 (24 June 2017: £299m). 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, the Management estimates the recoverable amount of each cash-generating unit (CGU) by reference to the higher of its value in use (based on the Group's key assumptions in relation to future profits and a discount rate) and fair value less costs of disposal. The recoverable amount is compared to the carrying value of each CGU to determine whether any impairment is required, where triggers have been met. A CGU is defined as an individual tenanted or managed public house because this is the lowest level at which a group of assets (in this case, the land, buildings and fixtures and fittings) generate independent cash inflows.

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

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

Refer to accounting policies (page 44) and note 14 of the group financial statements (page 53).

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

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

1. Engaged valuation specialists to benchmark discount rates against market data and competitors and also performed sensitivity analysis using our specialist's discount rate thresholds;
2. Tested the arithmetical accuracy and integrity of Management's model;

3. Challenged Management's growth forecasts and assumptions used through detailed discussions with Management and a retrospective review of budget accuracy and historic growth;
4. Reviewed and challenged Management's consideration of what indicates an impairment 'trigger'.
5. Challenged Management's value in use calculations and assumptions for pubs requiring impairment tests. This included those deemed "at risk";
6. Reviewed and followed up the 'at risk' properties identified as part of the 2017 impairment review to note whether these were still deemed to be at risk of impairment;
7. Assessed the reasonability of impairment indicators used by Management in order to highlight potentially impaired properties; and
8. Evaluated the appropriateness, sufficiency and clarity of any impairment-related disclosures provided in the Group financial statements, including the disclosure of key sensitivities.

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

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

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

Group financial statements
Materiality
£706,000 (2017: £589,000)

Parent company financial statements
Materiality
£698,940

Group financial statements
Basis for determining materiality
6% (2017: 5%) of underlying profit before taxation. Considering the fact that there have been no significant changes in the Group's business this year, we agreed with the Group's Audit Committee that we increase the percentage applied for materiality calculation. Please see page 50 for reconciliation to profit before taxation.

Parent company financial statements
Basis for determining materiality
6% of underlying profit before taxation. Parent Company financial statement materiality was capped at 99% of Group materiality.

Group financial statements
Rationale for the benchmark applied
We judged underlying profit before taxation to be the most appropriate benchmark for determining materiality as it is a key performance indicator for the Board of Directors and various stakeholders including shareholders.

Parent company financial statements
Rationale for the benchmark applied
The Parent Company comprises all of the trading results of the Group. The cap has been applied to ensure that Parent Company materiality is lower than Group materiality.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £35,300 (2017: £20,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit
The Group's operations are all conducted in the United Kingdom. The audit was performed by one audit team based in the head office location in Faversham. The Group is made up of Shepherd Neame Limited (the Parent Company), Village Green Restaurants Limited and Ultimate Entertainment Services Limited which are both wholly owned subsidiaries at the balance sheet date. There are also a number of dormant subsidiaries as set out in note 15. We note that Village Green Restaurants Limited has been wound-up post year-end.

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

We performed an audit of the complete financial information of all trading components which represented 100% of the Group's results for the year. Parent Company materiality was calculated to be £698,940 as discussed above.

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

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

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

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

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

We have nothing to report in respect of these matters.

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

We have nothing to report in respect of these matters.

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 J Smith

Ian James Smith FCA
(Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
25 September 2018

CONSOLIDATED PROFIT AND LOSS ACCOUNT 53 WEEKS ENDED 30 JUNE 2018

		53 weeks to 30 June 2018			52 weeks to 24 June 2017		
	note	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	**156,567**	**-**	**156,567**	156,198	-	156,198
Operating charges	5, 7	**(140,503)**	**(2,381)**	**(142,884)**	(140,939)	(469)	(141,408)
Operating Profit	3	**16,064**	**(2,381)**	**13,683**	15,259	(469)	14,790
Net finance costs	6	**(4,295)**	**-**	**(4,295)**	(4,094)	-	(4,094)
Profit on disposal of property	7	**-**	**1,908**	**1,908**	-	588	588
Investment property fair value movements	7	**-**	**823**	**823**	-	496	496
Profit on ordinary activities before taxation		**11,769**	**350**	**12,119**	11,165	615	11,780
Taxation	8	**(2,502)**	**398**	**(2,104)**	(2,429)	861	(1,568)
Profit after taxation		**9,267**	**748**	**10,015**	8,736	1,476	10,212
Earnings per 50p ordinary share	10						
Basic				**68.1p**			69.1p
Diluted				**67.4p**			68.5p
Underlying basic				**63.0p**			59.1p

All results are derived from continuing activities.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

53 WEEKS ENDED 30 JUNE 2018

	note	53 weeks ended 30 June 2018 £'000	52 weeks ended 24 June 2017 £'000
Profit after taxation		**10,015**	10,212
Gains arising on cash flow hedges during the period	20	**4,271**	2,460
Tax relating to components of other comprehensive income	8	**(792)**	(321)
Other comprehensive gains		**3,479**	2,139
Total comprehensive income		**13,494**	12,351

CONSOLIDATED AND PARENT COMPANY BALANCE SHEET AS AT 30 JUNE 2018

	note	Group 30 June 2018 £'000	Group 24 June 2017 £'000	Company 30 June 2018 £'000	Company 24 June 2017 £'000
Fixed assets					
Goodwill	13	**620**	735	**620**	735
Tangible fixed assets	14	**308,037**	305,670	**308,037**	305,670
Investments and loans	15	**76**	194	**239**	11,777
		308,733	306,599	**308,896**	318,182
Current assets					
Stocks	16	**6,841**	7,063	**6,841**	7,063
Debtors	17	**14,036**	19,986	**14,036**	19,986
Deferred tax asset	23	**2,992**	3,787	**2,992**	3,787
Cash at bank and in hand		**1,625**	184	**1,625**	158
		25,494	31,020	**25,494**	30,994
Creditors: amounts falling due within one year					
Creditors	18	**(24,614)**	(31,145)	**(24,806)**	(42,985)
		(24,614)	(31,145)	**(24,806)**	(42,985)
Net current assets/(liabilities)		**880**	(125)	**688**	(11,991)
Total assets less current liabilities		**309,613**	306,474	**309,584**	306,191
Creditors: amounts falling due after more than one year					
Bank loans	19	**(76,422)**	(78,267)	**(76,422)**	(78,267)
Derivative financial instruments	21	**(16,955)**	(21,887)	**(16,955)**	(21,887)
Deferred lease liability		**(2,314)**	(2,027)	**(2,314)**	(2,027)
Provisions for liabilities	23	**(12,870)**	(13,182)	**(12,870)**	(13,182)
Net assets		**201,052**	191,111	**201,023**	190,828
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	**73,532**	73,579	**73,532**	73,579
Own shares	25	**(1,588)**	(2,277)	**(1,588)**	(2,277)
Hedging reserve	25	**(13,967)**	(17,446)	**(13,967)**	(17,446)
Profit and loss account	25	**134,547**	128,727	**134,518**	128,444
Equity shareholders' funds		**201,052**	191,111	**201,023**	190,828

The profit attributable to the shareholders of the Company for the 53 weeks ended 30 June 2018 was £10,270,000 (2017: £9,944,000 for the 52 weeks ended 24 June 2017).

