SHEPHERD NEAME LIMITED
ANNUAL REPORT 2021

Company number; 00138256

BY APPOINTMENT TO:
HIS ROYAL HIGHNESS THE PRINCE OF WALES
SUPPLIER OF SPECIALIST ORDERS
SHEPHERD NEAME LTD
FAVERSHAM KENT

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

OUR VISION – We are Britain's oldest brewer. We believe in the value of individuality and character to inspire and enrich our communities.

OUR MISSION – To delight our customers with the character of our beers, the uniqueness of our pubs and the passion of our people.

Investment in our stretched tent programme has created attractive covered external areas at a number of our pubs.

The Juggs, Lewes

HIGHLIGHTS

REVENUE

£86.9m

2020: £118.2m

STATUTORY OPERATING LOSS

£(10.5)m

2020: £(16.0)m

UNDERLYING OPERATING (LOSS)/PROFIT[1]

£(4.2)m

2020: £1.5m

STATUTORY LOSS BEFORE TAX

£(16.4)m

2020: £(21.0)m

BASIC LOSS PER SHARE

(120.5)p

2020: (131.6)p

UNDERLYING BASIC LOSS PER SHARE[2]

(55.5)p

2020: (21.7)p

DIVIDEND PER SHARE (P)

NET ASSETS PER SHARE[3] (£)

1. Profit before net finance costs, any profit or loss on the disposal of properties, investment property fair value movements and operating charges which are either material or infrequent in nature and do not relate to the underlying performance (see note 7).
2. Underlying loss less attributable taxation divided by the weighted average number of ordinary shares in issue during the period (see note 10).
   The number of shares in issue excludes those held by the Company and not allocated to employees under the Share Incentive Plan which are treated as cancelled.
3. Net assets at the reporting date divided by the number of shares in issue being 14,857,500 50p shares.

All comparatives are for the 52 weeks to 27 June 2020 and have been restated on an IFRS basis (see note 40).

An explanation of the Group's use of Alternative Performance Measures (APMs), including definitions are on pages 114-115 of this annual report.

CHAIRMAN'S STATEMENT

OVERVIEW

When our pubs were allowed to welcome customers indoors on 17 May 2021, they had been closed for 296 of the last 421 days. It would be hard to imagine worse circumstances. Indeed, it has been pointed out that since brewing began on the Faversham site around 1573, there had never been a prolonged cessation of any part of our business until March 2020.

The Company made a statutory loss before taxation of £(16.4)m (2020 restated: loss of £(21.0)m) and an underlying loss before taxation of £(10.1)m (2020 restated: loss of £(3.6)m). Revenue, at £86.9m, was respectively -26% and -40% down on the levels in 2020 (restated) and 2019. As a result, there will be no dividend in respect of this year.

The losses resulting from COVID-19 and the change in technical requirements (in relation to accounting for leases) of the International Financial Reporting Standards have impacted the accumulated profits of the Company, as reflected in its net assets. As a result, Net Asset Value per share has fallen to £11.40 (2020 restated: £12.47).

We are now moving forward with confidence. Trade since the restart has been encouraging in all parts of the business; the Statement of Financial Position remains strong and net debt is reducing fast through good cash generation and targeted disposals; we have a clear plan and the management and team spirit to execute it; and we see new opportunities on the horizon. Whilst we are likely to face further supply chain disruption in the short term, the fundamental drivers for the business remain solid for the long term and we look to the future with great enthusiasm.

In the face of such exceptional challenges, to comment on successes may seem incongruous; but there are, in the board's view, strong indicators that we have a solid platform for future success.

First, the Company, in the sense of the teams of people who are employees or, as licensees and other partners, work with Shepherd Neame, has shown remarkable resilience. In the pubs, all concerned worked diligently to ensure the safety of our customers, putting in place social distancing, masks, sanitiser, and good ventilation indoors in line with guidelines and best practice. The spirit of those who have gathered at the brewery in recent weeks for the first time, and of those working in the pubs, is upbeat and positive. This is an encouraging reflection of the Company's culture.

Second, the Company's three-legged strategy - retail pubs, tenanted pubs, and brewing - has shown its value. There are occasionally questions about the value of the combination of these three areas of business, with other companies having separated their brewing operations. The Board believes that this strategy has been vindicated over the past two years, making the most of an integrated brand but also in diversifying revenues and business risk. In a period in which there was sharply reduced pub revenue, beer revenue grew over the previous year. Grocery sales were particularly strong.

Third, in being among the earliest pub companies to announce that we would forgo tenants' rents, we helped to cement our relationships with them and our reputation with the public. The style of management in an individual pub is critical to it thriving; every licensee contributes something to the idiocentric atmosphere of his or her pub, and for the Company to maintain a good relationship with all licensees and managers is part of the recipe for success. In visiting the pubs since lockdown we have been encouraged by the positive attitude to the Company that licensees have.

THE FOUNDATIONS OF OUR BUSINESS ARE STRONG... WE HAVE THE PEOPLE, THE ASSETS, AND THE CULTURE TO BRING FUTURE SUCCESS.

Fourth, the senior management team has shown endless adaptability and originality of thought in hard and exhausting times. On behalf of shareholders, and of the Non-Executive members of the Board, I thank them for their unfailing commitment and dependability.

Fifth, a few lessons have been learned from managing pubs during periods of partial opening. We have been able to make the most of the outdoors. With limited capital spending, we have expanded on the use of outdoor space, in particular by installing stretch tents. We believe these will continue to be attractive to customers. We are fortunate in having a strong rural and coastal pub base to benefit from the increased custom that could come from less commuting as well as from the presumed trend to warmer weather. We have also been able to innovate with increased use of booking and ordering systems and table service.

Finally, cost control has been meticulous. We have of course benefited from the Government's Coronavirus Job Retention Scheme (CJRS) and other support measures, as the Chief Executive's Review sets out. This support, our own cost controls, and some judicious property sales have enabled the Company to keep debt down during loss-making periods. Net debt, excluding lease liabilities, was £90.8m at the year-end, only £6.4m above the level in 2020. Statutory net debt, including lease liabilities, was £149.1m at the year-end (2020: £140.3m restated. See note 32b to the financial statements). These financial controls helped in the renegotiation of our borrowing agreements, necessary because of covenants dependent on cash flow.

MANAGEMENT AND GOVERNANCE

At the last AGM Miles Templeman stood down as Chairman after 15 years and as a Director after 18 years, as foreshadowed in last year's report. During the first part of the COVID-19 and lockdown crisis he was, as ever, a rock of calm, measured and wise counsel to the Board and management. All the Board join me in wishing him well after his long period with the Company.

We also reported in 2020 that Kevin Georgel would join as a Non-Executive Director from the beginning of the financial year. As Chief Executive of St Austell Brewery and former Chief Executive of Admiral Taverns, his knowledge of the industry is already proving immensely valuable.

The Board has appointed Hilary Riva to be Senior Independent Director and I am grateful to her for taking this on.

Robin Duncan has retired after a marathon career in which he has been a much-respected figure within the Company, and the Board is grateful to Glenda Flanagan for stepping into his shoes as Company Secretary.

Mark Rider has been appointed Chief Financial Officer and Nigel Bunting will become Commercial Director once we have recruited a Director of Retail Pub Operations; I and their colleagues on the Board are grateful to them for assuming these roles.

We have continued our corporate governance progression by adopting the Quoted Companies Alliance Corporate Governance Code (QCA Code) and by transitioning our accounting standards from FRS 102 to IFRS (International Financial Reporting Standards). IFRS are now regarded as the accepted accounting standards for publicly listed companies and we feel that this move is appropriate for us as technically a private company with a stock market listing.

AUDITORS

Regular review of the role of auditors is a necessary part of good governance. The Audit Committee conducted a review and tender during the year and decided to appoint BDO LLP as auditors in place of Deloitte LLP, who had been the Company's auditors since 2009. We thank Deloitte LLP and the team there for their service and we look forward to working with BDO LLP.

DIVIDEND POLICY

The Board very much appreciates the importance of dividends to our shareholders and is determined to return to payment of a dividend as soon as it is prudent to do so. When this time comes, we expect to resume broadly the same policy as in the past: dividend cover at or above two times underlying earnings.

OUTLOOK

Our aims are straightforward. We want people to come to our pubs, drink our beer and enjoy our food, accommodation and general hospitality. We want them to tell others about it and come back for more. The past year has emphasised how important pubs, and breweries, are to their communities. Shepherd Neame is rooted in the community - indeed, several sorts of community: the community of Faversham where the brewery and head office are significant landmarks, the particular community surrounding every pub, and the community of customers who enjoy Shepherd Neame brands. Pub and brewing operators are by their nature strong businesses which form part of Britain's social fabric, and Shepherd Neame is a proud member of the community of such businesses.

The foundations of our own business are strong. We look ahead to recovery and renewed strength, chastened by the problems of the last year. We are cautious about challenges to the supply chain and the inflationary impacts this will bring, but above all, we are positive and optimistic that we have the people, the assets, and the culture to bring future success.

RICHARD OLDFIELD
Chairman

CHIEF EXECUTIVE'S REVIEW

I am extremely proud of the way that our teams throughout the business have handled the crisis and responded with great energy and enthusiasm during the summer, in spite of many logistical and operational challenges.

OVERVIEW

The last financial year has proved every bit as challenging as the prior year, and has been equally dominated by COVID-19 uncertainty. However, we are greatly encouraged by the customer response since re-opening, and are confident that beer and pubs remain every bit as core to British life as before the pandemic.

After the optimism of the summer of 2020, when hospitality was re-opened following Lockdown 1, we then faced increasing restrictions through the autumn of 2020, such that the majority of our pubs ended up being shut for half the financial year; in fact it is only in recent weeks that some London pubs have re-opened for the first time since March 2020.

It is no wonder therefore that the Company has recorded a significant loss for the year, albeit this is less than originally anticipated.

Throughout this period, we have set out to do the right thing for our people and our licensees, and to protect the business and its assets so that we are in the best possible position to bounce back strongly.

I am extremely proud of the way that our teams throughout the business have handled the crisis and responded with great energy and enthusiasm during the summer, in spite of many logistical and operational challenges during the re-opening phase.

I believe that we have achieved our goals during the year and now look forward to the re-build phase with great optimism.

THE IMPACT OF COVID-19 RESTRICTIONS

The financial year started on 28 June 2020. Pubs were not allowed to re-open until 4 July 2020. We then had a phased re-opening through July and early August, of all but our central London and city pubs. We traded well through this period, helped in part by the Eat Out to Help Out (EOTHO) scheme. However, as we moved into the autumn, measures were introduced to reduce social contact, including curfews, the requirement to eat a meal in a pub, and other regional restrictions.

This ended in a further lockdown on 5 November for four weeks. Approximately one quarter of our pubs were able to re-open on 3 December, but this lasted for anything from a few days to three weeks, after which the country was again placed in national lockdown until 12 April 2021.

WE HAVE A GREAT PLATFORM AND THE BALANCE SHEET REMAINS STRONG. WE CAN NOW LOOK FORWARD TO 2022 WITH OPTIMISM.

RECRUIT NEW CUSTOMERS

Attracting new customers for our brands at key festivals and events over the summer.

Bear Island bar, Gone Wild Festival, Devon

Food has been a major driver of recovery in our pubs and we continue to expand and develop the offer with new dishes, such as the Diggity Dog vegan hotdog.

Pier Five, Chatham

We have continued our rollout programme of external decoration and signage – two thirds of our pubs now have the new signage scheme.

The Imperial, Southborough

CHIEF EXECUTIVE'S REVIEW CONTINUED

Restrictions were lifted to allow outdoor trading only from 12 April to 17 May, when indoor trade was permitted. All legal restrictions were lifted on 19 July 2021, after a delay from the originally proposed date of 21 June.

PERFORMANCE FOR THE YEAR TO JUNE 2021

Throughout the whole of the COVID-19 crisis we have maintained the production of beer. Total beer volumes have been resilient and we have supplied record volumes to the grocery trade. Export trade has continued to be good, although impacted at times by the closure of many of our markets and the UK's exit from the EU in the early part of 2021. This trade has recovered since.

Our pubs traded strongly in the summer of 2020 and again in the spring of 2021, with particularly good performance from food and accommodation, when trading restrictions were eased. We did not charge our licensees any rent during periods of closure, but re-introduced rent on a phased basis whilst restrictions remained in place until August 2021, after which normal rent was applied in full.

Total revenue for the year was £86.9m (2020 restated: £118.2m), down -26% on 2020.

Total revenue in the Tenanted Pubs division was down -33.5%, in Retail Pubs down -40.9% vs 2020, but we achieved growth in the Brewing and Brands business of +1.0%.

Overall the Company generated £7.7m of underlying EBITDA (2020 restated: £13.6m), but fell to an underlying operating loss of £(4.2)m (2020 restated: profit of £1.5m). Statutory operating loss was £(10.5)m (2020 restated: £(16.0)m).

Statutory loss before tax was £(16.4)m (2020 restated: loss of £(21.0)m). Underlying loss before tax was £(10.1)m (2020 restated: £(3.6)m).

TRADE SINCE RE-OPENING

On 12 April we re-opened over two thirds of our pubs and the customer response was immediate. We experienced strong demand as friends and family wanted to re-connect in pub gardens, in spite of bitterly cold but sunny conditions. As soon as indoor opening was allowed on 17 May, trade increased materially and food and accommodation trade has remained strong ever since.

For the 11 weeks from 12 April to 26 June, retail pubs and hotels that were open achieved 84% of their 2019[1] revenue. Total retail sales were 60% of their 2019[1] levels, as 15 pubs in central London remained closed. For the initial period from 12 April to 16 May, open pubs achieved 62% of 2019[1] sales and from 17 May, when indoor trading resumed, to the year end on 26 June, those same sites achieved 97% of 2019[1] sales.

For the 11 weeks from 12 April to 26 June, tenanted pubs achieved 77% of their 2019[1] volume. For the four weeks of June, they achieved 91% of their 2019[1] beer volumes. After paying no rent for all the weeks of lockdown, our tenanted pubs returned to 90% of normal rent as from 21 June and to full rent from 2 August 2021.

Total beer volume has been resilient throughout the pandemic. We have obtained new on-trade customers since re-opening and new listings in other channels. Total volume in all channels was +8.4% in May and June versus 2019[1] and total own beer volume, excluding contract, was down -3.6% for the same period.

The third wave of infections, the "pingdemic" and the delay in lifting restrictions to 19 July, slowed demand somewhat in July, but confidence returned in August as accommodation and food performed strongly.

GOVERNMENT SUPPORT

During this financial year, the Company has received £15.0m (2020: £6.1m) of overall support in various forms from the Government, which flows through our numbers. The largest of these is furlough support, which amounted to £9.3m during this financial year (2020: £5.0m). At one stage, 97% of the total team was on furlough. Whilst this support enabled us to protect the majority of jobs, we did have to undertake a redundancy process which resulted in an approximate 10% reduction in roles.

We received business grants that totalled £2.8m (2020: £0.5m). Additional support was received through the cancellation of business rates (2021: £2.9m; 2020: £0.6m) and a reduction in VAT on food, accommodation and soft drinks, to 5% for the periods we have been allowed to trade.

As at the end of September 2021, all furlough support has ceased; business rates support runs through until the end of March 2022; the temporary reduction in VAT to 5% has started to unwind and is now 12.5% from 1 October through to the end of March 2022. The industry is lobbying for permanent re-alignment of business rates, excise duties and VAT.

1. The periods referred to are the comparative month(s) during the financial year 52 weeks to 29 June 2019.

DELIGHT OUR CUSTOMERS WITH GREAT EXPERIENCES

Our team have been helping licensees to enhance their food experience, including here, with the introduction of a new outdoor wood-fired pizza oven.

The East Kent, Whitstable

In September we launched the Live & Unlocked festival in our Faversham pubs to support local musicians.

The Truly Hard Seltzer range was introduced to the portfolio this summer as part of our partnership with Boston Beer Company.

BUILD A GREAT TEAM OF DEDICATED PEOPLE

Jodie Butcher (Assistant Manager at The Spitfire, West Malling - left), one of three Shepherd Neame apprentices nationally recognised in the annual Purple Umbrella awards, with Lisa Williams, Field Trainer (right).

Throughout the pandemic, we have worked to support the health and wellbeing of our team members. This has included the rollout of Unmind, a workplace mental health platform accessed via a phone app.

Since reopening, we have recommenced our successful apprenticeship programme for chefs and aspiring managers.

CHIEF EXECUTIVE'S REVIEW CONTINUED

NET DEBT

In spite of making a loss, the Company has managed its net debt and cash flow tightly.

Statutory net debt, including lease liabilities, was £149.1m at the year-end (2020 restated: £140.3m). Net debt, excluding lease liabilities, was £90.8m (2020 restated: £84.5m). At the end of the 2020 financial year, £11.0m in excise duty and VAT was deferred, in agreement with HMRC. This balance had reduced to £2.4m at June 2021 and will be settled over the coming year. All rent arrears to our landlords have been met, following constructive discussions with the majority.

We have managed our cost base prudently during this time and we have restricted capital expenditure to £3.9m (2020: £12.3m; 2019: £19.3m).

Our net debt position has been helped by cash from disposals. The property market has remained good and we have disposed of two pubs (2020: two) and 12 (2020: six) investment properties for total proceeds of £4.5m (2020: £1.6m).

FINANCING AND REVALUATION

Prior to the pandemic we had total committed facilities of £107.5m. In July 2020, we secured a £25.0m revolving credit facility from our banking lenders, Lloyds Bank plc and Santander plc, utilising the Government's Coronavirus Large Business Interruption Lending Scheme (CLBILS), of which £15.0m was committed and a further £10.0m was available on request. In April 2021, in the light of the extended lockdown, new covenant waivers were agreed with our lenders. Normal covenant tests were relaxed through to September 2022, and have been replaced with minimum liquidity covenants.

The Company has not drawn on its CLBILS facility during the year. This robust financial position is now underpinned by the revaluation of our licensed premises, carried out as at 26 June 2021, which indicates a surplus over book value of £35.9m, or +13%. As our freehold properties are carried at cost less accumulated depreciation and any impairment in value, this increase in value is not reflected in these financial statements.

Taken together, the Company has ample liquidity for the foreseeable future and retains a strong balance sheet. We have not raised equity from shareholders. The primary focus now is to return underlying EBITDA to prior levels, to restore our previously lower levels of leverage, and thereby return to within pre-pandemic covenants, during this financial year.

INVESTMENT

We completed the major development at The Wharf in Dartford that was under construction when the pandemic hit, and installed a new yeast propagation plant that had been previously committed.

In addition we have made a limited number of other targeted investments. These include around 30 projects to install stretched tents to create attractive covered external areas at our pubs, the final payment on the pub site at Ebbsfleet, and certain minor investments in the brewery.

To ensure that the business is best placed to recover quickly, we have maintained our pubs to a high standard and have continued our roll out programme of external decoration and signage schemes. Two thirds of our pubs now have the newer signage scheme and we are on track to complete the whole estate within two years. We have continued to invest in our marketing, brands and communication.

BUILDING BACK BETTER

Throughout the pandemic, we have been focussed on ensuring that the Company is in the best possible shape to recover fast and be well placed to take advantage of any opportunities that subsequently arise.

In our pubs, food has been a major driver of our recovery and returned quickly to prior levels. We have developed our offer further with expanded dishes, pizza offers and more vegetarian, vegan and lower-calorie options.

We have benefited greatly from the restrictions on international travel and the staycation summer. We are very pleased with how low the turnover of licensees has been, and we see this as a reflection of the strong relationships we enjoy.

We have spent time on building better brands for the future. We have introduced more craft beers to our pub list; have developed a 0.5% low-alcohol beer under the Noughty Bear brand; have added the Truly Hard Seltzer range to the portfolio, which has seen great success in the US; and have partnered with Canterbury-based cider-maker Kentish Pip to introduce a bespoke range of local ciders.

Towards the end of 2019, we formed a partnership with the BoonRawd Brewery of Thailand to distribute Singha beer in the UK. This has already been successful and has grown volume despite the on-trade being shut for large parts of this time. We are optimistic about the potential for this brand in the UK, in spite of incurring high international freight costs at this time.

CREATE PASSIONATE ADVOCATES FOR OUR BEER & PUBS

Changing lifestyles may present opportunities for us in the future.

The Britannia, Guildford

We experienced strong demand upon reopening as friends and family wanted to re-connect.

The Red Lion, Charing Heath

Dog ownership has boomed during the pandemic and a number of our pubs now offer Jude's Dog Ice Cream, with proceeds going to charity.

Minnis Bay Bar & Brasserie

CHIEF EXECUTIVE'S REVIEW CONTINUED

We have also developed a number of key new partnerships to support our brand work. Locally, we were delighted to be the Official Beer provider of The Open at The Royal St George's Golf Club. Other events and festivals returned towards the end of the summer and we partnered with organisations such as Dreamland in Margate, Live Nation and many other festival organisers throughout the country. We had a particularly strong presence of the Bear Island range at the Gone Wild Festival in Devon.

BUILDING A STRONG TEAM

Throughout the pandemic, we have worked hard to keep our teams together and engaged in the business. We supported those on furlough as best we could and maintained regular communications, providing training as appropriate and on going support for mental health and physical wellbeing.

Our support for our people has been richly rewarded with an excellent response since re-opening, and great energy and enthusiasm for all the difficult challenges we have faced. We have a loyal, dedicated and experienced team. Thankfully, we do not seem to have faced the extreme staff shortages that some operators have encountered, albeit it has been difficult at times. So far we have been able to recruit in most roles when vacancies occur, although finding chefs and kitchen staff remains challenging. Such skills shortages are expected to last for some time and may lead to higher costs of employment. All employees are paid above the national minimum wage.

As we emerge from the pandemic, we have made some management changes and created a new Operations Committee in place of the separate Pubs and Brewing & Brands Committees, to provide a single point of focus for our decision-making. We have introduced new members to the senior team: specifically Kate Ware, who joined as Head of People following Robin Duncan's retirement.

During the coming year, Nigel Bunting will become Commercial Director with overall responsibility for all sales, brewing, procurement and logistics operations in the Brewing and Brands business. We have commenced recruitment for a Director of Retail Pubs.

RECOGNISING OUR ACHIEVEMENTS

Our response to the pandemic has been widely commended by our customers. We have tried to maintain a high profile throughout and to communicate as clearly and regularly as possible to all our stakeholders.

The feedback has generally been positive and our audiences and engagement on all social channels have grown materially. We hope that this goodwill and high recognition will benefit the Company in the years ahead.

In this regard, it is also pleasing that our efforts continue to be recognised in multiple awards for our beers and pubs: most notably the Good Pub Guide Brewery of the Year 2021 and a CAMRA Golden Award. We were delighted that our 1698 Strong Ale was the UK winner in the International Beer Awards for strong pale ale.

CONSUMER TRENDS

There has been much comment during the pandemic about changes in lifestyle and shifts in consumer behaviour. From what we can see so far from the trade over the summer, such changes may be marginal, or rather an acceleration of changes already happening.

We have seen continued growth in food and accommodation sales and an on-going shift from on-trade beer consumption to off-trade beer consumption. But many of these trends have been in place for a number of years. The consumer is increasingly looking to make healthy choices and purchase lower-alcohol products.

In many situations, consumers appear to value the quality of the experience, and are seeking premium products. Our whole focus therefore is to ensure that they can enjoy a rewarding and differentiated experience in our pubs.

Hybrid working does look as though it is here to stay, with employees going to the office only two or three days per week. This is providing city-centre pubs with a mid-week boost but a quieter Monday and Friday. Thus far, we have been encouraged by trade levels in the City of London, which are above expectations, albeit some way below 2019 levels.

CHIEF EXECUTIVE'S REVIEW CONTINUED

In time, it is likely that city centres will evolve into hybrid work and residential spaces, resulting in enhanced weekend trade. Many high streets are already evolving to become more pedestrianised, stimulating al fresco hospitality. Meanwhile suburbs and villages are seeing more footfall than they did historically during the week, and many of our pubs in these areas have achieved record sales over the summer.

Overall, we feel these emerging trends play to our strengths and provide us with growth opportunities for the future.

DOING THE RIGHT THING FOR OUR COMMUNITIES

Over the years up to the pandemic, we had built a strong platform for the business. It is our priority to restore prior levels of financial success and return to growth. But we must do so in a way that recognises the impact our activities have on our environment and the wider community. We have always prided ourselves on the positive contribution we make to Faversham and the communities our pubs support. Nevertheless, we are ever more mindful that over the coming years we must develop new ways to reduce carbon and waste to ensure our long-term success. We are working on plans to this effect. Further information on our work in the community can be found on pages 22-23 of this report.

SUPPLY CHAIN CHALLENGES

Consumer demand to return to the great British pub has never been in doubt and most customers have been delighted by the experience they have enjoyed.

However, our teams have battled throughout this re-opening phase with unforeseen staffing, supply chain and logistics challenges. At various times, we had temporary pub closures due to staff members being "pinged" by Test and Trace. This has compounded a pre-existing shortage of key hospitality workers. At other times, key supplies such as building materials, process gases such as CO_2 or other key materials, have been in short supply or have been subject to material price inflation. However, our practice of supporting local suppliers where possible has enabled the Company to avoid some of the extreme shortages experienced by other operators.

Most suppliers have experienced severe logistics challenges due to shortages of HGV drivers, and in August 2021 we were threatened with industrial action affecting our logistics partner GXO (formerly XPO, formerly KNDL). Thankfully industrial action was averted, but this impacted supply for several weeks at a period of high demand, resulting in additional direct costs in the region of £0.25m.

Many have worked long hours to help the Company get back on its feet and trade successfully through these issues.

CURRENT TRADING

The start of the new financial year has been encouraging. Demand for food and accommodation, in particular, has been strong since July. Some consumers curtailed their going out as restrictions were extended from June in to July, but once they were lifted, demand accelerated in August and into September.

As schools returned, we saw a pickup in activity in our city-based pubs, and remain optimistic that they will recover in full in due course. Outside London, traditional pub trade is returning. At this stage, all the indications are that we will have a strong Christmas trading period.

For the 18 weeks from 27 June to 30 October, same outlet like-for-like sales in retail pubs were 91% of 2019[1] and up +37.0% vs 2020.[1] For the 9 weeks to 30 October, same outlet like-for-like sales in retail pubs were 99% of 2019[1] and up +26.4% vs 2020.[1] This is inclusive of the benefit of the temporary VAT reduction.

For the 13 weeks from 27 June to 25 September, same outlet like-for-like tenanted pub income was 93% of 2019[1] and up +26.2% vs 2020.[1] For the four weeks to 27 September, same outlet like-for-like tenanted pub income was 99% of 2019[1] and up +17.3% vs 2020.[1]

For the 18 weeks to 30 October, total beer volume was 106% of 2019[1] and up +9.6% vs 2020.[1] Own beer volume was 93% of 2019[1] and up +1.6% vs 2020.[1] For the 9 weeks to 30 October, total beer volume was 104% of 2019[1] and up +15.4% vs 2020.[1] Own beer volume was 94% of 2019[1] and up +4.8% vs 2020.[1]

1. The periods referred to are the comparative month(s) during the financial year 52 weeks to 27 June 2020 and 52 weeks to 26 June 2021.

WORKING WITH LOCAL PARTNERS

We continue to develop strategic partnerships that support our brands, including teaming up with Dreamland in Margate.

We were delighted to be the Official Beer provider of The 149th Open golf championship.

Royal St George's

We have partnered with Canterbury-based craft cidermaker Sam Mount, Managing Director of Kentish Pip, to introduce a bespoke range of local ciders into our pubs.

CHIEF EXECUTIVE'S REVIEW CONTINUED

POST YEAR END

The balance sheet position has been enhanced since the year end, through good trading and the sale of two hotels that no longer fit our portfolio.

We have sold The Royal Wells in Tunbridge Wells and the Conningbrook in Ashford, for total consideration of £5.75m. Both hotels rely on business trade and therefore have a different profile from our coastal hotels which target the leisure market. Our coastal hotels remain core to the operation and have performed very well since re-opening.

THE YEAR AHEAD

We enter the winter months with a degree of caution after the turmoil of the last year when the second wave of COVID-19 took hold. But the vaccination programme appears to have been a success and has given consumers the underlying confidence to re-connect again. Clearly we hope that there will be no further requirement for lockdowns, nor the introduction of any other restrictions that impact hospitality but not other non-essential retail.

We remain confident about demand, but the inflation outlook is much less certain, as we anticipate on-going price rises from various vendors and skills shortages in parts of the supply chain. We anticipate materially higher costs in freight, logistics, input prices and energy. We are working hard to ensure that our customers remain supplied and that we mitigate as much cost pressure as possible, but anticipate these cost pressures will continue for a while yet.

Assuming that we do not experience further disruption, our plan is to run the business as tightly as possible, throughout the rest of the financial year, to generate free cash and so restore leverage back to the pre-pandemic lower levels. In due course we aim to resume our prior levels of inward investment in the business and restore a dividend.

SUMMARY

We have a great business platform and the balance sheet remains strong. We can now look forward to 2022 with optimism and, with every day that passes, confidence grows that we can not only recover lost ground, but recover well, unlock growth opportunities and release the full potential of the business.

We have identified many opportunities to develop our beer and pubs businesses further. With the work that we are putting in to develop our marketing and brand partnerships, and the strength of our pub business, we feel increasingly confident that we will bounce back strongly and achieve full recovery to prior levels over the next two years.

Many parts of the economy have taken a battering from the pandemic, in particular hospitality, but the house-building and Infrastructure development that has been a feature of the Kent economy now for a number of years, has continued unabated. Thus we see many opportunities arising in coming years for transformational pub developments.

A BIG THANK YOU

Our teams have demonstrated that they are extremely resilient, resourceful and entrepreneurial people. Many have worked long hours, but with great enthusiasm, to help the Company get back on its feet and trade successfully through these issues. That can-do attitude is recognised by suppliers and customers alike, and will undoubtedly lead us to a successful future. The spirit of Shepherd Neame is alive and well.

As well as paying tribute to our team members, I would like to thank my Board colleagues and the senior management team for their wisdom, leadership and support; and in particular I thank Richard for his guidance and great personal encouragement.

Finally I would like to thank our customers and shareholders for their support in helping us through this crisis.

JONATHAN NEAME
Chief Executive

WE REMAIN CONFIDENT ABOUT DEMAND, BUT THE INFLATION OUTLOOK IS MUCH LESS CERTAIN.

OUR STRATEGY

OUR VISION – We are Britain's oldest brewer. We believe in the value of individuality and character to inspire and enrich our communities

OUR MISSION – To delight our customers with the character of our beers, the uniqueness of our pubs and the passion of our people

RECRUIT NEW CUSTOMERS

DELIGHT OUR CUSTOMERS WITH GREAT EXPERIENCE

OUR STRATEGIC OBJECTIVES

BUILD A GREAT TEAM OF DEDICATED PEOPLE

CREATE PASSIONATE ADVOCATES FOR OUR BEER AND PUBS

Be trusted to do the right thing for our communities

BUSINESS MODEL AND INVESTMENT CASE

OUR PURPOSE

We believe in the value of individuality and character. Our mission is to delight our customers with the character of our beers, the uniqueness of our pubs and the passion of our people.

We balance strong cash generation with reinvestment into the business to enhance the customer experience and to ensure the business is well positioned for the long term.

OUR PUB ESTATE

310
PUB PORTFOLIO

OUR BEER BRANDS

OUR BUSINESS CHARACTERISTICS

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

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

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

HOW WE ADD VALUE

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

A key objective of the business in recent years has been to reposition the pub estate to benefit from the demand trend of food and accommodation within pubs and to move away from an estate that was historically based on small wet-led pubs. This has required significant active property management and investment. Over the last ten years 78 pubs and a number of investment properties have been disposed of for total proceeds of £47.4m, and 36 pubs have been purchased at a cost of £66.2m.

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

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

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

FUTURE OPPORTUNITIES

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

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

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

STAKEHOLDER VALUE

Customers

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

Trade customers

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

Our teams

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

Suppliers

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

Communities

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

Shareholders

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

FINANCIAL REVIEW

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

As part of the Board's corporate governance review, this year sees the financial statements produced under IFRS. A detailed view of the impacts and restatements to previous years financial statements is included on pages 102–112.

There are a number of new disclosures through the accounts and notes. Key impacts you will see for the business involve the following:

	Previous treatment under FRS 102	New Treatment under IFRS	Key impacts
Leases	Operating lease rentals were charged to the profit and loss account as incurred. Finance leases were capitalised on the balance sheet as an asset and depreciated.	All leases are now capitalised as a right-of-use asset at the present value of lease commitments and depreciated through the Income Statement. Lease liabilities are also recognised in the Statement of Financial Position as a liability calculated as the discounted value of future lease payments.	Increase in property, plant and equipment values on the Statement of Financial Position. New lease creditor for the discounted future lease payments. Lower operating costs, higher depreciation and higher finance costs. Higher impairment charges following COVID-19 when also considering the new right-of-use assets.
Goodwill	Goodwill was amortised over 5 to 10 years.	Goodwill is held at initial valuation with no amortisation but is reviewed annually for impairment.	Higher asset value and higher profitability due to no amortisation.
Government grants and support	Government grants including the Coronavirus Job Retention Scheme income were treated as other income.	Coronavirus Job Retention Scheme income is treated as a reduction in the corresponding costs. Other government grants are treated as other income.	Other income is lower but profitability remains the same.
Trade and other receivables	Measured at transaction price less provision for doubtful debts.	Measured at transaction price less an expected credit loss.	Provision for bad debts are largely consistent.
Deferred tax	Recognised in respect of all timing differences that have originated but not reversed at the balance sheet date for future transactions that will result in a tax obligation.	Deferred tax is recognised on all temporary differences.	Minimal impact on the tax position of the Company outside a reduction in deferred tax liabilities due to increased impairment charges on right-of-use assets.

A summary of the key impacts of the IFRS adjustments can be seen in the following table:

	2021 £'000	IFRS 16 Impact £'000	**2021 Pre IFRS 16 £'000**	Other IFRS adjustments £'000	2021 FRS 102 £'000	**2020 Restated under IFRS £'000**	IFRS 16 Impact £'000	**2020 Pre IFRS 16 £'000**	Other IFRS Adjustments £'000	2020 FRS 102 Restated £'000
Revenue and other income	**89,723**	-	**89,723**	-	89,723	**118,657**	-	**118,657**	4,962	123,619
Underlying operating (loss)/profit	**(4,240)**	(1,904)	**(6,144)**	(148)	(6,292)	**1,515**	(415)	**1,100**	(156)	944
Statutory operating loss	**(10,547)**	(310)	**(10,857)**	(15)	(10,872)	**(16,000)**	7,717	**(8,283)**	145	(8,138)
Underlying net finance costs	**(5,817)**	1,285	**(4,532)**	-	(4,532)	**(5,155)**	1,298	**(3,857)**	-	(3,857)
Underlying (loss) before tax	**(10,057)**	(619)	**(10,676)**	(148)	(10,824)	**(3,640)**	883	**(2,757)**	(156)	(2,913)
Statutory (loss) before tax	**(16,412)**	949	**(15,463)**	(78)	(15,541)	**(20,981)**	9,015	**(11,967)**	(135)	(12,101)
Underlying EBITDA	**7,710**	(4,990)	**2,720**	14	2,734	**13,550**	(3,876)	**9,674**	(18)	9,656
Net assets	**169,347**	7,676	**177,023**	(222)	176,801	**185,236**	7,159	**192,395**	(149)	192,246
Net assets per share	**11.40**	0.51	**11.91**	(0.01)	11.90	**12.47**	0.48	**12.95**	(0.01)	12.94

Total Tenanted pub revenues were £16.7m (2020 restated: £25.2m), down -33.5% on the previous year. Within this reduction, rental income was down -£3.5m to £2.4m. During the periods of closure during the year, no rent was charged to licensees and as we have reopened there has been a gradual increase in rent received, reaching 100% in August 2021. Underlying operating profit for the Tenanted estate was £2.3m (2020 restated: £7.0m), reflecting the greater period of lockdown within the current financial year.

Retail pub revenues were £29.9m (2020 restated: £50.6m), down -40.9% on the previous year, again reflecting the period of lockdown. Within this, drink sales were £12.6m (2020 restated: £29.2m), food sales £11.3m (2020 restated: £16.3m) and accommodation sales £3.1m (2020 restated: £4.2m). Retail underlying operating profit was £1.0m (2020 restated: £2.9m) due to the lower level of revenue. Whilst we looked to reduce the cost base within the retail estate to the lowest possible level during closure and took advantage of all government support, there is a remaining overhead base that led this area to be loss making during lockdown.