These accounts for Shepherd Neame Limited (Registered in England number 138256) were approved by the Board of Directors on 25 September 2018 and were signed on its behalf by:

Miles Templeman
Jonathan Neame
Directors

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 53 WEEKS ENDED 30 JUNE 2018

	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 25 June 2016		**7,429**	**1,099**	**73,253**	**(915)**	**(19,288)**	**122,299**	**183,877**
Profit for the financial year		-	-	-	-	-	10,212	10,212
Gains arising on cash flow hedges during the year	20	-	-	-	-	2,460	-	2,460
Tax relating to components of other comprehensive income	8	-	-	297	-	(618)	-	(321)
Total comprehensive income		**-**	**-**	**297**	**-**	**1,842**	**10,212**	**12,351**
Ordinary dividends paid	9	-	-	-	-	-	(4,102)	(4,102)
Transfer of realised revaluation		-	-	29	-	-	(29)	-
Accrued share-based payments	31	-	-	-	-	-	619	619
Purchase of own shares	25	-	-	-	(1,647)	-	-	(1,647)
Distribution of own shares	25	-	-	-	178	-	(165)	13
Unconditionally vested share awards		-	-	-	107	-	(107)	-
Balance at 24 June 2017		**7,429**	**1,099**	**73,579**	**(2,277)**	**(17,446)**	**128,727**	**191,111**
Profit for the financial year		-	-	-	-	-	10,015	10,015
Gains arising on cash flow hedges during the year	20	-	-	-	-	4,271	-	4,271
Tax relating to components of other comprehensive income	8	-	-	-	-	(792)	-	(792)
Total comprehensive income		**-**	**-**	**-**	**-**	**3,479**	**10,015**	**13,494**
Ordinary dividends paid	9	-	-	-	-	-	(4,197)	(4,197)
Transfer of realised revaluation		-	-	(47)	-	-	47	-
Accrued share-based payments	31	-	-	-	-	-	649	649
Purchase of own shares	25	-	-	-	(25)	-	-	(25)
Distribution of own shares	25	-	-	-	556	-	(536)	20
Unconditionally vested share awards		-	-	-	158	-	(158)	-
Balance at 30 June 2018		**7,429**	**1,099**	**73,532**	**(1,588)**	**(13,967)**	**134,547**	**201,052**

There are no differences in the Parent Company Statement of Changes in Equity and the Consolidated Statement of Changes in Equity other than the Parent Company profit for the financial year of £10,270,000 (2017: Parent Company profit of £9,944,000 and goodwill amortisation of £15,000 charged to the profit and loss reserve). See note 15.

CONSOLIDATED CASH FLOW STATEMENT 53 WEEKS ENDED 30 JUNE 2018

	£'000	53 weeks ended 30 June 2018 £'000	£'000	52 weeks ended 24 June 2017 £'000
Net cash flows from operating activities (note 26)		**22,599**		22,080
Cash flows from investing activities				
Proceeds of sale of tangible fixed assets	**6,008**		5,876	
Purchase of tangible fixed assets	**(14,748)**		(25,668)	
Loans to customers	**-**		(48)	
Customer loan redemptions	**75**		130	
Acquisition of subsidiaries	**-**		(12,378)	
Cash acquired on acquisition	**-**		827	
Net cash flows from investing activities		**(8,665)**		(31,261)
Cash flows from financing activities				
Dividends paid	**(4,197)**		(4,102)	
Interest paid	**(4,970)**		(3,994)	
Repayment of borrowings	**(2,000)**		-	
New bank loans raised	**-**		19,000	
Issue costs of new long-term loan facility	**-**		(292)	
Purchase of own shares	**(1,346)**		(622)	
Share option proceeds	**20**		12	
Net cash flows from financing activities		**(12,493)**		10,002
Net increase in cash and cash equivalents		**1,441**		821
Cash and cash equivalents at beginning of the period		**184**		(637)
Cash and cash equivalents at end of the period		**1,625**		184

NOTES TO THE ACCOUNTS 30 JUNE 2018

1 Accounting Policies

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

a General information and basis of accounting

Shepherd Neame Limited (the Company) is a company incorporated in the United Kingdom under the Companies Act. The Company is a private company limited by shares and is registered in England and Wales. The registered office is 17 Court Street, Faversham, Kent ME13 7AX. The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the Directors' report on page 35. Shepherd Neame Limited is the ultimate controlling party of the Group.

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

b Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up for the 53 weeks ended 30 June 2018 (2017: 52 weeks ended 24 June 2017). A subsidiary is an entity that is controlled by the parent. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

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

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

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

c Intangible assets – goodwill

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

d Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Licensed freehold properties were revalued on transition to FRS 102, with fair value treated as deemed cost.

Assets under construction are not depreciated until they are brought into use. All other tangible assets are depreciated at varying rates calculated to write off their carrying value, less estimated residual value, evenly over their expected useful lives as follows:

• Freehold brewery properties	25 to 30 years
• Other freehold properties	50 years
• Leasehold properties	over the lease term
• Plant, machinery, vehicles and containers	3 to 25 years
• Fixtures and fittings	2 to 30 years
• Computer hardware and software (included in fixtures and fittings)	3 to 10 years

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

There has been no change in depreciation policy or the rates applied in the year to 30 June 2018, but this disclosure has been updated to align to the categories disclosed in the fixed asset note 14.

e Investment properties

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

f Fixed asset investments

Fixed asset investments are measured at cost less impairment. The carrying values of the fixed asset investments are annually reviewed for indicators of impairment if events or changes in circumstances suggest that the carrying value may not be recoverable.

g Financial instruments

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

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

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

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

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

ii) Derivative financial instruments - hedge accounting
The Group uses derivative financial instruments (interest rate swaps) to adjust interest rate exposures. The Group does not hold or issue derivative financial instruments for speculative purposes.

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

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

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

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

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

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

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

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

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

1 Accounting Policies continued

Financial assets

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

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

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

k Taxation

Current tax

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

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that will result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on the tax rate and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax relating to property, plant and equipment is measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

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

l Turnover

Turnover is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch or delivery of the goods; or on provision of services. Turnover comprises the invoice value of goods inclusive of excise duty and services, net of VAT and discounts. Rental income received from tied estate properties is recognised in the period in which it arises on an accruals basis or for leased properties on a straight-line basis over the term of the lease.

m 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.

n Retirement benefits

The Group operates defined contribution pension schemes. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the schemes.

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

o Foreign currency

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

p Dividends

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

q Share-based payment
All options are equity-settled. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using the Black-Scholes pricing model which is considered by management to be the most appropriate method of valuation. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Group (market conditions). The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to market-based conditions not achieving the threshold for vesting.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions. The movement in cumulative expense since the previous balance sheet is recognised in the profit and loss account, with a corresponding entry in equity.

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

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

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

Key source of estimation uncertainty
Impairment of assets
Financial and non-financial assets are subject to impairment reviews at the balance sheet date based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount is based on the higher of the value in use and fair value less costs to dispose. Value in use is calculated from expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance as disclosed in note 14.