Brewing and brands revenues were up +1.0% to £42.0m (2020 restated: £41.6m) following strong demand for our brands during both the lockdown periods and periods of reopening. Within this performance there was a significant shift in mix of trade from on-trade customers such as pub and bar groups and sports clubs to off-trade grocery customers at lower margins. This margin mix combined with a fixed cost base of the brewing operation meant brewing and brands underlying operating loss was £1.3m, down by -£1.0m.

FINANCE CHARGES

Total finance charges were £6.2m (2020 restated: £5.3m), of which underlying net finance costs were £5.8m (2020 restated: £5.2m). Within underlying finance charges, pre IFRS 16 costs were £4.5m (2020 restated: £3.9m) relating to the Company's loan notes and bank debt reflecting the increased rates agreed with lenders as part of the refinancing and covenant extensions agreed in July 2020.

Finance charges relating to IFRS 16 lease related debt was £1.3m (2020 restated: £1.3m).

ITEMS EXCLUDED FROM UNDERLYING RESULTS

Total items excluded from underlying loss before tax were a net charge of £6.4m (2020 restated: net charge of £17.3m). This year's items comprised the following elements:

- The ongoing COVID-19 pandemic resulted in one-off costs of £0.7m in relation to employees who left the business as part of a restructuring programme..The majority of these leavers were voluntary redundancies.
- In relation to property matters:
  - The annual impairment review resulted in an impairment charge of £5.7m relating to 31 properties, of which £1.6m is attributed to leased right-of-use assets. The 2020 comparative impairment charge has increased significantly following the transition to IFRS as a further impairment charge has been taken against leased right-of-use assets of £8.9m, taking the total 2020 impairment charge to £16.1m on 33 properties.
  - Property profits of £0.2m (2020 restated: £0.3m) were generated on the sale of two pubs and 12 investment properties. (2020 restated: two pubs and six investment properties). These were predominantly small community wet led pubs and unlicensed assets that no longer fit with the Company's long-term strategy.
  - The annual revaluation to fair value of investment properties on the Statement of Financial Position resulted in an increase in value of £0.1m (2020 restated: gain £0.1m).
  - In 2020, items excluded from underlying results included a charge of £0.9m for the fraud detected in the year and a charge of £0.5m in relation to an HMRC enquiry around potential liabilities relating to uniforms and training requirements for staff paid the national minimum wage. £0.1m of recoveries were made in the 52 weeks to 26 June 2021 in relation to the employee fraud.
- In relation to finance costs:
  - There was a £0.1m gain (2020 restated: nil gain) in relation to the ineffective portion of the remaining interest rate swap and
  - Legal and professional fees of £0.5m (2020 restated: £0.2m) associated with agreeing revised covenants and agreements of waivers with our lenders as well as fees associated with putting in place the CLBILS loan.

FINANCIAL REVIEW CONTINUED

TAXATION

The Company has recognised a total tax charge of £1.4m (2020 restated: tax credit £1.6m), an effective rate of -8.5% (2020 restated: +7.6%) due to deferred tax changes. The average statutory rate of corporation tax in the UK for the period was 19% (2020 restated: 19%). The underlying tax rate was 18.6% (2020 restated: 12.3%). The net tax charge on items excluded from underlying results was £3.2m (2020 restated: credit of £1.1m).

Within the 52 weeks to 27 June 2020, the impact of the adoption of IFRS is to reduce deferred tax balances by £1.8m of which £1.7m relates to impairment charges.

The Finance Bill 2016 had previously enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020 and accordingly the deferred tax at 29 June 2019 had been calculated at this rate. However, in the March 2020 Budget it was announced that the reduction would not occur and the Corporation tax rate was to be held at 19%. The Provisional Collection of Taxes Act was used to substantively enact the revised 19% tax rate on 17 March 2020 and accordingly the deferred tax balances were re-calculated to 19% at 27 June 2020.

An increase in the future main rate of UK corporation tax to 25% from 1 April 2023 was announced in the Budget on 3 March 2021, and was substantively enacted on 24 May 2021 when the Finance Bill 2021 had its third reading. Therefore as at the 26 June 2021 any deferred tax assets or liabilities that are expected to reverse after 1 April 2023 have been restated at 25%.

The impact of the restatement of deferred tax balances due to changes in tax rates is a net increase in deferred tax liabilities of £3.9m (2020 restated: £1.5m) of which £4.0m (2020 restated: £1.6m) is recognised in the income statement and a £0.1m credit (2020 restated: £0.1m credit) in Other Comprehensive Income.

EARNINGS PER SHARE AND DIVIDENDS

Underlying basic loss per ordinary share was (55.5)p (2020 restated: loss per share (21.7)p) following the decrease in profits following the COVID-19 pandemic. Basic loss per ordinary share was (120.5)p (2020 restated: loss per share (131.6)p), reflecting a lower level of impairment charges.

Due to the COVID-19 pandemic, the need to preserve cash and the fact the terms and conditions of the financing arrangements have restrictions on dividend payments whilst the CLBILS facility and alternative covenants remain in place, no dividend was paid or proposed for the 52 weeks ending 26 June 2021 nor the 52 weeks ending 27 June 2020.

CASH FLOW

The decrease in underlying operating profits meant underlying EBITDA decreased to £7.7m (2020 restated: £13.6m) following the increased period of closure for the business in the 52 weeks to 26 June 2021. There was a significant working capital outflow of £5.2m (2020 restated: £5.9m inflow) as the business reopened and incurred a higher level of debtors. Due to the loss position for tax purposes a corporation tax receipt was obtained for £0.2m, (2020 restated: payment of £0.2m).

The items excluded from underlying results led to a £1.3m cash outflow (2020 restated: £0.6m) of which £0.7m related to restructuring costs and £0.5m due to costs related to agreement of covenant changes and waivers with our lenders. Taking these movements together, there was a cash inflow from operations of £1.8m (2020 restated: inflow of £19.0m).

The total interest paid was £4.8m (2020 restated: £3.2m) following the higher average level of net debt across the year.

Total disposal proceeds of £4.5m (2020 restated: £1.8m) were realised from the sale of pubs and assets that no longer fit our strategy.

Cash spend on capital expenditure was reduced significantly on the back of the lower operating cash flows. During the year, capital expenditure of £3.9m was invested (2020 restated: £12.0m). Outside of core maintenance expenditure this sum included the completion of the transformational development of the Wharf, Dartford (£0.7m) and the yeast culture plant in the brewery (£0.4m) two projects that were started ahead of the pandemic and suspended during the first period of lockdown.

The total increase in net debt, excluding lease liabilities was £6.4m at £90.8m (2020 restated: £84.5m). Statutory net debt increased to £149.1m (2020 restated: £140.3m) due to the increase in net debt combined with the modification of 11 leases. The extension to these lease terms increased the liability by £5.5m.

STATEMENT OF FINANCIAL POSITION

There was a £14.3m decrease in non-current assets (2020 restated: decrease of -£16.6m) of which the pre IFRS 16 reduction was £15.3m (2020 restated: decrease of -£4.9m), following the impairment charge recognised in the financial year and disposal of 12 investment properties with a book value of £2.1m. The increase in net debt combined with the reduction in non-current assets means net assets reduced by £15.9m (2020 restated: decrease of -£22.9m).

Taking these elements together, shareholders' funds at 26 June 2021 were £169.3m (2020 restated: £185.2m) meaning net assets per share showed a decrease of 8.6% to £11.40 (2020 restated: £12.47). Underlying net assets per share pre IFRS 16 were £11.91, down 8.0% (2020 restated; £12.95).

Total balance sheet gearing at the year end, pre IFRS 16, was 50% (2020 restated: 44%) and including lease liabilities was 88% (2020 restated: 76%).

FINANCING AND LOAN FACILITIES

The position around net debt and the Company's financing facilities is included in the Chief Executive's review on page 9.

OUTLOOK FOR THE 2022 FINANCIAL YEAR

As has been noted in the Chairman's and Chief Executive's statements, the coming year sees a change in the cost environment for the hospitality sector and the business. We have already seen an increase in distribution costs of around £0.25m for the threatened strike early in the new financial year but would expect further increases in the second half.

Recently signalled increases in the national minimum wage do not affect our pay rates directly but our commitment to ensuring our teams are all paid ahead of the national minimum wage means that our costs will increase. A combination of this, utility and other cost increases within the retail pub estate means we are likely to see annualised cost increases of around £2m.

Within the brewery, a number of areas of spend are hedged over several years, with energy until 2024, and as a result inflation is more modest. Increases in this area around CO_2 and brewing inputs are likely to lead to increased annualised costs in the region of £0.5m.

The Board is committed to mitigating this inflation wherever possible. Whilst focusing on reducing net debt and placing the business in the strongest position for the future, capital expenditure is likely to be at consistently modest levels for the majority of the current financial year.

GOING CONCERN

At this point in the pandemic the Board is more positive in its outlook than was possible when the previous year statutory accounts were approved. At that time the country was on the verge of a new period of lockdown and whilst the business had ample liquidity there was a material uncertainty that banking covenants would be met.

Looking forwards we can demonstrate that the business can trade well and generate cash when it is permitted to open. If there are no further periods of lockdown and closure for the hospitality trade the Board's base case projections show that it is expected that the Company will be within its covenants during 2022 and the CLBILS facilities will be cancelled. At this point the business would move to previous levels of capital investment. In the Board's stress tested scenario it would take 2 months of lockdown and closure for the business to not meet its covenants. Whilst the last eighteen months have shown that the future is hard to predict, it is considered unlikely that this period of closure will take place and as a result these financial statements have been prepared on a going concern basis and without material uncertainty. More detail on these considerations can be found on page 63.

MARK RIDER
Chief Financial Officer

SHEPHERD NEAME IN THE COMMUNITY

Underpinning our strategy is a drive to do the right thing for our communities and the environment. The strength and core purpose of our business lie in the deep roots we have within our individual communities

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

Above: We donated a number of refurbished laptops to Ospringe Primary School.

Below: Work to renovate the iconic Gamecock boat is being sponsored by Shepherd Neame.

COMMUNITY PROJECTS

During the year, we helped to launch the Kent Community Foundation new Knock and Check campaign. This scheme is aimed at encouraging people in Kent to help prevent loneliness and isolation and save lives by looking out for and helping elderly neighbours.

During the period of school closure due to the COVID-19 pandemic, the Company was keen to support the national campaign to provide pupils in need with equipment to help them study at home. We were able to donate a number of refurbished laptops to Ospringe Primary School, located a short distance from the brewery.

The Company is also helping to sponsor the renovation of an iconic boat that was once involved in Whitstable's oyster trade. The 42-foot Gamecock, registered as a National Historic Vessel, was acquired six years ago by the charity Whitstable Maritime, which has subsequently set about the painstaking job of renovating the craft.

CHARITY

In 2018 we made a step-change approach to our fundraising initiatives under the name of ShepsGiving, where we select one charity on which to concentrate all the Company's and our teams' efforts. The COVID-19 pandemic had a significant impact on the level of support we were able to give the Royal British Legion Industries (RBLI), our chosen charity for 2020, and as such we decided to extend our partnership with RBLI until the end of December 2021. RBLI is a national charity supporting not only British Armed Forces veterans, but also civilian men and women of all ages, specifically those with disabilities and the long-term unemployed. It aims to support its beneficiaries to find work and lead independent lives.

Activity undertaken in the year saw a Shepherd Neame team, including the Chief Executive and Chairman, taking part in RBLI's "Great Tommy Sleep Out" in March 2021, which raised more than £24,000 for the charity. Eight team members also volunteered to take part in the "Tommy 10k challenge" throughout November 2020, raising more than £2,500.

In 2020 we introduced Pennies, the digital charity box, within our retail pubs in a bid to boost funds for RBLI as our Charity of the Year. Customers drinking and dining at selected sites have been invited to make a 25p donation to the RBLI when they spend over £30 and pay on a card via chip & pin. Every penny from this route goes to charity.

Shepherd Neame's Head of Export, Olly Scott, was among those to volunteer for RBLI's "Great Tommy Sleep Out".

PUBS AT THE HEART OF THEIR COMMUNITIES

Our pubs often support both national and local charitable causes. Many of our pubs have been recognised for their community work during the pandemic, including the White Lion in Selling where in May 2021, the licensees were presented with a Kent Association of Local Councils Community Award, having been secretly nominated by local residents for their dedicated efforts to support local residents through various activities.

During the pandemic the Fitzwalter Arms near Canterbury transformed a disused barn into a village shop to support the local community. The shop offered a range of locally sourced meat, fruit and vegetables, with a selection of fresh bread and other essentials with the pub planning to provide more community services going forward.

The King's Head in Shadoxhurst also transformed a disused outbuilding into a farm shop and community café in June 2021, with support from Shepherd Neame and a grant from Pub is The Hub, a not-for-profit organisation that helps pubs to diversify and provide essential local services. This has provided a service and meeting place for local customers and the wider community.

ENVIRONMENTAL

We are very conscious of the impact companies such as ours can have on the environment. Brewing beer and running pubs remains an energy-intensive business. One of the Board's key areas of focus is carbon reduction. The Company's carbon footprint under the Streamlined Energy and Carbon Reporting requirements is reported in the Report of the Directors on page 37.

Beyond carbon, the business is committed to reducing its level of waste to landfill and increasing its level of recycling. Across the retail pub estate the level of waste avoiding landfill was 99% (2020: 96%). Within the brewing process, we continue the long standing process of recycling the vast majority of our inputs, including spent grains and effluent water. During the coming year the key objective is to centralise all waste arrangements across the business and to implement improvement projects to increase our overall level of waste avoiding landfill and to increase recycling.

Above: Karen Johnson and partner Dave Thompson, licensees at the White Lion in Selling, were presented with a Kent Association of Local Councils community award.

Below: Fitzwalter Arms licensee Lynn Fisher has transformed a disused barn into a village shop to support the local community.

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.

Key

↑ Risk increasing

↔ Risk unchanged

↓ Risk decreasing

Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk trend
ECONOMIC AND POLITICAL			
COVID-19 pandemic	Following the re-opening of the hospitality sector after Lockdown 3, the business has traded well but still faces challenges as it adapts to changes in trading conditions and consumer expectations. During any period of closure company revenue and profits are reduced significantly and despite the successful rollout of the vaccination programme the threat of further restrictions remains. During trading restrictions that prevent our pubs and trade customers opening to their full potential further reductions in revenue and profitability are likely.	A diversified business and a strong statement of financial position provide a strong base for the Company in times of economic uncertainty. During periods of closure the Executive and Senior Management team take actions to minimise costs and the level of cash leaving the Company. The Company will continue to review policies and introduce technology to support our customers to enjoy our pubs safely. The Board continues to take a prudent view on projections and financing to ensure that the business emerges as strong as possible from any prolonged closure.	↓

Key

↑ *Risk increasing*
↔ Risk unchanged
↓ Risk decreasing

Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk trend
ECONOMIC AND POLITICAL			
Strength of the Economy and consumer confidence	A fall in consumer confidence or significant tax rises could weaken the economy, leading to customers drinking and eating at our pubs and hotels less frequently which in turn could lead to lower profitability.	The Board regularly updates its view of economic trends in the UK economy and hospitality sector. We respond to these changes by reviewing investment levels in our brands and pubs and through active property management. These actions ensure there is a level of flexibility in the cost base and can be used to encourage a variety of customers to our products and pubs.	↔
A reduction in the UK's hospitality workforce and a skills shortage	There has been a reduction in this workforce post COVID-19 and post Brexit that is making recruitment more difficult. Since all sectors are experiencing similar challenges such skills shortages are expected to last for some time and may lead to higher costs of employment.	We have continued to improve our development opportunities, working conditions and employee engagement to retain our existing workforce and to ensure Shepherd Neame is the employer of choice in our heartland territory. All employees are paid above the National Minimum Wage. A new apprenticeship scheme was adopted in 2019 to support the recruitment, development and retention of chefs and pub managers, which has been relaunched since re-opening.	↑
The supply chain in all areas is under pressure from the shortage of HGV drivers	There have been shortages of raw materials and finished products from time to time since re-opening. This has been exacerbated by a severe shortage of HGV drivers. This is driving up costs and undermining customer satisfaction.	We are working with our suppliers and service providers to find solutions on a daily basis, but are likely to incur higher costs of production or in delivery for the foreseeable future.	↑
The UK's exit from the European Union has led to disruption in supply chains	Delays in customs processing at the key port of Dover have delayed customer orders and supplier deliveries thereby increasing costs to the business. Very significant increases in freight costs could reduce the viability of some routes to market.	We monitor inventory levels carefully to ensure that we have adequate buffer supplies of key materials to protect against periods of supply delay and have made arrangements for additional storage space to be available to support higher stock levels. We actively work with our customers and pubs to look to ensure supply through periods of road delay.	↑

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Key

- Risk increasing
- Risk unchanged
- Risk decreasing

Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk trend
REGULATORY			
Regulation and taxation of the sale of alcohol	The drinks industry is tightly regulated and heavily taxed through excise duty. There is a risk that future increases or changes in taxation could affect customer demand for our products and our profitability. There is a further risk that the Government introduces a deposit recycling scheme for bottled products. If introduced this could lead to an increase in costs for the Company. The Government has initiated an Alcohol Duty Review and is due to report in the next year.	Legislative developments are monitored and we aim to continue to grow income streams from other sources such as non-alcoholic beverages, food and accommodation. The Company has membership of the British Beer and Pub Association (BBPA) and Directors are members of key industry bodies where regulatory matters are discussed and influenced.	Risk unchanged
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 light of the new statutory pub code which came into effect 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 necessitate changes to the way we operate our tenanted estate.	Regulatory developments are monitored and the Company has membership of the BBPA and Directors are members of key industry bodies where regulatory matters are discussed and influenced. The Company works hard to ensure good relations with licensees, provides flexible agreements and continues to invest in property repairs and support. In the KAM Media Licensee Index Report 2020, the Company achieved a rating of 9.3 out of 10 and was ranked third out of the Family Brewers. During the COVID-19 pandemic the Company made significant rent concessions to support licensees.	Risk unchanged
Health and safety	Operating a large number of pubs and a brewery manufacturing site results in complexity of operations and processes. Any non-compliance with health and safety legislation could have serious consequences for our customers, employees and licensees.	The Company has a Health and Safety Manager whose sole focus is to manage the delegated responsibilities of the Board. The Health and Safety Manager reports directly to the Executive Board on all health and safety matters across the organisation and carries out all key risk assessments. Health and safety policies are approved and adhered to across all areas of the Company and we provide regular training to employees. A panel of employees act as health and safety representatives for their respective areas of the business at the brewery site to ensure risks are identified and procedures are followed. To support our licensees in the tenanted estate a compliance package is available which provides support and management of pub health and safety requirements. Initial take up of this package has been good.	Risk unchanged