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

	A 10% reduction in cash flow forecast		A 0.5% increase in in discount rate		A 0.5% reduction in growth rate	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
Increased impairment resulting from	**452**	578	**290**	424	**290**	424

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.

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

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

Geographical information

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

	53 weeks ended 30 June 2018 £'000	52 weeks ended 24 June 2017 £'000
Turnover		
UK	**154,031**	153,529
Rest of the World	**2,536**	2,669
	156,567	156,198

4 Turnover

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

	53 weeks ended 30 June 2018 £'000	52 weeks ended 24 June 2017 £'000
Sale of goods and services	**147,503**	147,223
Rental income	**9,064**	8,975
	156,567	156,198

5 Operating charges

	Before items excluded from underlying results 53 weeks ended 30 June 2018 £'000	Items excluded from underlying results 53 weeks ended 30 June 2018 £'000	Total 53 weeks ended 30 June 2018 £'000	52 weeks ended 24 June 2017 £'000
Production costs and costs of goods used in retailing	**64,331**	**-**	**64,331**	67,525
Change in stocks of finished goods and work in progress	**222**	**-**	**222**	(483)
Staff costs:				
Wages and salaries	**30,115**	**197**	**30,312**	28,859
Social security costs	**2,524**	**58**	**2,582**	2,491
Other pension costs	**917**	**5**	**922**	907
Amortisation of goodwill (note 13)	**115**	**-**	**115**	81
Depreciation of tangible fixed assets (note 14)	**8,179**	**-**	**8,179**	7,765
Impairment of tangible fixed assets (note 14)	**-**	**622**	**622**	199
Loss on sale of fixed assets (excluding properties)	**219**	**323**	**542**	184
Property repairs	**3,257**	**36**	**3,293**	2,907
Operating lease rentals - land, buildings, vehicles & equipment	**3,935**	**2**	**3,937**	3,749
Foreign exchange gain	**(3)**	**-**	**(3)**	(5)
Impairment of stock recognised as an expense	**422**	**95**	**517**	446
Other operating charges	**26,270**	**1,043**	**27,313**	26,783
Total operating charges	**140,503**	**2,381**	**142,884**	141,408

The analysis of auditor's remuneration is as follows:

	53 weeks ended 30 June 2018 £'000	52 weeks ended 24 June 2017 £'000
Fees payable to Deloitte LLP for the audit of the Group's annual accounts	**114**	99
Fees payable to Deloitte LLP for other services to the Group		
Audit of the Company's subsidiaries	**-**	17
Total audit fees	**114**	116
Tax services	**22**	38
Total non-audit fees	**22**	38
Fees payable to Deloitte LLP for the audit of associated pension schemes	**-**	12
Total fees payable to Deloitte LLP	**136**	166

The total fee payable for the audit of the Company's subsidiaries included £17,000 in respect of Village Green Restaurants Limited for the 52 weeks ended 24 June 2017.

6 Net finance costs

	53 weeks ended 30 June 2018 £'000	52 weeks ended 24 June 2017 £'000
Interest payable: Bank loans and overdrafts	**4,330**	4,103
Interest (receivable)/payable: Other	**(2)**	7
Investment income: Income from fixed asset investments	**(15)**	(6)
Other finance income: Unwinding of discounts on provisions	**(18)**	(10)
Net finance costs	**4,295**	4,094

7 Non-GAAP reporting measures

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

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

	53 weeks ended 30 June 2018 £'000	52 weeks ended 24 June 2017 £'000
Underlying EBITDA	**24,639**	23,352
Depreciation and amortisation	**(8,294)**	(7,846)
Free trade loan discounts	**(62)**	(63)
Loss on sale of assets (excluding property)	**(219)**	(184)
Underlying operating profit	**16,064**	15,259
Net finance costs	**(4,295)**	(4,094)
Underlying profit before taxation	**11,769**	11,165
Profit on disposal of properties	**1,908**	588
Investment property fair value movements	**823**	496
Operating charges – items excluded from underlying results	**(2,381)**	(469)
Profit on ordinary activities before taxation	**12,119**	11,780

Operating charges – items excluded from underlying results of £2,381,000 comprised £1,759,000 in respect of restructuring costs following a review of strategy for the brewing and brands business associated with the termination of the Asahi contract, and an impairment charge of £622,000 (note 14).

The charge of £469,000 for the 52 weeks ended 24 June 2017 comprised an impairment charge of £199,000 (note 14) and £270,000 in relation to a fine together with legal fees in respect of the Royal Wells Hotel, Tunbridge Wells.

8 Taxation

a Tax on profit on ordinary activities

Tax charged to profit and loss	53 weeks ended 30 June 2018 £'000	52 weeks ended 24 June 2017 £'000
Current tax		
UK corporation tax at 19.0% (2017: 19.75%)	**2,394**	2,731
Prior year under/(over) provision	**25**	(17)
Total current tax	**2,419**	2,714
Deferred tax		
Origination and reversal of timing differences	**(305)**	(831)
Effect of reduction in the rate of corporation tax	**-**	(315)
Adjustments in respect of prior years	**(10)**	-
Total deferred tax	**(315)**	(1,146)
Total tax charged to profit and loss	**2,104**	1,568

Tax charged to other comprehensive income		
Deferred tax		
Gains arising on cash flow hedges in the period	**792**	467
Effect of reduction in the rate of corporation tax	**-**	(146)
Total tax charged to other comprehensive income	**792**	321

b Reconciliation of the total tax charge

	53 weeks ended 30 June 2018 £'000	52 weeks ended 24 June 2017 £'000
Group profit on ordinary activities before taxation	**12,119**	11,780
Tax on Group profit at average UK corporation tax rate of 19.0% (2017: 19.75%)	**2,303**	2,327
Expenses not deductible for tax purposes	**96**	140
Profit on sale of property less chargeable gains	**(310)**	(567)
Effect of reduction in the rate of corporation tax	**-**	(315)
Prior year under/(over) provision	**15**	(17)
Total tax charged to profit and loss	**2,104**	1,568

c Factors that may affect future tax charges

The Finance Act 2015 included provisions to reduce the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and then to 18% with effect from 1 April 2020.

During the 52 weeks ended 24 June 2017 the Finance Act 2016 received Royal Assent. The main impact was the reduction of the UK corporation tax rate from 18% to 17% (effective from 1 April 2020). The impact in the 52 weeks to 24 June 2017 was an exceptional credit to profit and loss of £315,000 and a credit to other comprehensive income of £146,000.

During the 52 weeks beginning 1 July 2018, 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 and increase in the deferred tax liability on the revaluation of investment properties. This estimate is based upon a number of assumptions, including the level of capital expenditure qualifying for capital allowances, properties that are to be sold and fair value movements in respect of investment properties, which are uncertain and could result in a significantly different actual movement.

There is no expiry date on timing differences.

9 Dividends

	53 weeks ended 30 June 2018 £'000	52 weeks ended 24 June 2017 £'000
Declared and paid during the year		
Final dividend for 2017: 22.73p (2016: 22.05p) per ordinary share	**3,348**	3,268
Interim dividend for 2018: 5.75p (2017: 5.62p) per ordinary share	**849**	834
Dividends paid	**4,197**	4,102

The Directors propose a final dividend of 23.45p (2017: 22.73p) per 50p ordinary share totalling £3,466,000 (2017: £3,348,000) for the 53 weeks ended 30 June 2018. The dividend is subject to approval by the shareholders at the Annual General Meeting, to be held on 19 October 2018 and has not been included as a liability in these financial statements, as it has not yet been approved or paid.

Shares held by the Company (and not allocated to employees under the Share Incentive Plan) are treated as cancelled when calculating dividends and earnings per share.

10 Earnings per share

	53 weeks ended 30 June 2018 £'000	52 weeks ended 24 June 2017 £'000
Profit attributable to equity shareholders	**10,015**	10,212
Items excluded from underlying results	**(748)**	(1,476)
Underlying earnings attributable to equity shareholders	**9,267**	8,736
	Number	Number
Weighted average number of shares in issue	**14,707**	14,780
Dilutive outstanding options	**142**	121
Diluted weighted average share capital	**14,849**	14,901
Basic	**68.1p**	69.1p
Diluted	**67.4p**	68.5p
Underlying basic	**63.0p**	59.1p

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

11 Directors' remuneration

Details of directors' remuneration required to be disclosed by the Companies Act 2006 are included in the table and footnotes on page 32.

12 Employees

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

	53 weeks ended 30 June 2018 Number	52 weeks ended 24 June 2017 Number
Brewery, head office	**263**	276
Managed pubs	**1,306**	1,217
	1,569	1,493

13 Intangible fixed assets

Group and Company	Goodwill £'000
Cost	
At start and end of period	**816**
Amortisation	
At 24 June 2017	81
Charge for the period	115
At 30 June 2018	**196**
Net book value	
At 30 June 2018	**620**
At 24 June 2017	735

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% (2017: 2.5%). The pre-tax discount rate used in this review was 8.05% (2017: 8.13%).

14 Tangible fixed assets

Group and Company	2018 £'000	2017 £'000
Property, plant and equipment	**300,168**	298,913
Investment properties	**7,869**	6,757
Total tangible fixed assets	**308,037**	305,670

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 24 June 2017	255,310	942	6,403	35,617	73,173	1,342	372,787
Additions	1,460	-	877	1,265	10,825	542	14,969
Disposals	(2,398)	-	-	(1,252)	(3,415)	(1)	(7,066)
Transfers	(1,335)	-	98	54	704	(1,006)	(1,485)
At 30 June 2018	**253,037**	**942**	**7,378**	**35,684**	**81,287**	**877**	**379,205**
Accumulated depreciation							
At 24 June 2017	3,909	148	3,773	27,550	38,492	2	73,874
Charge for period	592	17	203	1,400	5,967	-	8,179
Impairment	622	-	-	-	-	-	622
On disposals	(30)	-	-	(1,202)	(2,397)	-	(3,629)
Transfers	(9)	-	-	-	-	-	(9)
At 30 June 2018	**5,084**	**165**	**3,976**	**27,748**	**42,062**	**2**	**79,037**
Net book values							
At 30 June 2018	**247,953**	**777**	**3,402**	**7,936**	**39,225**	**875**	**300,168**
At 24 June 2017	251,401	794	2,630	8,067	34,681	1,340	298,913

Included in additions is £121,000 (2017: £78,000) of own labour capitalised.

Disposals includes an amount of £2,635,000 (2017: £658,000) in respect of fully depreciated items.

14 Tangible fixed assets continued

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 £206,808,000 are included in the valuation or cost of the freehold properties at 30 June 2018 (2017: £210,695,000).

If they had not been revalued, freehold properties would have been carried in the balance sheet at 30 June 2018 at:

Group and Company	2018 £'000	2017 £'000
Cost	**166,453**	168,945
Accumulated depreciation	**(6,436)**	(5,761)
Net book amount	**160,017**	163,184

The Company has entered into certain operating leases as lessor. The gross cost of assets held for use under these leases amounted to £27,359,000 (2017: £28,974,000) and the related accumulated depreciation charges amounted to £508,000 (2017: £410,000) and the aggregate rentals receivable amounted to £1,370,000 (2017: £1,279,000).

A net impairment loss of £622,000 was recognised in the year in respect of three licensed properties to write them down to their recoverable amount (2017: £199,000 in respect of two licensed properties).

Impairment was assessed at the income-generating unit level, considered to be on the basis of each individual pub. Whether an asset was impaired or not was determined by comparing the carrying value against its estimated 'recoverable amount'. The recoverable amount was taken as the higher of either the net realisable value or its value in use. The value in use was determined by conducting a net present value review of all relevant cash flows from the asset based upon the budget for the forthcoming financial year approved by the Directors. Cash flows beyond the budget period are extrapolated in perpetuity for freehold properties and over the length of the remaining lease for leasehold properties. The long term growth rates applied are 2.0% (2017: 2.5%) for managed pubs and 1.5% (2017: 1.5%) for tenanted pubs. The pre-tax discount rate used in this review was 8.05% (2017: 8.13%).

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

b Investment properties

Investment properties, which are all freehold, are revalued to fair value at each reporting date by the Company's own professionally qualified staff who are Royal Institute of Chartered Surveyors (RICS) qualified.

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

Group and Company	2018 £'000	2017 £'000
Valuation:		
Carrying value at start of year	**6,757**	6,229
Additions	**18**	42
Disposals	**(1,205)**	(560)
Transfers	**1,476**	550
Fair value movement	**823**	496
Carrying value at end of year	**7,869**	6,757

Investment property rental income during the year was £266,000 (2017: £229,000).

If the investment properties had not been revalued, they would have been carried in the balance sheet at 30 June 2018 at a cost of £4,164,000 (2017: £2,215,000).

15 Investments and loans

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Investment in subsidiaries	-	-	**163**	11,583
Loans to customers	**76**	194	**76**	194
Carrying value	**76**	194	**239**	11,777

a Investment in subsidiaries

At 30 June 2018 the parent Company and the Group had investments in the following subsidiary undertakings:

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

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

* These companies were dormant throughout the period.

Investment in principal subsidiaries

Company	2018 £'000	2017 £'000
Cost		
At beginning of period	**11,583**	-
Additions	-	11,561
Subsidiaries previously excluded on the grounds of immateriality	-	22
	11,583	11,583
Provisions for impairment		
At beginning of period	-	-
Charged to profit and loss	**(11,420)**	-
	(11,420)	-
Carrying value at end of period	**163**	11,583

On 4 July 2016, the Company acquired 100% of the issued share capital of Ultimate Entertainment Services Limited for £452,000. On 29 November 2016, the Company acquired 100% of the issued share capital of Village Green Restaurants Limited (VGR) for £11,926,000.