Key

↑ Risk increasing

↔ Risk unchanged

↓ Risk decreasing

Principal Risks	*Potential Impact*	*Mitigation and Monitoring*	Change since last year/Risk trend
REGULATORY			
Increases to the National Minimum Wage	All employees are paid above the National Minimum Wage but increases in the statutory level will increase costs and reduce margins.	The Company uses an industry best practice labour scheduling system to ensure pubs have the right level of labour to provide excellent customer service and to mitigate cost. Policies are in place to ensure our people are not paid below minimum wage for any of the hours they work.	↔
Increased legislation and regulation	The Company is exposed to increasing levels of legislation and regulation across all areas of its operations. This greater regulation and compliance leads to increased costs and lower profitability. Any significant failure to adhere to legislation and regulation could lead to reputation and brand damage for the Company.	Full procedures and policies are in place to reflect current legislation and regulation and external legal advice is used to monitor new and amended legislation. In addition, a number of processes and controls are in place to protect personal data to ensure the Company is compliant with GDPR regulations. External training and consulting services are engaged where appropriate to develop training and communication materials for employees and licensees.	↔
OPERATIONAL			
Brands and reputation	The Company has a range of strong brands and an excellent reputation in the market as Britain's oldest brewer. There is a risk that unexpected events or incidents could damage the reputation of our brands, leading to lower sales and profitability.	The Company has a Director of Marketing, Brands and Communications who coordinates all brand communication and presentation and reports directly to the Chief Executive. Adherence to high-quality standards throughout the business, regular management review, staff training and internal controls reduce the operational risk of brand damage. Our communications team monitors all external reviews, manages our reputation and liaises with the media.	↔
Partnerships, brewing contracts and third-party brewing arrangement	The Company is engaged in various relationships and contractual arrangements to brew, sell and market drink brands. Such arrangements carry different obligations and responsibilities on both parties. The agreements are generally long-term but subject to renewal from time to time. Loss of several of these agreements could lead to a reduction in sales and profitability.	There is regular inspection of quality and service levels by brewing partners, with the aim of providing reassurance and satisfaction for all parties, helping good relations to continue. We hold regular reviews of brand performance with our partners and set clear financial and brand targets across the business through the annual budget to ensure compliance with the arrangements in place.	↔

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Key

Risk increasing

Risk unchanged

Risk decreasing

Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk trend
OPERATIONAL			
Site dependency	The Company's operations are managed from its sole brewery site in Faversham. A disaster at this site could seriously disrupt operations and the profitability of the Company.	We regularly monitor disaster recovery scenarios 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 warehouses in different geographic locations through the GXO Logistics network.	Risk unchanged
Water recovery	A consequence of brewing beer at the Faversham brewery is that there is a level of water required within which there are waste particles or substances. To address this brewing output the Company built and operates a water recovery plant to clean waste water from the brewery site. If this plant were to experience a sustained failure it could lead to periods of ceased production and could breach our discharge consent with statutory bodies which could increase costs and lower profitability. A further output of the water recovery process is the solid matter that is removed whilst cleaning the water (such as grain and hops). These substances are recycled with local farms but can give off an odour. If these materials are not handled carefully the odour can escape into the local area which can diminish the brand perception within the Faversham community.	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. Disciplined processes are in place with internal employees and contractors to ensure waste materials are carefully managed at all times.	Risk unchanged

Key

- Risk increasing
- Risk unchanged
- Risk decreasing

Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk trend
OPERATIONAL			
Information technology failure	The Company places significant reliance on information systems to operate the brewery site, head office functions and retail 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. To remove any physical access risk the main data room is being moved offsite and will be managed by third party experts. To improve our protection against cyber-attacks we are in the process of outsourcing key security services to a specialist third-party provider. 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 increasing
Beer and food product safety	The Company produces and sells consumable products for human consumption. Any defects in quality, product life, or contamination could lead to injury to consumers. Legislation changes have increased the level of disclosure around potentially harmful allergen ingredients within consumer products.	The Executive Board sets high standards for process compliance and cleanliness across the retail pub estate, brewery and visitor centre. Controls are in place to maintain product safety, recall processes are tested annually and pub management and chefs are incentivised to ensure kitchens are clean. A menu system called Ten Kites manages food menus within the retail estate and ensures allergens are fully disclosed.	Risk unchanged
FINANCIAL			
Banking covenant failure	The Company's lenders have agreed to relax normal covenant tests to be replaced by a minimum liquidity covenant with the Company returning to testing of its pre-COVID-19 covenants in September 2022. If the Government were to put in place more periods of lockdown this would put the covenant tests at risk.	The Board had a flexible planning model and models a number of scenarios with an objective of managing the business to meet all covenants. If there are future shocks to business performance a number of options would be available to the Board to raise cash and reduce debt. The Board maintains good communication and relationships with its lenders to ensure these stakeholders have full visibility of financial models and performance.	Risk decreasing

SECTION 172 STATEMENT

STAKEHOLDER ENGAGEMENT

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

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

S172	DIRECTORS STATEMENT
(a) The likely consequences of any decision in the long-term	This is an integral part of the culture of a very long-established business; it is at the heart of all decisions taken by the Board
(b) The interest of the Company's employees	Commentary on the engagement with employees can be found within the Chief Executive's Review and in the Report of the Directors
(c) The need to foster the Company's business relationship with suppliers, customers and others	Details of engagement with suppliers and customers can be found in the Report of the Directors
(d) The impact of the Company's operations on the community and the environment	The business is focussed on the impact it has on its environment and is committed to making progress to reduce its carbon footprint. Commentary can be found in Shepherd Neame in the Community
(e) The desirability of the Company maintaining a reputation for high standards of business conduct	The business has a consistent record of high standards which it seeks to maintain and embed in the culture of the Company
(f) The need to act fairly between members of the Company	The Directors aim to balance the interests of a diverse shareholder base

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

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

OUR TEAMS

Skilled team members are essential to the smooth running of the Company. We are a people business and we aim to attract, retain and develop the best people by understanding the potential in everyone, inspiring them to achieve their goals and building the loyalty and engagement of our licensees, through the professionalism of the support we provide.

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

The employee engagement section within the Report of the Directors on page 35 provides more information on how we have responded to team member interests.

CUSTOMERS

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

The engagement with suppliers, customers and others in a business relationship section within the Report of the Directors on page 36 provides more information on how we have responded to customer interests.

SUPPLIERS

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

We have responded to suppliers' interests by:

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

SHAREHOLDERS

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

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

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

We have responded to shareholder interests by:

- Providing updates on the Company situation during the COVID-19 pandemic.

LENDERS

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

We have responded to lenders' interests by:

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

PUB LICENSEES

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

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

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

We have responded to the pub licensees' interests by:

- Providing rental support during the COVID-19 pandemic during enforced pub closures and different trading conditions
- Providing regular advice and guidance with specific newsletters to share information regarding COVID-19 requirements
- Providing training workshops
- Improving the drink portfolios available
- Contributing to refurbishment projects.

GOVERNMENT AND REGULATORY AUTHORITIES

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

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

We have responded to Government and regulatory interests by:

- Collaborating on the closure and subsequent re-opening of pubs during the COVID-19 pandemic
- Applying for Government grants made available during the COVID-19 pandemic
- Carrying out ventilation surveys across our pub estate, brewery and offices to ensure that we are following the current Government guidance in this area.

SECTION 172 STATEMENT CONTINUED

PRINCIPAL DECISIONS

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

1. Consequences of the COVID-19 pandemic

An overview of the various actions and steps taken by the Company in light of COVID-19 and the multiple closures and subsequent restriction on trading of all pubs in the UK is set out in the Strategic Report. These decisions were made with regard to: sustaining the financial viability of the Company through a period of crisis; supporting the Company's employees; the need to foster the Company's business relationships with suppliers, customers and others; the impact of the operations on the community and desire of the Company to maintain a reputation for high standards of business conduct among other factors.

2. The decision not to recommend a payment of any dividend in respect of 2020 or 2021

The Board recognises the importance of dividends to our shareholders and returning to payment of a dividend remains an important priority for the Board. Given the prolonged period of pub closures in the period and the restrictions placed on the Company by its lenders, the decision not to pay a dividend in 2020 or 2021 was necessary to promote the long-term success of the Company for the benefit of its members as a whole, balancing the need of the Company and its stakeholders.

3. Approval of annual budget and five-year plan

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

We have planned to invest to improve outdoor spaces and pub connectivity and will target our spend in areas to result in operational improvements to enhance the quality of our offer and help to attract the best people. This promotes the success of the Company with a positive impact on local communities.

In the brewery, during financial year 2021, we installed a new yeast plant to improve the efficiency and quality of the brewing process. We have also purchased, but not yet installed, a small batch brewery to increase our capability in this area.

4. Acquisitions, disposals and active property management

The acquisitions and disposals during the year are explained in the strategic report and continue to improve the quality of our pub portfolio in order to strengthen our asset base. We look to grow in the long term through selective single-site acquisitions or small pub groups if the right opportunity arises and continue to make targeted disposals of land and property that does not fit our strategy to help fund this aim.

This strategic report was approved by the Board of Directors on 9 November 2021 and signed on its behalf by:

JONATHAN NEAME
Chief Executive

BOARD OF DIRECTORS

BILL BRETT
Non-Executive Director

NIGEL BUNTING
Retail & Tenanted Pub Operations Director

JONATHAN NEAME
Chief Executive

MARK RIDER
Chief Financial Officer

RICHARD OLDFIELD
Chairman

HILARY RIVA
Senior Independent Director

KEVIN GEORGEL
Non-Executive Director

GEORGE BARNES
Property & Services Director

GLENDA FLANAGAN
Company Secretary

BOARD OF DIRECTORS CONTINUED

GEORGE BARNES (67)
Property & Services Director
Joined the Company in 1978. He is a Chartered Surveyor and Registered Valuer and was appointed to the Board in January 2001. Became Property and Services Director with effect from July 2014. He is also a Director of the Pub Governing Body.

Through his long tenure with the Company George brings to the Board great experience of all facets of the business together with expert professional knowledge of licensed property.

BILL BRETT (56)
Non-Executive Director,
Chair of the Audit Committee
Appointed to the Board in September 2013. He is Executive Chairman of Robert Brett & Sons Ltd.

Bill brings to the Board his considerable experience as a Director of a substantial private company with family ownership, land management, commercial, manufacturing and retail interests.

NIGEL BUNTING (54)
Retail & Tenanted Pub Operations Director
Joined the Company in 1993. He has held various senior management positions including Head of Retail and Tenanted Pub Operations. He was appointed to the Board as Retail Director in August 2005 and became Retail and Tenanted Pub Operations Director with effect from July 2014. He has been a Non-Executive Director of Davy and Co Ltd since 2008 and was a Director of Visit Kent from 2006 to 2015. Nigel will be appointed Commercial Director at the end of this financial year.

Nigel brings to the Board commercial knowledge of all aspects of pub and hotel management as well as experience in on and off trade sales.

KEVIN GEORGEL (51)
Non-Executive Director from November 2020
He was appointed Chief Executive of St Austell Brewery in January 2020 having previously been the Chief Executive of Admiral Taverns. Prior to his appointment as Chief Executive, he had been an independent Non-Executive Director at St Austell for the preceding four years. He has worked in the UK pub and brewing sector for over 20 years holding senior sales, marketing and operations roles at Molson Coors and Punch Taverns. He was previously Non-Executive Chairman of Dartmoor Brewery and is currently a Director of the British Beer & Pub Association.

Kevin brings to the board his expert knowledge of the industry as Chief Executive of a pub and brewing company of similar size and outlook.

JONATHAN NEAME (57)
Chief Executive
Joined the Company in 1991. Was Company Secretary until July 1994 and Tied Trade Director until 1999 when he was appointed Managing Director; he was appointed Chief Executive in 2003. He is a Barrister-at-law and was a Management Consultant with the COBA Group from 1987 to 1991. He was Chairman of the British Beer and Pub Association from 2012 to 2015 and a Non-Executive Director of the St Austell Brewery Company Ltd from 2002 until May 2018. He was appointed a Director of the Brewers of Europe in 2020. He has been a Trustee of the Leeds Castle Foundation since 2011. He is the Upper Warden of the Worshipful Company of Brewers and a Deputy Lieutenant of Kent. He was awarded an Honorary Doctorate from the University of Kent in 2016.

Jonathan brings to the Board his considerable knowledge and expertise of the industry, long experience at the Company in a variety of roles and wide-ranging connections within our heartland.

RICHARD OLDFIELD OBE (65)
Chairman,
Chair of the Nomination Committee
Appointed to the Board in June 2016. He is Chairman of Oldfield Partners LLP, and former Chairman of Keystone Investment Trust plc. He was previously Chief Executive of Alta Advisers and a Director of Mercury Asset Management plc and is a Trustee of the Prince's Trust.

Richard brings to the Board his wide ranging experience in governance as Chairman of a publicly listed company and Director of others in the finance and investment sectors.

MARK RIDER (45)
Chief Financial Officer
Appointed to the Board in February 2012. He joined the Company from J Sainsbury plc, where he held a number of senior finance roles. Prior to joining Sainsbury's he qualified as a chartered accountant at PricewaterhouseCoopers. He is a Fellow of the Institute of Chartered Accountants.

Mark brings to the Board expert finance skills together with strong retail experience gained from his previous roles.

HILARY RIVA OBE (64)
Senior Independent Director,
Chair of the Remuneration Committee
Appointed to the Board in April 2016. She was most recently a Non-Executive Director of ASOS Plc until April 2020 and previously a Non-Executive Director of Shaftesbury Plc, London and Partners Limited, Chief Executive of the British Fashion Council, and a Managing Director of Rubicon Retail. She holds a directorship in The Alexander Centre CIC and most recently became a Board member and director of The Canterbury Festival.

Hilary brings to the Board her significant experience in retail marketing and brand management and also in governance as Director of listed companies.

GLENDA FLANAGAN (56)
Company Secretary
Joined the Company in 2006 as Finance Manager and subsequently headed the finance department as Financial Controller. She has previously held senior finance roles in both the hospitality and technology industries. She is a Fellow of the Institute of Chartered Accountants having qualified as a chartered accountant with BDO.

Glenda brings expert knowledge in finance, audit and governance matters and a long experience of the brewing and pubs industry.

REPORT OF THE DIRECTORS

The Directors present their Annual Report and Accounts for the 52 weeks ended 26 June 2021.

ACTIVITIES AND REVIEW OF BUSINESS

The principal activities of the Group, being Shepherd Neame and its subsidiary companies, are the brewing and packaging of beer; the wholesaling and retailing of beer, cider, wines, spirits and minerals; property ownership and public house and hotel management. This report should be read in conjunction with the Strategic Report which comprises the statements and reviews on pages 2-32. The Strategic Report includes information on the Group's strategy and provides further details of the Group's performance for the 52 weeks ended 26 June 2021, significant events which have occurred since the end of the reporting period and likely future developments.

DIVIDENDS

The Board is not recommending the payment of a dividend for the year ended 26 June 2021 (2020: nil).

DIRECTORS

The names of the Directors at 26 June 2021 are set out on pages 33 and 34. Details of all Directors' interests are set out in the Remuneration Report on pages 44-48. Miles Templeman was Chairman until his retirement on 4 December 2020. Richard Oldfield became Chairman at this time. Kevin Georgel was appointed as a Director by the Board with effect from 27 November 2020.

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

PURCHASE OF OWN SHARES

During the year the Company did not purchase any shares. In the year ended 27 June 2020 the Company purchased 25,300 ordinary shares at a total cost of £290,000 representing 0.2% of the Company's issued share capital. The shares were acquired in connection with the Company's future obligations under the share schemes, prior to the COVID-19 outbreak.

USE OF FINANCIAL INSTRUMENTS

A statement in relation to the use of financial instruments and financial risk management by the Group is given in notes 26 and 27 to the accounts.

EMPLOYEE ENGAGEMENT

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

The Company's appraisal and development process was introduced some years ago, and was designed to improve conversations about employee development and personal aspirations. We provide training workshops and, as we emerge from the pandemic, have relaunched our apprenticeship programmes. To encourage further involvement and interest in the Group's performance, the Company operates a bonus scheme for eligible employees. Qualifying employees also continue to participate directly in the success of the business through the Share Incentive Plan and we provide staff discount cards to all our employees for use in our pubs and brewery shop.

Directors regularly visit pubs within the estate, providing opportunities to engage with team members. Quarterly CEO lunches also give the opportunity for employees to interact with different teams and the CEO.

We are keen to promote health and well-being as well as development opportunities. To this end, we have supported our employees by providing access to a tailored mental health app and we also provide access to counselling facilities. We have also promoted the support available from the Licensed Trade Charity.

The wellbeing of our teams is paramount and we have carried out air quality surveys in our pubs, brewery and offices in response to the COVID-19 guidance on ventilation and put in place measures to ensure the safety of our teams.

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.

REPORT OF THE DIRECTORS CONTINUED

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

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

The Company engages with suppliers, customers and tenants in a variety of ways such as meetings, conversations, and business reviews and reviews any feedback. Engagement via social media is also important using platforms including Facebook, Twitter and Instagram. The Company website and social media platforms were areas of particular focus in providing updates and safely reopening pubs in the wake of the COVID-19 pandemic.

Steps have been taken to continue to develop relationships such as reviewing and amending drink listings available in pubs to enhance the offer, and promotional activities. We have introduced interactive online menus for our retail pubs to display and filter the menu based on food allergies/intolerances, facilitated table ordering and launched an online booking system.

Customers have also enjoyed membership of the Cask Club, which was launched in 2019 and features a new cask beer every month to provide a range of experimental and innovative ales, with both exciting international collaborations and classic seasonal favourites. A total of 165 pubs across the South East signed up to stock the beers, which have been widely acclaimed. We have invited our customers to our ShepsWay trade fair, which is primarily a showcase for our company and products.

The Board places strong focus on fostering long-term business-to-business relationships. Engagement with these stakeholders reflects the regard the Directors have to the need to foster the Company's business relationships.