The trade and assets of VGR was transferred from the entity to Shepherd Neame Limited and subsequently a dividend of £11,676,000 was paid to the parent Company. On 19 August 2018 this subsidiary company was liquidated, resulting in the provision for impairment as noted above. These movements are eliminated on consolidation of the Group.

b Loans to customers

Group and Company	2018 £'000	2017 £'000
Carrying value at start of period	**194**	333
Additions	-	48
Redemptions	**(75)**	(130)
Loan discounts awarded	**(62)**	(63)
Unwinding of discounts on loans receivable	**19**	6
Carrying value at end of period	**76**	194

15 Investments and loans continued

c The maturity profile of the loans is:

Group and Company	2018 £'000	2017 £'000
Recoverable within one year	**14**	27
Recoverable between one and five years	**15**	87
Recoverable after five years	**47**	80
	76	194

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 £11,000 is expected to be repaid in cash and £65,000 is expected to be repaid by offset against discounts to be earned but not received by customers (2017: £86,000 and £108,000 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	2018 £'000	2017 £'000
Raw materials and consumables	**1,963**	2,197
Work in progress	**380**	366
Finished goods including goods for resale	**4,498**	4,500
	6,841	7,063

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

17 Debtors

Group and Company	2018 £'000	2017 £'000
Amounts falling due within one year:		
Trade debtors	**11,238**	16,493
Other debtors	**355**	375
Prepayments	**2,443**	3,118
	14,036	19,986

Amounts due after more than one year comprised £249,000 (2017: £175,000) included in trade debtors.
The trade receivables balance is shown net of the provision for bad debts. A charge for specific trade debts which are not considered recoverable of £239,000 (2017: £282,000) was recognised in profit and loss during the year.

18 Creditors: Amounts falling due within one year

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Trade creditors	**7,060**	8,541	**7,060**	8,537
Amounts owed to subsidiary undertakings	**-**	-	**202**	12,159
Corporation tax	**1,338**	1,749	**1,338**	1,456
Other tax and social security	**5,851**	7,958	**5,846**	7,942
Accruals and deferred income	**7,929**	8,779	**7,929**	8,777
Trade deposits	**1,838**	1,861	**1,838**	1,861
Other creditors	**598**	2,257	**593**	2,253
	24,614	31,145	**24,806**	42,985

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

Group and Company	2018 £'000	2017 £'000
Bank loans	**77,000**	79,000
Less: loan issue costs	**(578)**	(733)
	76,422	78,267

Bank loans at the year end comprise a 20-year term loan of £60m arranged in April 2007 and drawings of £17m on the revolving credit facility. The Company also benefits from a £2m overdraft facility which was undrawn at the year end. The 20-year term loan is hedged by interest rate swap contracts which are referred to in note 21. The term loan was provided by the Royal Bank of Scotland plc and 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.

At the year end, £28m (2017: £26m) of the total £45m (2017: £45m) committed revolving credit bank facility was available and undrawn.

The bank loans were repayable as follows:

	2018 £'000	2017 £'000
Amounts payable on demand or within one year	-	-
Amounts payable between one and five years	**17,000**	19,000
Amounts payable after five years	**60,000**	60,000
	77,000	79,000

The Company's bank 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:

	2018 Notional principal £'000	2018 Weighted average interest rate %	2018 Weighted average period for which rate fixed (years)	2017 Notional principal £'000	2017 Weighted average interest rate (%)	2017 Weighted average period for which rate fixed (years)
Bank loan	**60,000**	**5.78**	**8.75**	60,000	5.78	9.75
Revolving credit facility	**17,000**	**2.29**	**-**	19,000	2.04	-

Three-month LIBOR was 0.674% at 30 June 2018 (24 June 2017: 0.303%). The overdraft facility bears interest at 2.5% (2017: 2.5%) above National Westminster Bank base rate which was 0.5% at 30 June 2018 (24 June 2017: 0.25%).

Categories of financial assets and liabilities

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

	Group 2018 £'000	Group 2017 £'000	Company 2018 £'000	Company 2017 £'000
Financial assets				
Debt instruments measured at amortised cost				
• Loans receivable from customers	**590**	570	**590**	570
Measured at undiscounted amount receivable				
• Cash	**1,625**	184	**1,625**	158
Financial liabilities				
Measured at fair value and designated in an effective hedge relationship				
• Derivative financial liabilities	**(16,955)**	(21,887)	**(16,955)**	(21,887)
Measured at amortised cost				
• Variable rate bank loan	**(76,422)**	(78,267)	**(76,422)**	(78,267)

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

	2018 £'000	2017 £'000
Interest income and expense		
Total interest income for financial assets at amortised cost	**21**	12
Total interest expense for financial liabilities at amortised cost	**(3,557)**	(3,488)
Fair value gains and losses		
On derivative financial liabilities designated in an effective hedging relationship	**4,271**	2,460

21 Derivative financial instruments

The interest rate swaps are classified as cash flow hedges because the derivative financial instruments hedge the variable interest rate risk of the cash flows associated with the recognised debt instrument measured at amortised cost (the £60m long-term loan). Under the terms of the swaps, the Group receives floating rate interest and pays fixed rate interest.

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

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

Cash flow hedges – interest rate swaps

	Average contract fixed interest rate		Notional principal value		Fair value	
	2018	2017	**2018**	2017	**2018**	2017
	%	%	**£'000**	£'000	**£'000**	£'000
5 years+	**5.1**	5.1	**60,000**	60,000	**16,955**	21,887

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

A gain of £4,271,000 (2017: gain of £2,460,000) was recognised in other comprehensive income in respect of the swaps in cash flow hedges. Amounts accumulated will be reclassified to profit or loss in the period that the hedging relationship ends.

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 and variable interest rates at the balance sheet date. Debt is represented by a 20-year term loan, a five-year revolving credit facility and a short-term committed overdraft facility all of which are secured by a first floating charge over the assets of the Group. They all bear interest at variable rates based on LIBOR and National Westminster Bank base rate. There are two components of the interest rates on the £60m 20-year term bank loan. One component is attached to the rate of LIBOR and fixed by means of interest rate swap contracts which run for the same period as the loan as disclosed in notes 20 and 21. The other component is attached to the level of bank margin. Interest on drawings on the revolving credit facility and short-term overdraft facility are not fixed as it has been Group policy to have short-term borrowing on a variable rate basis.

Liquidity risk

The Group manages its liquidity risk by monitoring cash receipts and payments and preparing rolling cash flow forecasts from which to predict short- and long-term funding requirements and ensure that borrowing facilities are available, if required, and that covenants in respect of bank loans are not contravened. Capital expenditure is approved by the Board and investment appraisal models used to evaluate proposed expenditure. It is currently the Group's policy to finance the majority of its business need by means of long-term bank loans which amounted to £60m fully drawn at the year end. The balance of its requirements at the balance sheet date was provided by a five-year revolving credit loan facility of £45m, which is due to mature in September 2020 and a committed overdraft facility of £2m, which matures in December 2018. The size of the facility is regularly reviewed and the overdraft facility is renewed annually. At the year end £17m (2017:£19m) of the revolving credit loan facility and none (2017: nil) of the overdraft facility was being utilised.

Counterparty credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and are subject to credit limits to control debt exposure. In addition, receivable balances are monitored on an ongoing basis. The growth of the Group's business with national retailers has increased the concentration of credit risk. However, the Board of Directors consider that the credit risk from these customers remains relatively low.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from the default of a counterparty, with a maximum exposure equal to the carrying value amount of these instruments.

Foreign currency risk

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

b Capital management

The capital structure of the Group consists of bank 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 review the Group's dividend policy and funding requirements regularly throughout the year.

23 Provisions for liabilities

Group and Company	2018 £'000	2017 £'000
Onerous lease provisions	**60**	54
Deferred taxation	**12,810**	13,128
	12,870	13,182

a Onerous lease provisions

Group and Company	2018 £'000	2017 £'000
As at start of period	**54**	140
Charged/(credited) to profit and loss	**6**	(86)
As at end of period	**60**	54

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

b Deferred tax

Group and Company	Asset 2018 £'000	Liability 2018 £'000	Net 2018 £'000	Asset 2017 £'000	Liability 2017 £'000	Net 2017 £'000
As at start of period	**3,787**	**(13,128)**	**(9,341)**	4,409	(13,011)	(8,602)
(Charged)/credited to profit and loss	**(3)**	**318**	**315**	(4)	1,150	1,146
(Charged)/credited to other comprehensive income	**(792)**	**-**	**(792)**	(618)	297	(321)
Acquired in the period	**-**	**-**	**-**	-	(1,564)	(1,564)
As at end of period	**2,992**	**(12,810)**	**(9,818)**	3,787	(13,128)	(9,341)

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

	Asset 2018 £'000	Liability 2018 £'000	Net 2018 £'000	Asset 2017 £'000	Liability 2017 £'000	Net 2017 £'000
Derivative financial instruments	**2,973**	**-**	**2,973**	3,765	-	3,765
Accelerated capital allowances	**-**	**(2,557)**	**(2,557)**	-	(2,798)	(2,798)
Revaluation of freehold pubs	**-**	**(6,728)**	**(6,728)**	-	(6,989)	(6,989)
Rolled over capital gains	**-**	**(3,436)**	**(3,436)**	-	(3,114)	(3,114)
Others	**19**	**(89)**	**(70)**	22	(227)	(205)
As at end of period	**2,992**	**(12,810)**	**(9,818)**	3,787	(13,128)	(9,341)

24 Called-up share capital

	2018 £'000	2017 £'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 the cumulative effect of revaluations of freehold land and buildings up to 28 June 2014.

Own shares

The own shares held reserve arises in connection with the employee share schemes. The Company held 124,529 ordinary shares at 30 June 2018 with a market value of £1,351,000 (2017: 181,199 and £2,392,000). During the year, the Group purchased 2,200 ordinary shares at an average cost of £11.25 per share (2017: 124,514 shares at an average cost of £13.22). In 2017 £1,321,000 of the purchase consideration was settled after the year end.

Of the own shares held 61,752 are allocated to employees under the Share Incentive Plan but have not yet vested.

A further 64,343 shares, held by the Trustees of the Share Incentive Plan, have vested unconditionally and as such are no longer treated as own shares held (2017: 52,737 and 78,883 respectively). Of these shares 41,833 can be distributed to employees free of tax (2017: 51,026).

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 profit to cash generated by operations

	53 weeks ended 30 June 2018			52 weeks ended 24 June 2017		
	Underlying results £'000	Excluded from underlying results £'000	Total £'000	Underlying results £'000	Excluded from underlying results £'000	Total £'000
Operating profit	**16,064**	**(2,381)**	**13,683**	15,259	(469)	14,790
Adjustment for:						
Depreciation and amortisation	**8,294**	**-**	**8,294**	7,846	-	7,846
Impairment loss on tangible fixed assets	**-**	**622**	**622**	-	199	199
Share-based payments expense	**569**	**80**	**649**	619	-	619
Decrease/(increase) in stocks	**222**	**-**	**222**	(349)	-	(349)
Decrease/(increase) in debtors and prepayments	**5,948**	**-**	**5,948**	(1,826)	-	(1,826)
(Decrease)/increase in creditors and accruals	**(4,488)**	**(120)**	**(4,608)**	2,977	239	3,216
Free trade loan discounts	**62**	**-**	**62**	63	-	63
Loss on sale of assets (excluding property)	**219**	**324**	**543**	184	-	184
Interest received	**15**	**-**	**15**	6	-	6
Income tax paid	**(2,831)**	**-**	**(2,831)**	(2,668)	-	(2,668)
Net cash inflow/(outflow) from operating activities	**24,074**	**(1,475)**	**22,599**	22,111	(31)	22,080

b Analysis of net debt

	2017 £'000	Cash flow £'000	Repayment of long-term loan £'000	Amortisation of issue costs £'000	**2018 £'000**
Cash and cash equivalents	184	1,441	-	-	**1,625**
Debt due after more than one year	(78,267)	-	2,000	(155)	**(76,422)**
Total	(78,083)	1,441	2,000	(155)	**(74,797)**

27 Capital commitments - Group and Company

Contracts for capital expenditure not provided for in the accounts amounted to £735,000 (2017: £645,000).

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 2018 £'000**	**Plant and machinery 2018 £'000**	Land and buildings 2017 £'000	Plant and machinery 2017 £'000
Within one year	**3,360**	**361**	2,995	388
Between one and five years	**12,863**	**334**	11,855	505
After five years	**40,994**	**-**	39,402	-
	57,217	**695**	54,252	893

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 2018 £'000**	Investment properties 2017 £'000	**Other property, plant and equipment 2018 £'000**	Other property, plant and equipment 2017 £'000
Within one year	**166**	147	**1,263**	989
Between one and five years	**242**	251	**3,222**	2,334
After five years	**-**	-	**8**	75
	408	398	**4,493**	3,398

29 Contingent liabilities

The Company is in dispute regarding the terms on which a long-term agreement with our local water company terminated and any residual liabilities under it owed by the Company. The Board is of the view that there should be no material unprovided liability for the Company. The dispute resolution procedure in the long-term agreement is arbitration. In the absence of a consensual resolution to this dispute, there is a possibility that arbitration could commence. It is estimated that the Company's legal and associated costs of an arbitration case could be up to £750,000. The Company would seek to reclaim these costs as part of the arbitration process.

30 Directors' interests

The interests of the Directors in the Company's shares and options over the Company's ordinary shares held by Directors at 30 June 2018 and 24 June 2017 are included in the tables and footnotes on pages 33 and 34.

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

a The Shepherd Neame Employee Share Incentive Plan
The Shepherd Neame Employee Share Incentive Plan (SIP) is open to all employees with 18 months' service at the award date. A free award of shares, based on length of service and salary and subject to the maximum of £3,600, was made to all eligible employees in all years from 2003 to 2016 with the exception of 2009. Participants are entitled to these free shares from three years after the date of the award if they remain in the Company's employment.

The Company did not purchase any shares for the Employee Share Incentive Plan in either 2018 or 2017.