GREENHOUSE GAS EMISSIONS, ENERGY CONSUMPTION AND ENERGY EFFICIENCY ACTION

Environmental sustainability continues to be a key priority for the business. We have a history of pioneering sustainable brewing methods while always endeavouring to reduce the impact it has on the local and wider environment.

In accordance with The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, we prepared a Streamlined Energy & Carbon Report (SECR) for the previous financial year. The measurement and reporting of environmental performance will drive direct benefits for the business such as lower energy and resource costs, improved understanding of exposure to the risks of climate change and the ability to demonstrate sustainable leadership within the brewing industry.

The Company consumed 29,133 MWh of energy this financial year, resulting in gross carbon emissions of 5,851 tCO_2e. This represents a 12% reduction in energy and a 16% reduction in carbon impact when compared to the previous financial year. Normalised emissions for our retail pubs increased by 7% from 0.067 to 0.072 tCO_2e/£k revenue. Normalised brewery emissions also increased, by 5%, from 0.0147 to 0.0155 tCO_2e/hL.

The COVID-19 pandemic continued to significantly affect the business's energy and carbon picture. Reduced business activity has been a substantial driver in the absolute reduction of energy consumption and carbon emissions. Firstly, the brewery's significant base energy load in combination with production volumes shifting towards more energy intensive bottled products, having increased from 63% of total hL in 2019-20 financial year to 76% in 2020-21, has resulted in increased natural gas and has resulted in an increase in normalised emissions. Within the other side of the business the outlook is similar to the previous financial year, where most of our pubs consumed a reduced volume of energy whilst closed due to lockdown when compared against a "typical" pre-pandemic year. This has meant the pandemic has not had a significant impact on our retail normalised emissions.

The challenging economic environment created by the COVID-19 pandemic resulted in a reduction in certain activities within the business due to either capital restrictions or resource challenges. In relation to physical projects and improvements, this was limited to the further rollout of LED lighting upgrades and the installation of a new yeast plant, which will both yield reductions in energy consumption. The most significant change to our carbon footprint is through the purchase of REGO backed electricity for the brewery and all retail sites. These Renewable Energy Guarantee of Origins certificates result in a significant reduction in the net carbon footprint of the business in relation to electricity, reducing the net impact of electricity to zero tCO_2e from the gross emission value of 2,441 tCO_2e.

Looking forward to this coming financial year, the business will focus on implementing the improvement opportunities identified in the previous financial year as well as implementing the Green Mark Environmental Management System across the business and provide environmental sustainability training to general hospitality, office and brewery employees.

GREENHOUSE GAS EMISSIONS, ENERGY CONSUMPTION AND ENERGY EFFICIENCY ACTION CONTINUED

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

2020/21 Streamlined Energy & Carbon Report

Parameter	Units	Current reporting year 01/07/20 - 30/06/21	Comparison calendar year 01/07/19 - 30/06/20
Total energy consumption used to calculate emissions	**kWh**	**29,133,588**	**32,956,052**
Emissions from combustion of gas (scope 1)	tCO_2e	3,294	3,578
Emissions from transportation in vehicles owned or controlled by reporting company (scope 1)	tCO_2e	109	-
Emissions from purchased electricity (scope 2)	tCO_2e	2,441	3,194
Emissions from business travel in vehicles owned or operated by 3rd parties (scope 3)	tCO_2e	7	159
Total gross emissions	tCO_2e	**5,851**	**6,931**
Intensity ratio: Total brewery gross emissions/total brewed product	tCO_2e/hL	**0.015**	**0.015**
Intensity ratio: Total retail gross emissions/total revenue of MH estate	$tCO_2e/£k$	**0.072**	**0.069**

Methodology

This report has been prepared following the GHG Reporting Protocol - Corporate Standard and using the guidance set out in Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance - HM Government (March 2019).

Energy consumption data has been sourced from utility supplier invoices, or where this is not available calculated from site-based records and travel expense data.

This is the second SECR reporting year, 2019/20 has been used as the comparison calendar year.

Conversion from energy to emissions was completed by application of the relevant emissions factor from UK Government GHG Conversion Factors for Company Reporting for the appropriate year.

Energy efficiency action

The challenging economic environment for the business due to COVID-19 within the last financial year had severely impacted the Energy Efficiency Action plan.

The lack of cash flow in the year restricted capital investments and with many employees placed on furlough, improvement activities were limited to the following:

- LED installations across 7 sites, reducing electricity consumption by 5,824 kWh.
- Green Mark Environmental Management System rollout.
- Environmental sustainability training, targeting general hospitality, office employees and brewery employees.
- Installation of a new yeast plant, which incorporates up to date energy efficiency technology, which will result in reduced energy consumption associated with this plant.

External verification provided by: Carbon Architecture Ltd

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

No political contributions were made during this or the prior year.

AUDITOR

During the year, following a retender process, Deloitte LLP resigned as the Group's auditor and the Board appointed BDO LLP as its new auditor for the financial year ending 26 June 2021. A resolution to appoint BDO LLP as the Group's auditor will be put to the forthcoming Annual General Meeting.

By order of the Board

G Flanagan.

GLENDA FLANAGAN
Company Secretary
17 Court Street
Faversham, Kent

9 November 2021

Registered in England number 0138256

CORPORATE GOVERNANCE REPORT

THE BOARD HAS STRENGTHENED ITS CORPORATE GOVERNANCE THROUGH ADOPTING THE QCA CORPORATE GOVERNANCE CODE AND BY TRANSITIONING FROM FRS 102 TO IFRS.

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

As an AQSE company, Shepherd Neame Limited must have due regard for the principles laid down by a recognised corporate governance code, as appropriate to the nature and size of the company. The Board is committed to ensuring high standards for the Group and adopted the 2018 Quoted Companies Alliance Corporate Governance Code (QCA code) on 30 June 2021. Reporting under IFRS will support our shareholders and will mean that the Company's performance and asset value are more easily comparable with those of its peers and competitors.

THE BOARD AND ITS COMMITTEES

Application of the QCA code is expected to provide a framework for the Board, led by the Chairman, to make robust decisions and to manage risk, in order to meet its responsibility to ensure that the Group is managed for the long-term benefit of all shareholders and stakeholders, with effective and efficient decision-making. The Board aims to ensure that the Company's strategy and objectives are consistent with its culture, and fosters and maintains this culture. Elements of the Company's culture include its emphasis on serving its communities and on preserving a long-term outlook; encouragement of originality; attention to the risks and uncertainties which are set out in the Company's strategic report, both those which are outside its control and those in which, as operational matters, the Company's has some degree of control and influence; maintenance of its reputation as a good partner and employer as set out elsewhere in the strategic report. The Board believes that, in spite of the pressures on the Company and its teams during COVID-19 and lockdown, the reputation of the Company for fair and ethical behaviour has been sustained.

A schedule of the matters reserved for the Board can be found at www.shepherdneame.co.uk/investor-relationsgovernance/matters-reserved-board and includes:

- review of performance in the light of the Company's strategy, objectives and budgets and ensuring that any necessary corrective action is taken;
- approval of the Company's strategy and business plan;
- approval of the annual operating and capital expenditure budgets and any material changes to them;
- oversight of the Company's operations, ensuring competent and prudent management, sound planning, an adequate system of internal control and compliance with statutory and regulatory obligations.

This schedule also distinguishes the types of decision that are taken by the Board from those delegated to management. All operational matters are delegated to the Executive team and the Operations Committee.

All Board members, Non-Executive and Executive, participate in all Board decisions and contribute to Board discussions. While Executive Directors are members of the Executive Committee and Non-Executive Directors have a particular role in constructive challenge and scrutiny of Executive Committee actions and recommendations, the role and responsibility each Director has as a member of the Board is equivalent in terms of the setting of strategy and contribution to decision-making.

The Chair's primary role is to ensure that the Board is effective in setting and implementing the Company's direction and strategy. The Chair's responsibilities are, inter alia, to oversee the Board's composition and development; to ensure good corporate governance; to plan and conduct Board meetings effectively and to ensure all Directors are encouraged to participate fully; and to support the Chief Executive. The Senior Independent Director (SID) acts as a sounding board for the Chairman and as an intermediary for the other Directors. She is also available to address shareholder concerns should they feel that such concerns are not being fully addressed through the usual channels of communication. The Board is supported by the Company Secretary, who helps ensure that the Board is aware of matters for which it is responsible and that applicable laws and regulations are complied with, and by various committees as detailed below, which are chaired by, and membership of which largely comprises, the Non-Executive Directors. The Chair of each Committee reports to the Board on proceedings of Committee meetings.

The Board meets regularly throughout the year. In addition an annual Board strategy day takes place each year where the Board receives reports in relation to progress against the Company's strategic objectives and spends time visiting a number of the Company's pubs so Directors can engage directly with managers, licensees, team members and customers. During the COVID-19 outbreak Board meetings and the 2020 strategy day were held remotely. Physical meetings resumed in June 2021.

The Executive Committee
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.

The Remuneration Committee
The Remuneration Committee's prime function is to lead the process for executive remuneration, and to make recommendations to the Board in order that there is a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors The activities of the Remuneration Committee are explained fully in the Remuneration Committee Report on pages 44–48.

The Audit Committee
The Committee is responsible for reviewing the financial reporting process, the system of internal control and management of financial risks, the audit process and the Company's process for monitoring compliance with laws and regulations and its own code of business conduct. Further details of the Committee's activities can be found in the Audit Committee Report on pages 42–43.

The Nomination Committee
The Nomination Committee is chaired by Richard Oldfield and comprises the Non-Executive Directors. 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, and considers senior management appointments.

The Committee is responsible for considering the Company's succession plans for Board members, and determining what skills, knowledge and experience will be necessary. This year it considered the terms of office for the Chairman and the Non-Executive Directors and the introduction of the roles of a SID and a Chief Financial Officer. It also considered the creation of a single Operations Committee with increased responsibilities and the introduction of the related roles of Operational Directors, respectively a Director of Sales, a Director of Tenanted Pub Operations, a Director of Marketing and a Director of Brewing. Other matters considered during the year included the re-election of Directors.

Kevin Georgel was appointed as a Non-Executive Director in November 2020 and Hilary Riva was appointed as SID in September 2021 having served as a Non-Executive Director since April 2016.

New appointments to the Board are made following an evaluation of the balance of skills, knowledge and experience on the Board. and. identification of the role and capabilities required for a particular appointment.

CORPORATE GOVERNANCE REPORT CONTINUED

The Committee will:

- 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 considers whether these need to be approved by the Board prior to appointment.

The Disclosure Committee

The Disclosure Committee comprises the Chairman, the Chief Executive, the Chief Financial Officer and the Company Secretary. The Committee meets by exception to consider legal and regulatory requirements and makes recommendations to the Board accordingly.

Attendance at scheduled meetings held during the year is set out in the table below:

BOARD COMPOSITION AND BALANCE

The Board comprises the Chairman, the Chief Executive, three Non-Executive and three Executive Directors. Richard Oldfield is the Chairman, and is a Non-Executive. Hilary Riva is the SID. Hilary Riva and Kevin Georgel are considered independent Non-Executive Directors. The biographical details on pages 33 and 34 show the broad range of experience and skills the Directors bring to the Board. The Board considers itself well balanced, with the appropriate representation of family members in accordance with the Company's Articles of Association.

Professional and industry and sector-specific experience are considered objectively in the context of the requirements of each role. Full consideration is given to succession planning for Directors and other senior executives taking into account the challenges and opportunities facing the Company and the skills and expertise which will be needed.

All Directors of the Company are expected to provide sufficient time to the role to carry out their responsibilities. In accordance with the Chairman's and Non-Executive Directors' contracts, they are expected to work for the Company for respectively 24 and 15 days per annum.

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

PERFORMANCE EVALUATION

The Board has initiated an annual Board performance evaluation process, led by the Chairman. Each member of the Board is asked to complete a short Board evaluation and self-evaluation and appraisal form, covering the content and conduct of Board meetings, and the relevant Director's contribution to the Board's discussions and decision-making and the Company's strategic direction. This form provides the basis for subsequent discussion individually with the Chairman. The SID will similarly discuss the Chairman's contribution with the Chairman. General conclusions will be summarised for Board consideration.

Directors are expected to keep their skillset up to date. As part of the appraisal process Directors indicate whether they have undertaken any training during the year and whether they feel that they would benefit from training through formal courses in addition to reading and attendance at webinars.

	Board	*Audit Committee*	*Remuneration Committee*	*Nomination Committee*	*Disclosure Committee*
Number of meetings	13	2	6	4	2
Executive Directors					
George Barnes	13	-	-	-	-
Nigel Bunting	12	-	-	-	-
Jonathan Neame	13	•	•	•	2
Mark Rider	13	•	-	-	1
Non-Executive Directors					
Bill Brett	13	2	6	4	•
Richard Oldfield	13	2	6	4	1
Hilary Riva	13	2	6	4	-
Kevin Georgel	7	-	2	2	-
Miles Templeman	7	1	3	2	1

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

RE-APPOINTMENT OF DIRECTORS AND NOTICE PERIODS

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.

ADVICE

Peel Hunt LLP provided broking and advisory services during the year and Instinctif LLP provided public relations advice. In addition, Rothschild & Co and Travers Smith LLP provided advice in connection with the Company's financing arrangements, with the Company negotiating a relaxation of the Company's normal covenant tests through to September 2022.

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 any exceptions for consideration by the Board. This review is updated on a regular basis.

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

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

INVESTOR RELATIONS

The Board believes in an open and regular dialogue with its shareholders and receives regular advice on best practice from its advisors. Information is provided to shareholders in the interim and annual financial statements. The Chairman, Chief Executive and Chief Financial Officer 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 Directors' understanding of the views of major shareholders.

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

All formal Company announcements are posted on the Company's website and on the AQSE website (www.acquis.eu/company).

RICHARD OLDFIELD
Chairman

AUDIT COMMITTEE REPORT

DURING THE YEAR, THE COMMITTEE CARRIED OUT A FORMAL TENDER PROCESS THAT RESULTED IN THE APPOINTMENT OF BDO LLP AS THE GROUP'S AUDITOR.

The Committee consists of the Non-Executive Directors and is chaired by Bill Brett. We held two meetings during the 52 weeks to 26 June 2021. The attendance of members at this meeting can be seen on page 40. Periodically the Group auditor, Chief Executive and the Chief Financial Officer attend meetings by invitation. During any meeting with the external auditors it is the policy of the Committee that the non-executive members meet with the Group auditor with neither the Chief Executive nor the Chief Financial Officer present.

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

SIGNIFICANT FINANCIAL JUDGEMENTS

The Audit Committee receives reports from the Chief Financial Officer and external auditors on the key accounting issues and areas of significant judgement within the proposed financial statements. In recommending the financial statements for signing by the Board, the Audit Committee has reviewed the following key matters:

International Financial Reporting Standards (IFRS)

During the financial year, the Group adopted IFRS and these accounts have been prepared in accordance with those standards. The Audit Committee has considered the transition adjustments prepared by management and in particular the judgements made around the borrowing rate and contractual terms used to value leases under IFRS 16 and the calculation of the credit loss on the recovery of trade debtors under IFRS 9. The Committee has concluded that the transition adjustments and disclosure under IFRS are appropriate.

Impairment of fixed assets

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

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

The Committee considered management's classification of items associated with the COVID-19 pandemic and whether the methodology and treatment were consistent with the Group's accounting policies. The items excluded from underlying results are considered reasonable.

Going concern

The Committee considered management's projections of revenue, profits and cash flows as well as banking facilities, covenants and cash levels. The Committee recognises that sufficient plans are in place to enable the accounts to be presented on the basis of the Group being a going concern.

Investment property values

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

AUDITOR

During the year, the Committee carried out a formal audit tender process that resulted in the appointment of BDO LLP as the Group's Auditor for the financial year ended 26 June 2021. The formal appointment of BDO LLP will be proposed at the AGM.

The auditor presented their strategy to the committee ahead of the audit in June 2021. Subsequently the auditors presented their findings and conclusions of the audit to the Committee in October 2021.

In relation to 2021, BDO LLP provided audit services in respect of the Group accounts of £160,000. No other services were provided by the auditor.

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.

BILL BRETT
Chair of Audit Committee

REMUNERATION COMMITTEE REPORT

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

OVERVIEW

The Board has voluntarily included a remuneration report.

The Remuneration Committee comprises the Non-Executive Directors and is chaired by Hilary Riva. Kevin Georgel joined the Committee in January 2021. 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. The Committee met six times during the period and the attendance for each member is set out in the table on page 40.

The Remuneration Committee determines on behalf of the Board the remuneration package of the Executive Directors. It is also responsible for approving the incentive targets and payments for the Company's Executive Directors and Senior Managers.

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

Remuneration for Executive Directors comprises fixed remuneration (salary, car allowance and other taxable benefits), pension contributions and performance-related remuneration designed to motivate maximum performance over a sustained period.

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

Salary levels for Executive Directors are reviewed annually in line with the overall Company pay review process. The annual pay review for Executive Directors for the year commencing July 2021 was deferred until October 2021 to coincide with the point at which the Company ceased receiving Government COVID-19 grants. At this point, the Directors were awarded a pay increase of 2.2% in line with the Company-wide award made to all employees in July 2021. This is the first pay increase for the Directors since July 2019. In the year to June 2021 the Executive Directors once again agreed a temporary cut of 20% to their salaries for the periods of full lock down resulting from the pandemic in November 2020 and January and February 2021.

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

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

- A cash bonus scheme providing for annual bonuses to a value of up to 30% of salary based on a series of financial performance and non-financial targets. These targets are set at the start of the financial year and performance evaluated after the financial year is complete. For the year to June 2021, given the lack of clarity around the ability to trade and the need to preserve cash, it was considered inappropriate to pay cash bonuses.
- Secondary options over ordinary shares granted annually to a value of up to 70% of salary in accordance with the rules of the 2015 Restricted Share Scheme. Under this scheme options are granted every year but only vest three years after grant by reference to performance in underlying earnings per share, net asset value plus dividends per share and total shareholder return over the three-year period. Directors are expected not to sell the vested shares for a further two years.

In recognition that no cash bonus would apply for the year to June 2021, share options were granted in December 2020 to the value of 100% of salary. As laid out in last year's report, the performance targets for this award were rebased to incentivise recovery, with the overarching objective being to restore the financial health of the business in the short term to the point at which it is within bank covenants and to establish a growth path trajectory for July 2020 to June 2023 that delivers shareholder value in line with or above the 2019 level. Share options granted in 2017 and 2018, which were subject to review in October 2020 and October 2021 respectively, have been forfeited.