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

	2018 Number	2017 Number
Outstanding shares at start of year	**131,620**	134,271
Granted during the year	**20,055**	19,765
Forfeited during the year	**(2,375)**	(3,316)
Distributed during the year	**(23,205)**	(19,100)
Outstanding shares at end of year	**126,095**	131,620
Distributable at end of year	**64,343**	78,883

The employees do not have to make any payment for the award of shares under the Plan. As such the weighted average exercise price is nil. The weighted average share price at date of distribution for the shares distributed was £11.59 (2017: £12.95).

The weighted average fair value of the shares granted in November 2017 was £12.85 (November 2016: £12.65). 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 30 June 2018 was £223,000 (2017: £237,000).

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 30 June 2018 had a remaining contractual life of 5.48 years.

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

	2018 Number	2018 Weighted average exercise price	2017 Number	2017 Weighted average exercise price
Outstanding at start of year	**50,027**	**£0.60**	74,689	£0.72
Granted during the year	**-**	**-**	-	-
Exercised	**(28,666)**	**£0.53**	(12,334)	£1.00
Forfeited during the year	**(5,355)**	**£0.50**	(12,328)	£1.00
Outstanding options at end of year	**16,006**	**£0.75**	50,027	£0.60
Exercisable at end of year	**16,006**	**£0.75**	9,558	£1.00

The weighted average fair value of the options granted during the year ended 27 June 2015 was £11.89. The range of the exercise price for options outstanding at the end of the year was £0.50 – £1.00.

The fair value of the equity-settled share options granted under the scheme is estimated at the date of grant using the Black-Scholes option pricing model, which is considered by management to be the most appropriate method of valuation. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

A charge of £46,000 was recognised for share-based payments made under this scheme in respect of employee service during the year to 30 June 2018 (2017: £158,000).

c The Shepherd Neame 2015 Restricted Share Scheme
This is a restricted share scheme for Senior Managers and Executive Directors, including the highest paid Director and three other Directors. This scheme replaced the 2005 Restricted Share Scheme following its cessation in 2015. The 2015 scheme provides for the grant of primary and secondary share options under similar terms and restricted to the same maximum limits as those that applied to the 2005 scheme. It was updated to reflect changes in market practice since the 2005 scheme was adopted.

Under the 2015 restricted share scheme, primary options are awarded which are exercisable three years after they are awarded subject, normally, to the grantee remaining in the Company's employment. The Directors were also granted secondary options which are exercisable three years after they were awarded if the Group achieves certain financial performance criteria and, normally, provided that the Director remains in the Company's employment.

The contractual life of each option granted is ten years and the options outstanding at 30 June 2018 had a remaining contractual life of 8.43 years.

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

	2018 Number	2018 Weighted average exercise price	2017 Number	2017 Weighted average exercise price
Outstanding at start of year	**87,675**	**£0.50**	47,512	£0.50
Granted during the year	**57,576**	**£0.50**	41,161	£0.50
Exercised	**(8,799)**	**£0.50**	(998)	£0.50
Forfeited during the year	**(5,769)**	**£0.50**	-	-
Outstanding options at end of year	**130,683**	**£0.50**	87,675	£0.50

None of these options were exercisable at 30 June 2018.

The weighted average fair value of the options granted during the year was £12.36 (2017: 12.52). The exercise price for all options outstanding at the end of the year was £0.50.

The fair value of the equity-settled share options granted under the scheme is estimated at the date of grant using the Black-Scholes option pricing model, which is considered by management to be the most appropriate method of valuation. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions). The following table lists the inputs to the model used for the years ended 30 June 2018 and 24 June 2017:

	2018	2017
Expected share price volatility	**27%**	34%
Risk-free interest rate	**3.896%**	4.754%
Expected life of option (years)	**4.0**	4.0
Weighted average share price	**£12.80**	£12.98

A charge of £380,000 was recognised for share-based payments made under the Shepherd Neame 2015 Restricted Share Scheme in respect of employee service during the year to 30 June 2018 (2017: £224,000).

32 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 £922,000 (2017: £907,000). Contributions of £152,000 (2017: £132,000) were payable to the schemes at the year end. During the period three of the executive Directors (2017: three) were contributing members of one of the Company's defined contribution schemes and as at 30 June 2018 one remained a contributing member. Due to changes in legislation 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.

33 Related party transactions

The key management personnel of the Group are considered to be the Executive Directors, the total remuneration for whom was £1,991,000 for the year (2017: £1,826,000) being remuneration of £1,800,000 (2017: £1,645,000) and share-based payment expenses of £191,000 (2017: £181,000) as disclosed in the Remuneration Report on pages 30 to 34. The Directors are granted discounts on purchases from the Company, in line with the discount given to all other staff.

During the year, advances totalling £53,000 were paid to two Directors (£57,000 to four Directors), in respect of tax and NI payable on the exercise and sale of share options. The sums were repaid within one month with no interest payable. The amount outstanding at the year end was nil (2017: nil).

During the year, the Company purchased goods to the value of £16,000 (2017: £16,000) including VAT and made sales of £58,000 (2017: £110,000) to St Austell Brewery Company Limited, a company of which Jonathan Neame was a non-executive Director until May 2018. At the year end Shepherd Neame Limited was owed £2,000 (2017: £10,000), including VAT, by St Austell Brewery Company Limited. Shepherd Neame Limited owed a balance of nil to St Austell Brewery Company Limited at the year end (2017: £1,000).

Jonathan Neame is Chairman of Visit Kent. Fees and sponsorship activity paid to Visit Kent amounted to £26,000 including VAT (2017: £24,000).

Mr A J A Barnes, a close member of George Barnes' family, is a partner of Clarke Barnes Solicitors LLP, which provided legal services in respect of Company properties during the year to 30 June 2018 at a cost of £21,000 including VAT and disbursements to third parties (2017: £24,000). At the year end there was no balance owed to the partnership by Shepherd Neame Limited (2017: nil).

Nigel Bunting, Executive Director of Shepherd Neame Limited, is also a director of Davy and Company Limited. During the year, the Company made sales to the value of £214,000 (2017: £196,000) to Davy and Company and its associated companies. At the year end, the balance owed to Shepherd Neame Limited by the Davy Group of companies, including VAT, was £24,000 (2017: £13,000).

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

FINANCIAL CALENDAR AND COMPANY ADVISORS

Financial Calendar

2018

4 October	Ex-dividend date
5 October	Record date*
19 October	Annual General Meeting and payment of final dividend

2019

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

* Shareholders on the register at this date

Company Advisors

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

Registrars
Computershare Investor Services PLC
The Pavilions, Bridgwater Road
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Dedicated Shareholder Tel: 0370 707 1291
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Auditor
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Stockbrokers
JP Morgan Cazenove Limited
25 Bank Street
Canary Wharf
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Peel Hunt LLP
Moor House
120 London Wall
London
EC2Y 5ET

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

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Shepherd Neame Limited (the "Company") will be held at the Parish Church of St Mary of Charity, Church Road, Faversham on Friday 19 October 2018 at 12.00 noon for the following purposes:

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

Resolution 1 - To receive the Annual Report and Accounts for the financial year ended 30 June 2018, together with the reports of the Directors and Auditor thereon.