For the year to June 2022, we intend to reinstate the cash bonus in line with our normal policy. The value of the grant of secondary options will also revert to 70% of salary as per our normal policy. The target for these awards will be set to incentivise recovery.

Share options are issued to Executive Directors under the Shepherd Neame Limited 2015 Restricted Share Scheme (the "2015 Scheme"). This scheme was introduced as a replacement to the Shepherd Neame Limited 2005 Restricted Share Scheme (the "2005 Scheme") which expired on 28 October 2015. The 2015 Scheme aims to make awards which are closely aligned to Company performance and the interests of shareholders over the long term and includes features consistent with prevailing market and best practices, including malus and clawback provisions, which may apply, at the discretion of the Remuneration Committee.

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

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

In addition to these incentives, Executive Directors are free to participate in the All Employee Share Incentive Plan (SIP). This scheme is open to all employees with 18 months' service at the date of award and provides a free award of shares based on length of service and salary. The maximum award available to any employee is £3,600 per annum.

NON-EXECUTIVE FEES

Non-Executive Directors receive fees which are reviewed annually by the Board in line with the overall Company pay review process. The Non-Executive Directors took a voluntary fee reduction of 20% from 1 July until 30 October 2020 and 1 December 2020 to 12 April 2021. They do not participate in any performance-related arrangements.

REMUNERATION COMMITTEE REPORT CONTINUED

EXECUTIVE DIRECTOR REMUNERATION (AUDITED INFORMATION)

The table below shows a breakdown of the remuneration for the 52 weeks to 26 June 2021, together with comparative figures for the 52 weeks to 27 June 2020.

	Jonathan Neame		George Barnes		Nigel Bunting		Mark Rider	
Group and Company	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000
Salary[1]	**254**	255	**175**	176	**187**	187	**207**	208
Annual bonus[2]	**-**	-	**-**	-	**-**	-	**-**	-
Salary in lieu of pension contributions[3]	**67**	62	**46**	46	**45**	43	**34**	32
Taxable benefits[4]	**35**	40	**10**	10	**33**	32	**17**	17
Share Incentive Plan[5]	**-**	3	**-**	3	**-**	3	**-**	3
Directors emoluments	**356**	360	**231**	235	**265**	265	**258**	260
Primary and secondary share options vesting in the year[6]	**-**	51	**-**	34	**-**	37	**-**	41
Pension contributions	**-**	-	**-**	-	**-**	-	**10**	10
	356	411	**231**	269	**265**	302	**268**	311

The number of Directors who:	**52 weeks ended 26 June 2021**	52 weeks ended 27 June 2020
Had pension benefits accruing under money purchase schemes	**4**	4
Exercised options over shares in the scheme	**2**	4
Had awards receivable in the form of shares under a long-term incentive plan	**4**	4

Details of Directors' share options are shown on page 47.

1. There was no salary increase awarded for the 2021 financial year (2020 average salary increase of 2.5%). During the periods November 2020 and 26 January to 21 February 2021, the Executive Directors took a 20% pay cut to support the Company during the COVID-19 lockdowns. (2020: 20% pay cut for the period 1 April to 30 June 2020).
2. No bonus was accrued in either 2021 or 2020 relating to performance in the 2021 and 2020 financial years.
3. The highest paid Director and two other Executive Directors are not contributing members of the Company pension scheme. In addition, the pension contributions for the remaining Executive Director are capped.
4. Taxable benefits relate to car allowances, private medical insurance and an allowance against purchases of Shepherd Neame products.
5. SIP benefit is calculated as the share price at the year end multiplied by the number of shares awarded in the year.
6. 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.
7. In 2021, options were exercised by two Directors over 3,584 shares (2020: three Directors over 16,900 shares). The aggregate gross gain, not included in the table above, made by these Directors on the exercise of share options was £19,000 (2020: £186,000).
   Options exercised by the highest paid Director are included in these numbers. He did not exercise any option in 2021 but exercised options over 4,304 shares in 2020 making a gain of £48,000.

NON-EXECUTIVE DIRECTOR REMUNERATION (AUDITED INFORMATION)

The table below shows a single remuneration figure of all services for the 52 weeks to 26 June 2021, together with comparative figures for the 52 weeks to 27 June 2020.

	2021			2020		
Group and Company	**Fees[1] £'000**	**Benefits[2] £'000**	**Total £'000**	Fees[1] £'000	Benefits[2] £'000	Total £'000
Miles Templeman[3]	**39**	**-**	**39**	101	1	102
Richard Oldfield[3]	**49**	**1**	**50**	25	-	25
Bill Brett	**31**	**-**	**31**	35	-	35
Hilary Riva	**31**	**-**	**31**	35	-	35
Kevin Georgel[4]	**19**	**-**	**19**	-	-	-

1. During the periods 1 July to 30 October 2020 and 1 December 2020 to 12 April 2021 the Non-Executive Directors took a 20% pay cut to support the Company during the COVID-19 pandemic. (2020: 20% pay cut for the period 1 April to 30 June).
2. The taxable benefit is an allowance against purchases of Shepherd Neame products.
3. Miles Templeman retired from the Board on 4 December 2020. Richard Oldfield became Chairman from this date.
4. Kevin Georgel was appointed to the Board as a Non-Executive Director on 27 November 2020.

SHARE AWARDS MADE DURING THE FINANCIAL YEAR (AUDITED INFORMATION)

The following share awards were made to Executive Directors during the year.

Group and Company	Type of award	Basis of award (maximum)	Number of shares (maximum)	Face Value (maximum)
Jonathan Neame	Secondary options	100% of salary	41,518	£268,000
George Barnes	Secondary options	100% of salary	28,629	£184,800
Nigel Bunting	Secondary options	100% of salary	30,483	£196,770
Mark Rider	Secondary options	100% of salary	33,870	£218,630

The table shows the maximum value and the number of shares awarded. The award was made on 4 December 2020 and the number of shares was calculated using the share price at that date of £6.96 less the option price of £0.50.

The award carries performance targets over a three year reference period ending June 2023, and is subject to gateway criteria. Performance will be assessed in 2023 to establish the percentage of the award that will vest.

GOVERNANCE

DETAILS OF THE EXECUTIVE DIRECTORS SHARE AWARD (AUDITED INFORMATION)

Subject to performance conditions being met, options over the Company's ordinary shares held by Directors at 26 June 2021 (27 June 2020) are as follows:

	At 2020	Granted	Exercised	Forfeited	At 2021	Note	Exercise price £	Date from which exercisable	Expiry date
George Barnes	1,040	-	(1,040)	-	-	2	0.50	14/10/19	14/10/26
	1,232	-	(1,232)	-	-	1	0.50	13/10/20	13/10/27
	9,814	-	-	(9,814)	-	2	0.50	13/10/20	13/10/27
	12,312	-	-	-	**12,312**	2	0.50	19/10/21	19/10/28
	11,421	-	-	-	**11,421**	2	0.50	18/10/22	18/10/29
	-	28,629	-	-	**28,629**	2	0.50	04/12/23	04/12/30
	35,819	28,629	(2,272)	(9,814)	**52,362**				
Nigel Bunting	1,312	-	(1,312)	-	-	1	0.50	13/10/20	13/10/27
	10,449	-	-	(10,449)	-	2	0.50	13/10/20	13/10/27
	13,110	-	-	-	**13,110**	2	0.50	19/10/21	19/10/28
	12,161	-	-	-	**12,161**	2	0.50	18/10/22	18/10/29
	-	30,483	-	-	**30,483**	2	0.50	04/12/23	04/12/30
	37,032	30,483	(1,312)	(10,449)	**55,754**				
Jonathan Neame	1,787	-	-	-	**1,787**	1	0.50	13/10/20	13/10/27
	14,232	-	-	(14,232)	-	2	0.50	13/10/20	13/10/27
	17,856	-	-	-	**17,856**	2	0.50	19/10/21	19/10/28
	16,563	-	-	-	**16,563**	2	0.50	18/10/22	18/10/29
	-	41,518	-	-	**41,518**	2	0.50	04/12/23	04/12/30
	50,438	41,518	-	(14,232)	**77,724**				
Mark Rider	1,458	-	-	-	**1,458**	1	0.50	13/10/20	13/10/27
	11,610	-	-	(11,610)	-	2	0.50	13/10/20	13/10/27
	14,566	-	-	-	**14,566**	2	0.50	19/10/21	19/10/28
	13,512	-	-	-	**13,512**	2	0.50	18/10/22	18/10/29
	-	33,870	-	-	**33,870**	2	0.50	04/12/23	04/12/30
	41,146	33,870	-	(11,610)	**63,406**				
	164,435	134,500	(3,584)	(46,105)	**249,246**				

1. Primary share option rights under the Shepherd Neame 2015 Restricted Share Scheme (see note 36c).
2. Secondary share option rights under the Shepherd Neame 2015 Restricted Share Scheme (see note 36c).

REMUNERATION COMMITTEE REPORT CONTINUED

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 26 June 2021 was £10.15 (27 June 2020: £8.28) and the range during the year was £5.25 to £10.35 (2020: £6.75 to £12.40).

DIRECTORS' INTERESTS (AUDITED INFORMATION)

The interests of the current Directors in the Company's shares at 26 June 2021 (27 June 2020) are as follows:

		Beneficial	Ordinary shares as trustees	Under SIP
George Barnes	**2021**	**52,133**	**-**	**3,546**
	2020	49,881	-	3,546
Nigel Bunting	**2021**	**22,388**	**-**	**1,197**
	2020	19,597	-	2,676
Bill Brett	**2021**	**27,510**	**-**	**-**
	2020	28,767	-	-
Jonathan Neame	**2021**	**155,825**	**461,706**	**3,181**
	2020	161,041	461,706	3,181
Richard Oldfield	**2021**	**34,250**	**-**	**-**
	2020	4,250	-	-
Mark Rider	**2021**	**6,495**	**-**	**2,023**
	2020	6,495	-	2,023

The holdings under the SIP were allocated in all years from 2003 to 2019 with the exception of 2009 and are held in trust for a qualifying period of three years before ownership vests unconditionally (see note 36a).

HILARY RIVA
Chair of Remuneration Committee

DIRECTORS' RESPONSIBILITIES STATEMENT

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual 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 Group and Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the Group and Company for that period.

In preparing these 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 they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

WEBSITE PUBLICATION

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

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 Group'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 Group's auditor is aware of that information.

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

OPINION ON THE FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 26 June 2021 and of the Group's loss for the period then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Shepherd Neame Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the period ended 26 June 2021 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 statements of changes in equity, the consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

Assessment of assumptions within the projected cashflows: We evaluated the reasonableness of the assumptions modelled within the Board approved going concern forecasts, which covered the period to December 2022 and included the consideration of the continued impact of the pandemic and recent cost increases (including to energy costs and national minimum wage increases), by comparing these forecasts to how the business traded during the pandemic and how it has traded subsequent to the year end.

Financing: We confirmed that the Group and Parent Company had financing facilities in place throughout the period of the going concern review as modelled in its forecasts. We also confirmed that the forecasts supported the calculations demonstrating covenant compliance and headroom throughout the review period.

Sensitivity analysis: We evaluated the sensitivities applied to the forecasts as a result of a further restriction of trade due to a national lockdown, and the impact this could have on covenant calculations and the liquidity of the Group.

Disclosures: We evaluated the adequacy of the disclosures in relation to the risks posed and scenarios the Group and Parent Company has considered in reaching their going concern assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

OVERVIEW

Coverage	• 100% of Group loss before tax • 100% of Group revenue • 100% of Group total assets
Key audit matters	• Recognition of leases under IFRS 16 Impairment of PPE and right of use assets • Valuation of investment property portfolio
Materiality	**Group financial statements as a whole** • £1.6m based on 0.43% of total assets **Specific materiality for items impacting working capital and operating loss** • £800,000 being 50% of materiality

AN OVERVIEW OF THE SCOPE OF THE AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The Group's operations are all conducted in the United Kingdom. The Group's result for the period is the same as the Parent Company's result for the period and the Parent Company makes up over 99% of the Group's assets and liabilities. We did not identify any components other than the Parent Company and the group audit team performed an audit of the complete financial information representing 100% of the Group's results for the period.

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the scope of our audit addressed the key audit matter
Recognition of Leases under IFRS 16 Note 1i sets out the accounting policy and notes 20 and 40 part 3 set out the right of use asset and liability and the transition disclosures. The Group has a significant portfolio of leased assets and the calculation of lease assets and liabilities involves judgemental assumptions of the lease term and the incremental borrowing rate. Small changes in either of these assumptions across a number of leases could lead to a material change in the valuation of lease assets and liabilities. In addition, during the period a number of leases were subject to modification which resulted in an adjustment to the incremental borrowing rate applied. Owing to the magnitude of the right of use assets and lease liability balances and the estimation and judgement required in accurately assessing these balances, the implementation and application of IFRS 16 was raised as a key audit matter.	Our audit procedures included: **Determination of incremental borrowing rate** • Corroborated the inputs applied within the incremental borrowing rate calculation, by reference to market data with the assistance of BDO valuation specialists to confirm appropriate. **Accuracy of modelling and existence of leases** • Tested the accuracy of the right-of-use asset and lease liability figures calculated by re-performing the calculation for a sample of leases within the transition adjustment • Agreeing leases entered into in the year to lease agreements For lease modifications agreeing a sample to supporting documentation and assessing the incremental borrowing rate applied for each modification. **Completeness of Group leases** • Evaluated the completeness of information included in the lease liability calculation through the examination and sample testing of the lease listing held by the entity. **Assessment of key judgements and estimates** • Evaluated the assumed lease terms with reference to both the underlying lease agreements and consideration of the broader economics of the lease. **Review of financial statement disclosures** • Assessed the adequacy of the disclosures made in the financial statements in light of the requirements of IFRS 16. **Key observations** We found the Group's approach to the adoption of and application of IFRS 16 to be appropriate.

Key audit matter	How the scope of our audit addressed the key audit matter
Impairment of PPE and right of use assets Note 1l sets out the accounting policy and note 15 sets out the impairment summary, disclosures and sensitivities. At 26 June 2021 the carrying value of PPE is £285m and the carrying value of right of use assets is £47m. The continued uncertainties over the current economic environment caused by the Coronavirus pandemic, including the closure or restricted trading of all pubs in the UK, has been identified as an indicator of impairment. Impairment for these assets is performed on the basis of each individual cash generating unit - ie each individual pub site. There is a risk that, given the uncertainties over future trading caused by the pandemic (and the UK Government response to it) that pubs may not achieve the anticipated business performance to support their carrying value. Significant judgement is required in forecasting future cash flows of each pub, including the long term growth rate and the discount rate applied to the future cash flows.	Our audit procedures included: Gaining an understanding of the process and controls management has in place over the impairment process through the completion of a walkthrough **Accuracy of impairment model** Assessed the mechanical accuracy of the impairment model and the methodology applied by management, including the appropriate identification of cash generating units, ensuring consistency with the requirements of IAS 36. **Assessment of assumptions within the cashflow forecasts** • Analysed management's forecasts underlying the impairment review against past and current performance and against expectations of future performance within the hospitality sector in the UK. • Critically challenged and assessed the reasonableness of management's growth assumptions with reference to post year end trading information. **Assessment of the discount rate assumptions** • We engaged BDO valuation specialists to independently calculate the discount rate and compare it to the discount rate applied in the models by management. **Disclosures** • Evaluated the appropriateness of the sensitivities prepared by management by comparing those to our own independently derived sensitivities. • Assessed the completeness and accuracy of disclosures within the financial statements in accordance with IAS 36. **Key observations** Based on our procedures we concluded that the impairment charges have been appropriately determined. We concluded appropriate disclosures had been included by management including sensitivities of the impact of changes in the underlying assumptions.
Valuation of the investment property portfolio Note 1g sets out the accounting policy and note 16 sets out the carrying value and related movements in the period. The Group owns a portfolio of property and development land which is valued at £6m at 26 June 2021. The valuation of the investment and development property portfolio involves a number of assumptions including capitalisation yields and estimated rental values and is subject to a high degree of estimation uncertainty. As detailed in note 16, in completing the valuation of investment property the valuers declared a "material valuation uncertainty" in their valuation assessment on the portfolio as at 26 June 2021. This is on the basis that market activity as a whole has been so significantly impacted by the effects of COVID-19 such that as at the valuation date they consider that they can attach less weight to previous market evidence for comparison purposes to inform opinions of value and that a higher degree of caution should be attached to their valuation. This was therefore considered to be an area of significant risk for the audit and a key audit matter.	Our audit procedures included: **Understanding the controls in place** Obtained an understanding of the relevant controls in the valuation process, including the process by which the Board assessed the key assumptions applied by the valuer. **Assessment of the assumptions applied** • Selected a sample of properties and confirmed the accuracy of the information included in the valuation by agreeing rental information to the underlying lease • Confirmed the completeness of the investment property listing by reconciling all movements in the year and tracing back to records held by the Group and the prior year audited figures. • Comparing the valuations against known market conditions through benchmarking to determine if the fair value appears reasonable • Involvement of our BDO valuation specialists, including RICS qualified valuers, to determine the appropriateness of the valuation methodologies and assumptions applied and to challenge the key assumptions taken for a sample of properties that are outside market expectations • Compared valuations to disposals made post year end to assess the differences and determine if these are reasonable **Disclosures** Confirmed the disclosures made in respect of the properties held at valuation are appropriate **Key observations** We considered the valuation of the portfolio to be within an acceptable range and the disclosures in line with requirements.

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

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in the planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In assessing materiality for the current year, we have considered the users of the financial statements, the key metrics that will be considered in the use of the financial statements and the impact that the trading disruption caused by coronavirus has had on the results of the period.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence when evaluating their effect on the financial statements as a whole.

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

Materiality

We determined materiality for the Group to be £1.6m based on relevant metrics used by investors and other users of the financial statements in the context of the current year. To form the basis of this assessment we considered the total assets of the group and applied a 0.5% value to this. The final figures in the financial statements following our audit result in this being 0.43% of total assets.

We determined materiality for the Parent Company to be the same as for the Group as it is the only trading component of the Group.

Specific materiality

In order to ensure an appropriate amount of work was performed on balances which are of interest to users of the financial statements, in spite of the disrupted trading pattern in the year, we determined a specific materiality of £800,000 for items which are balances included in operating profit and related to working capital. This figure was set at 50% of materiality.

We determined the Parent Company specific materiality to the same as the Group as the results of both the Parent Company and the Group are the same.

Performance materiality

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of materiality and specific materiality as appropriate. We have set performance materiality at this percentage as this year is a first year audit for BDO LLP.

Reporting threshold

We agreed with the audit committee that we would report to them all individual audit differences in excess of £32,000. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 this regard.

OTHER COMPANIES ACT 2006 REPORTING

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	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 Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	• We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • 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; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- enquiring of management and the directors, including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established by the group to mitigate risks related to fraud or non-compliance with laws and regulations.
- discussing among the engagement team including significant component audit teams, how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the following areas:
  - management override of controls;
  - government grant claims; and
  - improper revenue recognition
- obtaining an understanding of the legal and regulatory frameworks that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the UK Companies Act, IFRS and relevant tax and employment legislation.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess
- compliance with relevant laws and regulations noted above;
- enquiring of management, the directors and legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing correspondence with HMRC; and
- addressing the risk of fraud through management override of controls by, testing the appropriateness of journal entries including journal entries posted to revenue and other adjustments; assessing whether the judgements made about assumptions reflected in accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- addressing the risk of fraud in Government grant claims by assessing the controls and governance procedures in place for each claim made, by recalculating a sample of claims, verifying the claims, receipts and payments made in regard of payroll related claims, and involving specialists to assess the claims made;
- addressing the risk of fraud in revenue recognition for managed pubs by performing a three way match between the EPOS system, the nominal ledger and cash receipts, as well as performing procedures to verify the nature of cash inflows and testing the polling data and reviewing for anomalies in EPOS data throughout the period.

There were no matters of non-compliance or fraud that were communicated to the audit engagement team. The engagement team was deemed to collectively have the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations. We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our procedures included but were not limited to assessing the susceptibility of the company's financial statements to material misstatement, including how fraud might occur, by meeting with management to understand where it is considered there was a susceptibility of fraud. We also considered potential fraud drivers: including financial or other pressures, opportunity, and personal or corporate motivations. We considered the programmes and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

USE OF OUR REPORT

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:
Mark RA Edwards
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MARK RA EDWARDS
Senior Statutory Auditor
For and on behalf of BDO LLP, Statutory Auditor
London, UK

9 November 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

FINANCIAL STATEMENTS

GROUP INCOME STATEMENT

FOR THE 52 WEEKS ENDED 26 JUNE 2021

		52 weeks ended 26 June 2021			52 weeks ended 27 June 2020 Restated		
	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
Revenue	3, 4	**86,884**	**-**	**86,884**	118,207	-	118,207
Other income	5	**2,839**	**-**	**2,839**	450	-	450
Operating charges	5, 7	**(93,963)**	**(6,307)**	**(100,270)**	(117,142)	(17,515)	(134,657)
Operating (loss)/profit	3	**(4,240)**	**(6,307)**	**(10,547)**	1,515	(17,515)	(16,000)
Net finance costs	6, 7	**(5,817)**	**(471)**	**(6,288)**	(5,155)	(185)	(5,340)
Fair value movements on financial instruments charged to profit and loss	6, 7	**-**	**115**	**115**	-	35	35
Total net finance costs		**(5,817)**	**(356)**	**(6,173)**	(5,155)	(150)	(5,305)
Profit on disposal of property	7	**-**	**221**	**221**	-	274	274
Investment property fair value movements	7	**-**	**87**	**87**	-	50	50
Loss before taxation		**(10,057)**	**(6,355)**	**(16,412)**	(3,640)	(17,341)	(20,981)
Taxation	8	**1,868**	**(3,247)**	**(1,379)**	449	1,141	1,590
Loss after taxation		**(8,189)**	**(9,602)**	**(17,791)**	(3,191)	(16,200)	(19,391)
Loss per 50p ordinary share	10						
Basic				**(120.5)p**			(131.6)p
Diluted				**(120.5)p**			(131.6)p

All results are derived from continuing activities.

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE 52 WEEKS ENDED 26 JUNE 2021

	Note	52 weeks ended 26 June 2021 £'000	52 weeks ended 27 June 2020 Restated £'000
Loss after taxation		**(17,791)**	(19,391)
Items that may be reclassified subsequently to profit or loss:			
Gains/(losses) arising on cash flow hedges during the period	26	**1,605**	(96)
Income tax relating to these items	8	**(166)**	123
Items that will not be reclassified subsequently to profit or loss:			
Unrealised gain on revaluation of property	14	**31**	17
Other comprehensive gains		**1,470**	44
Total comprehensive loss		**(16,321)**	(19,347)

GROUP AND PARENT COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 26 JUNE 2021

	Note	Group 26 June 2021 £'000	Restated Group 27 June 2020 £'000	Restated Group 29 June 2019 £'000	Company 26 June 2021 £'000	Restated Company 27 June 2020 £'000	Restated Company 29 June 2019 £'000
Non-current assets							
Goodwill and intangible assets	13	328	674	760	328	674	760
Property, plant and equipment	14	285,063	297,297	302,541	285,063	297,297	302,541
Investment properties	16	6,068	8,811	8,309	6,068	8,811	8,309
Other non-current assets	18, 19	5	5	10	27	27	5,519
Right-of-use assets	20	47,311	46,262	58,037	47,311	46,262	58,037
		338,775	353,049	369,657	338,797	353,071	375,166
Current assets							
Inventories	21	7,320	8,230	7,111	7,320	8,230	7,111
Trade and other receivables	22	15,360	10,329	13,570	15,360	10,329	13,570
Cash and cash equivalents		5,560	9,807	-	5,560	9,807	-
Assets held for sale	23	2,419	850	485	2,419	850	485
		30,659	29,216	21,166	30,659	29,216	21,166
Current liabilities							
Trade and other payables	24	(26,383)	(27,846)	(22,827)	(26,405)	(27,868)	(28,201)
Borrowings	25	(1,600)	(94,262)	(2,082)	(1,600)	(94,262)	(2,217)
Income tax payable		-	-	(269)	-	-	(269)
Lease liabilities	20	(5,100)	(5,360)	(3,953)	(5,100)	(5,360)	(3,953)
		(33,083)	(127,468)	(29,131)	(33,105)	(127,490)	(34,640)
Net current liabilities		(2,424)	(98,252)	(7,965)	(2,446)	(98,274)	(13,474)
Total assets less current liabilities		336,351	254,797	361,692	336,351	254,797	361,692
Non-current liabilities							
Lease liabilities	20	(53,226)	(50,500)	(52,604)	(53,226)	(50,500)	(52,604)
Borrowings	25	(94,765)	-	(81,160)	(94,765)	-	(81,160)
Derivative financial instruments	26	(5,414)	(7,107)	(6,822)	(5,414)	(7,107)	(6,822)
Provisions	28	(498)	(498)	-	(498)	(498)	-
Deferred tax liabilities	29	(13,101)	(11,456)	(12,990)	(13,101)	(11,456)	(12,990)
		(167,004)	(69,561)	(153,576)	(167,004)	(69,561)	(153,576)
Net assets		169,347	185,236	208,116	169,347	185,236	208,116
Capital and reserves							
Share capital	30	7,429	7,429	7,429	7,429	7,429	7,429
Share premium account	31	1,099	1,099	1,099	1,099	1,099	1,099
Revaluation reserve	31	31	17	-	31	17	-
Own shares	31	(1,010)	(1,328)	(1,551)	(1,010)	(1,328)	(1,551)
Hedging reserve	31	(3,524)	(4,963)	(4,990)	(3,524)	(4,963)	(4,990)
Retained earnings	31	165,322	182,982	206,129	165,322	182,982	206,129
Total equity		169,347	185,236	208,116	169,347	185,236	208,116

The loss for the year of the Company was £17,791,000 (2020: loss of £19,391,000). Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own Income Statement.

These accounts for Shepherd Neame Limited (registered in England number 0138256) were approved and authorised for issue by the Board of Directors on 9 November 2021 and were signed on its behalf by:

RICHARD OLDFIELD
Chairman

JONATHAN NEAME
Chief Executive

GROUP AND PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE 52 WEEKS ENDED 26 JUNE 2021

	Note	Share capital £'000	Share premium account £'000	Revaluation reserve £'000	Own shares £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000
Balance at 29 June 2019		**7,429**	**1,099**	**71,858**	**(1,551)**	**(4,990)**	**134,252**	**208,097**
Changes on transition to IFRS	40	-	-	(71,858)	-	-	71,877	19
Balance at 29 June 2019 as restated		**7,429**	**1,099**	**-**	**(1,551)**	**(4,990)**	**206,129**	**208,116**
Loss for the financial year		-	-	-	-	-	(19,391)	(19,391)
Losses arising on cash flow hedges during the year	26	-	-	-	-	(96)	-	(96)
Gains on revaluation of property, plant and equipment	14	-	-	17	-	-	-	17
Tax relating to components of other comprehensive income	8	-	-	-	-	123	-	123
Total comprehensive income/(loss)		**-**	**-**	**17**	**-**	**27**	**(19,391)**	**(19,347)**
Ordinary dividends paid	9	-	-	-	-	-	(3,573)	(3,573)
Accrued share-based payments	36	-	-	-	-	-	317	317
Purchase of own shares	31	-	-	-	(290)	-	-	(290)
Distribution of own shares	31	-	-	-	353	-	(340)	13
Unconditionally vested share awards		-	-	-	160	-	(160)	-
Balance at 27 June 2020 as restated		**7,429**	**1,099**	**17**	**(1,328)**	**(4,963)**	**182,982**	**185,236**
Loss for the financial year		-	-	-	-	-	(17,791)	(17,791)
Gains arising on cash flow hedges during the year	26	-	-	-	-	1,605	-	1,605
Gains on revaluation of property, plant and equipment	14	-	-	31	-	-	-	31
Tax relating to components of other comprehensive income	8	-	-	-	-	(166)	-	(166)
Total comprehensive income/(loss)		**-**	**-**	**31**	**-**	**1,439**	**(17,791)**	**(16,321)**
Revaluation reserve realised on disposal of properties		-	-	(17)	-	-	17	-
Accrued share-based payments	36	-	-	-	-	-	428	428
Distribution of own shares	31	-	-	-	125	-	(121)	4
Unconditionally vested share awards		-	-	-	193	-	(193)	-
Balance at 26 June 2021		**7,429**	**1,099**	**31**	**(1,010)**	**(3,524)**	**165,322**	**169,347**

There are no differences between the Parent Company Statement of Changes in Equity and the Group Statement of Changes in Equity above for the 52 weeks to 26 June 2021.

GROUP AND PARENT COMPANY STATEMENT OF CASH FLOWS

FOR THE 52 WEEKS ENDED 26 JUNE 2021

	£'000	52 weeks ended 26 June 2021 £'000	£'000	Restated 52 weeks ended 27 June 2020 £'000
Cash flows from operating activities (note 32)				
Cash generated from operations	**1,630**		19,182	
Income taxes received/(paid)	**195**		(185)	
Net cash generated by operating activities		**1,825**		18,997
Cash flows from investing activities				
Proceeds from disposal of property, plant and equipment and investment properties	**4,526**		1,752	
Purchases of property, equipment and lease premiums	**(3,878)**		(12,025)	
Purchase of intangible assets	**-**		(92)	
Customer loan redemptions	**1**		2	
Acquisition of subsidiaries	**-**		(151)	
Net cash used in investing activities		**649**		(10,514)
Cash flows from financing activities				
Dividends paid	**-**		(3,573)	
Interest paid	**(4,796)**		(3,211)	
Payments of principal portion of lease liabilities	**(3,930)**		(2,533)	
Proceeds from borrowings	**2,000**		13,000	
Purchase of own shares	**-**		(290)	
Share option proceeds	**5**		13	
Net cash generated by financing activities		**(6,721)**		3,406
Net movement in cash and cash equivalents		**(4,247)**		11,889
Cash and cash equivalents at beginning of the period		**9,807**		(2,082)
Cash and cash equivalents at end of the period		**5,560**		9,807

There are no differences between the Parent Company Cash Flow and the Group Cash Flow above for the 52 weeks to 26 June 2021.

NOTES TO THE FINANCIAL STATEMENTS

26 JUNE 2021

1 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are set out below and have been applied consistently in presenting the Group and parent company financial information.

a General information and basis of preparation

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 Report of the Directors on page 35. Shepherd Neame Limited is the ultimate controlling party of the Group.

These financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006. The principal accounting policies adopted by the Group and by the Company are set out in the accounting policies below.

Adoption of new standards

The accounts have been prepared on a going concern basis under the historical cost convention, modified to include financial instruments held at fair value, investment properties held at fair value and by the revaluation of freehold licensed properties as at 28 June 2014.

The prior year financial statements were restated for material adjustments on adoption of IFRS in the current year. For more information see note 40.

The Directors will adopt the following standards in the first full financial period following their effective date. The Directors do not expect that adoption in future periods will have a material impact:

- Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Presentation', and IFRS 7 'Financial Instruments: Disclosures' on interest rate benchmark reform, effective 1 January 2021.
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41), effective 1 January 2022.
- References to Conceptual Framework (Amendments to IFRS 3), effective 1 January 2021.
- Classification of liabilities as current or non-current (Amendments to IAS 1), 1 January 2023.

The Group and Company financial statements are presented in pounds sterling and all values are shown in thousands of pounds (£'000) rounded to the nearest thousand (£'000), unless otherwise stated.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1-32 and include the section entitled 'Principal Risks and Uncertainties' on pages 24-29. The Financial Review section on pages 18-21 describes the financial position of the Group, its cash flows and liquidity position. In addition, note 26 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, borrowing facilities, and its exposure to credit risk and liquidity risk.

Going concern
The Group has prepared the 2021 financial statements on a going concern basis. The Board is confident that the Group has sufficient internally generated cash inflows and undrawn bank facilities to meet all of its needs for the foreseeable future. At 26 June 2021, the Group had existing facilities of £132.5million, having headroom on facilities, excluding cash held, of £36.1m.

During the year, the group agreed with its lending banks and private placement lenders that the financial covenants should be amended and the tests were replaced by liquidity headroom covenants until the quarter ending June 2022. From the quarter to September 2022 onwards, the covenants will revert back to the original terms.

The Company's base forecast demonstrates that headroom for the next 12 months does not fall below £40m at any point and with predicted cash inflows for the financial years to June 2022 and June 2023. Under this scenario, all covenants would be complied with for the duration of the going concern period and the CLBILS loan would not be utilised.

The Company has modelled a "downside case" scenario covering the going concern assessment period that reflects the potential continued impact of the COVID-19 pandemic. A "downside case" based on a 1 month full lockdown in December 2021, a key trading period, would not result in a breach of covenants in September 2022. The "downside case" scenario assumes that the Company would receive furlough support in line with previous periods of national lockdown.

Whilst the model shows there would be adequate liquidity headroom on a further "downside case" scenario of a two month national lockdown, under this scenario, the Directors would need to seek waivers for its covenants that will be re-tested in September 2022 under the terms of the waiver agreements. The Directors are confident that in this case it would be possible to agree waivers for these covenants with its lending banks (as has been the case in prior lockdown scenarios). In addition, the Group could also implement further mitigating actions before this point in time comprising deferring capital expenditure, further disposals of parts of the Group's valuable freehold property estate and cost reductions. It is possible that the extent of these mitigating actions would negate the need to extend the waivers in place.

After due consideration of the matters set out above, the Directors are satisfied that there is a reasonable expectation that the Group has adequate resources to enable the accounts to be presented on the basis of the Group being a going concern.

b Basis of consolidation
The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up for the 52 weeks ended 26 June 2021 (2020: 52 weeks ended 27 June 2020). 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.

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.

c Intangible assets excluding goodwill
Intangible assets with finite useful lives are carried at cost less accumulated amortisation and impairment losses. Amortisation is recognised on a straight-line basis over an estimated useful life of between three and five years. The estimated useful life and amortisation method are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis. Provision is made for any impairment.

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

d Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred and the amount of any non-controlling interest in the acquiree. The consideration transferred is measured at the acquisition-date fair value. Any excess of the consideration of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the balance sheet as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised immediately in the profit and loss account. Acquisition costs incurred are expensed and included in operating charges. Any contingent consideration recognised on business combinations is measured at its acquisition-date fair value.

e Property, plant and equipment

Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and any impairment in value.

Assets under construction are not depreciated until they are brought into use. The Group does not depreciate freehold land. 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 life or lease term, if shorter, as follows:

• Freehold brewery properties	25 to 30 years
• Other freehold properties	50 years
• Leasehold improvements	The term of the lease
• 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

The residual value, expected useful life and depreciation method applied to each asset are reviewed annually, with the effect of any changes in estimate accounted for on a prospective basis. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

f Assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The criteria for held for sale classification are regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. The Board must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of classification.

Assets held for sale are valued at the lower of the carrying amount and fair value less costs to sell. No depreciation is charged whilst assets are classified as held for sale.

g Investment properties

Investment properties are carried at fair value and measured at each reporting date with any change recognised in the profit and loss account. Gains or losses on the sale of properties are calculated by reference to the carrying value at the end of the previous reporting date, adjusted for subsequent capital expenditure.

h The Company's investments in subsidiaries

In its separate financial statements, the parent company recognises its investment in subsidiaries on the basis of cost less provision for impairment.

i Leases

The Group assesses at contract inception whether a contract is, or contains, a lease - that is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

1) Group as lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i. Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement or modification of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term and are subject to impairment under the Group's accounting policy for impairment.

ii. Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers payment occurs. The lease payment also includes the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. Extensions to leases are recognised when it is reasonably certain the option is going to be exercised.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The lease liability is subsequently measured at amortised cost using the effective interest rate method. The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments). Where there is a lease modification, the lease is remeasured using a revised discount rate, with a corresponding adjustment being made to the right-of-use asset. The Group has applied the practical expedient regarding COVID-19-related rent concessions to all rent concessions that are eligible.

iii. Short-term leases and leases of low-value assets

The Group has taken the practical expedient exemption for short-term leases and leases of low-value assets. Lease payments on short-term leases and leases of low-value assets are expensed to the profit and loss account.

2) Group as lessor

Assets leased out under operating leases are included within property, plant and equipment or investment property, and are depreciated over their estimated useful lives. Rental income is recognised on a straight-line basis over the lease term.

j Inventories

Inventories 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 that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Provision is made for obsolete, slow-moving or defective items where appropriate.