Resolution 2 - To declare a final dividend of 23.45p per ordinary share for the financial year ended 30 June 2018, payable on 19 October 2018 to holders of ordinary shares registered at the close of business on 5 October 2018.

Resolution 3 - To re-elect Mr M J Rider as a Director.

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

Resolution 5 - To re-appoint Deloitte LLP as the auditor of the Company until the next general meeting at which accounts are laid.

Resolution 6 - To authorise the Directors to determine the auditor's remuneration.

Resolution 7 - That the Company be generally and unconditionally authorised for the purpose of section 701 of the Companies Act 2006 (the "Act") to make market purchases (as defined in section 693 of the Act) of its ordinary shares of 50 pence each ("ordinary shares"), provided that:

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

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

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

(d) the authority conferred by this resolution shall (unless previously renewed or revoked) expire on the earlier of the conclusion of the next Annual General Meeting of the Company and 18 January 2020 save that the Company may enter into a contract to purchase ordinary shares before the expiry of such authority which will or may be completed wholly or partly thereafter and a purchase of ordinary shares may be made in pursuance of any such contract or contracts.

Notes to the Resolutions

Resolutions 3 and 4 - Re-election of Directors

The articles of association of the Company require certain of the Directors to retire by rotation at each Annual General Meeting and require any non-executive Director who has served for longer than nine years to submit themselves for annual re-election. This year Mr M J Rider and Mr M H Templeman will retire and are each offering themselves for re-election. Brief biographies of the Directors are set out on pages 26 and 27 of the Annual Report and Accounts 2018.

Resolution 7 - Authority to make market purchases of ordinary shares

Resolution 7 seeks authority for the Company to make market purchases of its own ordinary shares. If passed, the resolution gives authority for the Company to purchase up to 1,485,750 of its ordinary shares, representing 10 per cent of the Company's issued ordinary share capital as at 24 September 2018 (being the latest practicable date prior to posting this notice). The Directors have no present intention of making such purchases, but consider it is prudent for them to retain the ability to do so. The Directors would not propose to exercise their authority to make purchases unless the expected effect of the purchase would be to increase earnings per share and it is generally in the best interest of the shareholders. Any shares purchased under this authority will be cancelled.

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

By Order of the Board
R N Duncan
Company Secretary
17 Court Street
Faversham
Kent
25 September 2018

Explanatory notes

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

(i) by using the enclosed form of proxy. In order to be valid, the form of proxy should be completed and returned, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of the same, to the Company's Registrars, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY as soon as possible and in any event, so as to arrive by no later than 12.00 noon on Wednesday 17 October 2018;

(ii) online at www.investorcentre.co.uk/eproxy using the Control Number, Shareholder Reference Number and PIN printed on the enclosed form of proxy by no later than 12.00 noon on Wednesday 17 October 2018; or

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

3. The appointment of a proxy will not prevent a member from attending and voting in person at the Meeting.
4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service should follow the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsor or voting service provider(s) to take the appropriate action on their behalf.

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

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

   The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001 (as amended).
5. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only shareholders registered in the Register of Members of the Company as at 6 p.m. on Wednesday 17 October 2018 shall be entitled to attend and vote at the Meeting in respect of the number of ordinary shares registered in their name at such time. If the Meeting is adjourned, the time by which a person must be entered in the Register of Members of the Company in order to have the right to attend and vote at the adjourned meeting is 6 p.m. on the date which is two days before the time of the adjourned meeting. Changes to the Register of Members after the relevant times shall be disregarded in determining the rights of any person to attend and vote at the Meeting.
6. In the case of joint holders, the vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the relevant joint holdings.
7. A corporate shareholder may authorise a person to act as its representative(s) at the AGM. In accordance with the provisions of the Act, each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual shareholder of the Company, provided that they do not do so in relation to the same shares. It is no longer necessary to nominate a designated corporate representative.
8. The Notice of Meeting, together with other information for shareholders as regards the Meeting, can be found at www.shepherdneame.co.uk.

FIVE YEAR FINANCIAL SUMMARY

	53 weeks Group 2018 FRS 102 £'000	52 weeks Group 2017 FRS 102 £'000	52 weeks Company 2016 FRS 102 £'000	52 weeks Company 2015 FRS 102 £'000	52 weeks Company 2014 UK GAAP £'000
Profit and loss					
Turnover	**156,567**	156,198	139,890	138,237	138,679
Underlying operating profit	**16,064**	15,259	14,235	13,758	-
Operating profit before exceptional items	**-**	-	-	-	13,401
Operating items excluded from underlying results	**(2,381)**	(469)	(495)	(63)	-
Exceptional charges	**-**	-	-	-	(1,279)
Net finance costs	**(4,295)**	(4,094)	(3,898)	(4,424)	(4,622)
Profit on disposal of property	**1,908**	588	4,235	354	224
Investment property fair value movements	**823**	496	282	4,086	-
Profit on ordinary activities before taxation	**12,119**	11,780	14,359	13,711	7,724
Taxation	**(2,104)**	(1,568)	(1,940)	(2,734)	(1,546)
Earnings available to shareholders	**10,015**	10,212	12,419	10,977	6,178
Dividends					
Interim and finals for the year	**4,315**	4,182	4,077	3,955	3,734
Dividend - pence per share	**29.20**	28.35	27.50	26.70	25.90
Dividend cover	**2.3**	2.4	3.1	2.8	1.6
Underlying dividend cover	**2.2**	2.1	2.0	1.8	-
Dividend cover (excluding exceptional items)	**-**	-	-	-	1.9
Earnings per 50p nominal share value (p) based on:					
Earnings available to shareholders	**68.1p**	69.1p	84.0p	74.3p	41.9p
Underlying earnings available to shareholders	**63.0p**	59.1p	54.7p	48.7p	-
Earnings (excluding exceptional items)	**-**	-	-	-	48.5p
Shareholders' funds employed					
Share capital	**7,429**	7,429	7,429	7,429	7,429
Share premium	**1,099**	1,099	1,099	1,099	1,099
Revaluation reserve	**73,532**	73,579	73,253	72,430	13,125
Hedging reserve	**(13,967)**	(17,446)	(19,288)	(14,226)	-
Revenue reserves	**132,959**	126,450	121,384	113,094	107,098
	201,052	191,111	183,877	179,826	128,751
Represented by assets					
Fixed assets	**308,733**	306,599	280,205	279,960	202,664
Current assets	**25,494**	31,020	29,193	33,862	30,600
	334,227	337,619	309,398	313,822	233,264
Liabilities					
Short-term creditors	**24,614**	31,145	27,430	26,143	25,464
Long-term creditors	**76,422**	78,267	59,439	73,592	75,463
Derivative financial instruments	**16,955**	21,887	23,670	17,783	-
Deferred lease liability	**2,314**	2,027	1,831	1,640	-
Provision for liabilities	**12,870**	13,182	13,151	14,838	3,586
	133,175	146,508	125,521	133,996	104,513
Net assets	**201,052**	191,111	183,877	179,826	128,751
Net assets per share (£)	**13.53**	12.86	12.38	12.10	8.67

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