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

k Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial 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.

Financial assets and liabilities are initially measured at fair value, except for trade receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

i) Financial assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets. The Group's business model for managing financial assets determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling.

The Group's debt instruments (cash, trade and other receivables) are classified as belonging to the amortised cost category.

IFRS 9's impairment requirements recognise expected credit losses. The Group considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events and current conditions. When assessing impairment for trade receivables, the Group has applied the simplified approach to expected credit losses as per IFRS 9. The model focusses on an appraisal of the risk that a receivable will default rather than whether a loss has been incurred. Expected credit losses are initially determined based on the Group's historical credit loss experience, any forward-looking factors specific to a particular trade receivable and the current economic environment. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Financial assets are derecognised when and only when the contractual rights to the cash flows from the financial asset expire, or when the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset.

ii) Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value though profit or loss, loans and borrowings, payables, or derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

All financial liabilities are subsequently measured at amortised cost using the effective interest rate method or fair value through profit or loss.

Interest-bearing bank loans are initially recorded at the fair value of proceeds received, net of direct issue costs, and thereafter at amortised cost. Finance charges and direct issue costs are accounted for on an effective interest rate basis in the profit and loss account.

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

iii) Derivative financial instruments and hedge accounting

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

Derivatives are initially recognised at fair value at the date on which a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below.

The interest rate swaps are classified as cash flow hedges because the derivative financial instruments hedge the variable interest rate risk of the cash flows associated with the recognised debt instrument measured at amortised cost (the £22.5m long-term loan to 2026).

The effective portion of changes in the fair value of the designated hedging instrument is recognised in other comprehensive income and accumulated in the cost of hedging reserve within equity. The gain or loss relating to any ineffective portion is recognised immediately in the Income Statement. When the hedging instrument expires, or is sold or, terminated or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued. Any gain or loss recognised in other comprehensive income and accumulated in the cost of hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs.

The current interest rate cap does not have hedge accounting applied and therefore the fair value movements are recognised immediately in the Income Statement.

I Impairment of assets

Carrying values are reviewed for impairment if events indicate that the carrying value of the asset may not be readily recoverable. Goodwill is mandatorily assessed for impairment on an annual basis, or more frequently if there are indicators that the carrying value may be impaired.

Impairment is assessed on the basis of either each individual asset or each individual cash-generating unit (an individual pub), or, in the case of goodwill, the group of cash-generating units associated with it. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (or groups of cash-generating units) that are expected to benefit from the combination.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to present value using an appropriate pre-tax discount rate. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the smallest cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised immediately in the Group Income Statement unless the impairment loss relates to goodwill, in which case it is not reversed.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26 JUNE 2021

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

m Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using UK tax rates that have been enacted or substantively enacted under UK law by the end of the reporting period.

Deferred tax

Deferred tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that is it probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such deferred tax assets and liabilities are not recognised where the asset or liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. The carrying amount of deferred tax assets is reviewed at each reporting date.

Deferred tax is not recognised in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balance relates to the same taxation entities.

Where there has been an upward revaluation of an asset and the asset is expected to be realised through disposal, a deferred tax liability is recorded based on the difference between the indexed cost of the asset, less any capital gains which have been rolled over against the asset and the revalued amount.

Deferred tax is calculated at the UK tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

Current and deferred tax for the year

The tax expense or income is recognised in the profit and loss account unless it relates to items that are recognised in the Statement of Comprehensive Income or in equity, in which case it is also recognised in the Statement of Comprehensive Income or directly in equity respectively.

n Revenue recognition

Revenue is recognised under IFRS 15 upon application of the following steps:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to each performance obligation
- Recognise revenue when a performance obligation is satisfied by transferring a promised good or service to a customer.

Revenue is measured at the transaction price when control passes to the customer in respect of goods and services provided, net of discounts and VAT. The Group recognises revenue from the following major sources:

Sale of goods

Revenue from the sale of goods is recognised when the Company has transferred control of the goods to the customer. This occurs when the customer takes possession, which is generally when the goods are delivered, the customer has full discretion over future use of the product, and there is no unfulfilled obligation that could affect the customer's acceptance of the product.

Accommodation sales

Revenue is recognised on a straight-line basis over the duration of the room occupation.

Rental income

Rental income received from tied estate properties is recognised over time, in the period in which it relates to on an accruals basis. For leased properties revenue is recognised on a straight-line basis over the term of the lease, with the transaction price being based on the amount implicit in the rental agreement.

o Government grants and support

Government grants are recognised when there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit and loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in the profit or loss in the period in which they become receivable.

During the period, the group was eligible for a number of government grant schemes which were introduced to mitigate the impact of COVID-19.

Coronavirus Job Retention Scheme (CJRS)

Under the CJRS, HMRC reimburses up to 80% of the wages of certain employees who have been furloughed up to a maximum of £2,500 per employee per month. The scheme is designed to compensate for staff costs, so amounts received are recognised in the Income Statement over the same period as the costs to which they relate. In the Income Statement, operating charges are shown net of CJRS grant income received.

Eat Out To Help Out (EOTHO)

From 3 to 31 August 2020, HMRC offered a 50% discount of food and non-alcoholic drinks, capped to £10 per person, when dining out between Monday and Wednesday. This is not a government grant as defined by IAS 20 and amounts reimbursed from the scheme have been recorded in Revenue.

Government grant income

The Company received support from various local restriction support grants administered by local councils in response to the various restrictions placed on trading between November 2020 and March 2021. Income relating to the grants has been recognised in other income in the Income Statement.

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

p Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset that takes a substantial period of time to get ready for use are capitalised as part of the cost of the assets being created. This is applied to development projects where the development is expected to last in excess of six months at the commencement of the project. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

q Items excluded from underlying results

In addition to presenting information on an IFRS basis, the Group also presents adjusted profit/(loss) and earnings per share information that excludes certain items and the impact of any associated tax, which can vary significantly year on year or where their exclusion can help an understanding of the underlying performance of the Group. Adjusted profitability measures are presented excluding these items as we believe this provides both management and investors with useful additional information about the Group's performance and supports a more effective comparison of the Group's trading performance from one period to the next. Adjusted profit and earnings per share information is used by management to monitor business performance against both shorter-term budgets and forecasts but also against the Group's longer-term strategic plans, including its distribution policy. Note 7 provides a detailed list of items excluded from underlying results including a full reconciliation back to IFRS figures. Note 8 provides information on the tax impact of items excluded from underlying results..

r Pensions

The Group operates two defined contribution pension schemes. Contributions are charged to the Income Statement as they become payable in accordance with the rules of the schemes.

s 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 end of the reporting date are reported at the rates of exchange prevailing at that date. All differences are taken to the Income Statement.

t Dividends

Dividends recommended by the Board but unpaid at the period end are not recognised in the financial statements until they are paid (interim dividend) or approved by the shareholders (final dividend).

u Share-based payments

All options are equity-settled. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using the Black-Scholes and stochastic pricing models which are considered by management to be the most appropriate method of valuation. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the 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 the end of each reporting period, 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.

2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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 on-going 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 areas of estimation and assumption

Impairment of assets

Non-financial assets are subject to impairment reviews at the end of the reporting 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 15.

Investment property valuations

Investment properties are revalued to fair value at each reporting date by the Company's own professionally qualified staff who are Royal Institution of Chartered Surveyors (RICS)-qualified. The fair values for commercial property and land are based on the rental income and average yields earned on comparable properties from publicly available information and for residential properties on comparable market evidence. For the years ended 26 June 2021 and 27 June 2020, COVID-19 has disrupted activity in real estate markets creating heightened valuation uncertainty for the Company's valuers. As a result, the valuation includes a clause which highlights a 'material valuation uncertainty'. This clause serves as a precaution and does not invalidate the valuation and does not mean that the valuation cannot be relied upon. Rather it is intended to highlight that due to current extraordinary circumstances, less certainty can be attached to the valuation than would otherwise be the case. See note 16 for further details.

Calculation of lease liabilities

The Group is required to determine an incremental borrowing rate ('IBR') to discount future minimum lease payments. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. A sensitivity analysis has been conducted on the lease liabilities which shows that increasing the discount rate by 1% will decrease the lease liability by £5,555,000 and decrease the right-of-use asset by £5,827,000. See note 20 for further details.

Key judgements

Taxation

Judgement is required when determining the provision for taxes as the tax treatment of some transactions cannot be fully determined until a formal resolution has been reached with the tax authorities. Tax benefits are not recognised unless it is probable that the benefit will be obtained. Tax provisions are made if it is probable that a liability will arise. The Group reviews each significant tax liability or benefit to assess the appropriate accounting treatment. See note 8.

Items excluded from underlying results

Judgement is used to determine those items that should be separately disclosed to allow a better understanding of the underlying trading performance of the Group. The judgement includes assessment of whether an item is of a nature that is not consistent with normal trading activities or of sufficient size or infrequency. See note 7.

3 SEGMENTAL REPORTING

The accounting policy for identifying segments is based on internal management reporting information that is regularly reviewed by the Chief Operating Decision Maker (CODM).

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 their customers:

- Brewing and Brands which comprises the brewing, marketing and sales of beer and other products;
- Retail 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.

As segment assets and liabilities are not regularly provided to the CODM, the Group has elected, as provided under IFRS 8 Operating Segments (amended), not to disclose a measure of segment assets and liabilities.

52 weeks ended 26 June 2021	Brewing and Brands £'000	Retail Pubs £'000	Tenanted Pubs £'000	Unallocated £'000	Total £'000
Revenue and other income	**42,018**	**29,907**	**16,748**	**1,050**	**89,723**
Underlying operating (loss)/profit	(1,287)	983	2,343	(6,279)	(4,240)
Items excluded from underlying results	-	(4,816)	(562)	(929)	(6,307)
Divisional operating (loss)/profit	**(1,287)**	**(3,833)**	**1,781**	**(7,208)**	**(10,547)**
Net underlying finance costs					**(5,817)**
Finance costs excluded from underlying results					**(471)**
Fair value movements on ineffective element of cash flow hedges					**115**
Profit on disposal of property					**221**
Investment property fair value movements					**87**
Loss before taxation					**(16,412)**

52 weeks ended 26 June 2021	Brewing and Brands £'000	Retail Pubs £'000	Tenanted Pubs £'000	Unallocated £'000	Total £'000
Other segment information					
Capital expenditure - tangible and intangible assets	779	1,494	847	123	**3,243**
Depreciation and amortisation pre IFRS 16	1,662	3,280	2,698	386	**8,026**
Depreciation and amortisation	1,752	4,629	4,248	481	**11,110**
Impairment of property, plant and equipment, goodwill and assets held for sale	-	3,407	352	331	**4,090**
Impairment of right-of-use assets	-	1,409	210	-	**1,619**
Underlying divisional EBITDA pre IFRS 16	449	2,855	5,150	(5,732)	**2,722**
Underlying divisional EBITDA	546	6,184	6,616	(5,636)	**7,710**
Number of pubs	-	65	235	10	**310**

52 weeks ended 27 June 2020	Brewing and Brands £'000	Retail Pubs £'000	Tenanted Pubs £'000	Unallocated £'000	Total £'000
Revenue and other income	**41,594**	**50,642**	**25,181**	**1,240**	**118,657**
Underlying operating (loss)/profit	(249)	2,872	6,957	(8,065)	**1,515**
Items excluded from underlying results	-	(12,297)	(3,291)	(1,927)	**(17,515)**
Divisional operating (loss)/profit	**(249)**	**(9,425)**	**3,666**	**(9,992)**	**(16,000)**
Net underlying finance costs					**(5,155)**
Finance costs excluded from underlying results					**(185)**
Fair value movements on ineffective element of cash flow hedges					**35**
Profit on disposal of property					**274**
Investment property fair value movements					**50**
Loss before taxation					**(20,981)**

52 weeks ended 27 June 2020	Brewing and Brands £'000	Retail Pubs £'000	Tenanted Pubs £'000	Unallocated £'000	Total £'000
Other segment information					
Capital expenditure - tangible and intangible assets	1,126	6,730	3,894	720	**12,470**
Depreciation and amortisation pre IFRS 16	1,702	3,413	2,712	528	**8,355**
Depreciation and amortisation	1,793	5,430	3,968	625	**11,816**
Impairment of property, plant and equipment, goodwill and assets held for sale	-	5,556	1,150	483	**7,189**
Impairment of right-of-use assets	-	6,741	2,141	-	**8,882**
Underlying divisional EBITDA pre IFRS 16	1,459	5,998	9,713	(7,495)	**9,675**
Underlying divisional EBITDA	1,571	8,382	10,989	(7,392)	**13,550**
Number of pubs	-	69	234	16	**319**

Geographical information

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

	52 weeks ended 26 June 2021 £'000	52 weeks ended 27 June 2020 £'000
Revenue		
UK	**84,606**	116,083
Rest of the World	**2,278**	2,124
	86,884	118,207

4 REVENUE

An analysis of the Group's revenue by category is as follows:

	52 weeks ended 26 June 2021 £'000	52 weeks ended 27 June 2020 £'000
Sale of goods and services[1]	**83,707**	111,568
Rental income	**3,177**	6,639
Revenue	**86,884**	118,207

1. Revenue includes £609,000 received from the Government under the Eat Out to Help Out Scheme.

5 OTHER INCOME AND OPERATING CHARGES

a Other income

	52 weeks ended 26 June 2021 £'000	52 weeks ended 27 June 2020 £'000
Other income[1]	**2,839**	450

1. Other income includes local restriction support grants administered by local councils in response to the various restrictions placed on trading between November 2020 and March 2021 as a result of the COVID-19 pandemic.

b Operating charges

	Before items excluded from underlying results 52 weeks ended 26 June 2021 £'000	**Items excluded from underlying results 52 weeks ended 26 June 2021 £'000**	**Total 52 weeks ended 26 June 2021 £'000**	Total 52 weeks ended 27 June 2020 £'000
Raw materials, consumables and finished goods used	**43,311**	**-**	**43,311**	51,327
Change in inventories of finished goods and work in progress	**910**	**-**	**910**	(1,119)
Staff costs:[1]				
Wages and salaries	**17,157**	**-**	**17,157**	24,962
Social security costs	**1,964**	**-**	**1,964**	2,285
Other pension costs	**940**	**-**	**940**	1,036
Amortisation of intangible assets (note 13)	**18**	**-**	**18**	17
Depreciation of property, plant and equipment (note 14)	**7,836**	**-**	**7,836**	8,101
Depreciation of right-of-use assets (note 20)	**3,256**	**-**	**3,256**	3,698
Impairment of intangible assets (note 13)	**-**	**328**	**328**	161
Impairment of property, plant and equipment (note 15)	**-**	**3,628**	**3,628**	6,748
Impairment of right-of-use assets (note 15)	**-**	**1,619**	**1,619**	8,882
Impairment of assets held for sale (note 15)	**-**	**134**	**134**	280
Loss on sale of plant and equipment (excluding properties)	**840**	**-**	**840**	216
Property repairs	**2,242**	**-**	**2,242**	2,519
Rental expense in relation to short-term and low value leases	**153**	**-**	**153**	167
Foreign exchange loss	**28**	**-**	**28**	-
Net fair value losses on financial assets at fair value through profit or loss	**5**	**-**	**5**	-
Impairment of stock recognised as an expense (note 21)	**684**	**-**	**684**	682
Other operating charges	**14,619**	**598**	**15,217**	24,695
Total operating charges	**93,963**	**6,307**	**100,270**	134,657

1. Wages and salaries are presented net of income received from the Coronavirus Job Retention Scheme.

The analysis of auditor's remuneration is as follows:

	52 weeks ended 26 June 2021 £'000	52 weeks ended 27 June 2020 £'000
Auditor's remuneration in respect of the audit of the Group's annual accounts	**160**	122
Fees payable to auditor for other services to the Group:		
Tax advisory services	**-**	27
Other services	**-**	35
Total fees payable to auditor	**160**	184

No other services were provided by the auditor during the year.

6 NET FINANCE COSTS

	52 weeks ended 26 June 2021 Total statutory £'000	52 weeks ended 27 June 2020 Total statutory £'000
Finance Income		
Interest income from financial assets	**(1)**	(12)
Finance costs		
Interest expense arising on:		
Financial liabilities at amortised cost - bank loans	**4,575**	3,847
Less: amounts capitalised in the cost of qualifying assets	**-**	(14)
Financial liabilities at amortised cost - lease liabilities	**1,285**	1,298
Other financial liabilities not at fair value through profit and loss	**(22)**	32
Unwinding of discounts on provisions	**(20)**	4
Finance costs expensed	**5,818**	5,167
Underlying net finance costs	**5,817**	5,155
Finance costs excluded from underlying results		
Cost related to putting in place CLBILS loan	**201**	185
Costs relating to the agreement of covenant waivers with our lenders	**270**	-
Ongoing fair value movements on financial instruments charged to income statement	**(115)**	(35)
Total finance costs excluded from underlying results	**356**	150
Net finance costs	**6,173**	5,305

Borrowing costs included in the cost of qualifying assets during the prior year arose on the general borrowing pool and were calculated by applying a capitalisation rate of 2.54% to expenditure on such assets.

7 NON-GAAP REPORTING MEASURES

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

- Profit or loss on disposal of properties;
- Investment property fair value movements;
- Operating and finance charges which are either material or infrequent in nature and do not relate to the underlying performance;
- Fair value movements on financial instruments charged to profit and loss; and
- Taxation impacts of the above (See note 8).

7 NON-GAAP REPORTING MEASURES CONTINUED

	26 June 2021 £'000	27 June 2020 £'000
Underlying EBITDA	**7,710**	13,550
Depreciation and amortisation	**(11,110)**	(11,816)
Free trade loan discounts	**-**	(3)
Loss on sale of assets (excluding property)	**(840)**	(216)
Underlying operating (loss)/profit	**(4,240)**	1,515
Net underlying finance costs pre IFRS 16	**(4,532)**	(3,857)
Net underlying finance costs	**(5,817)**	(5,155)
Underlying loss before taxation	**(10,057)**	(3,640)
Profit on disposal of properties	**221**	274
Investment property fair value movements	**87**	50
Separately disclosed operating charges:		
Impairment of intangible assets, properties, right-of-use assets and assets held for sale	**(5,709)**	(16,071)
Restructuring costs	**(709)**	-
Other operating charges excluded from underlying results	**111**	(1,444)
Separately disclosed finance costs:		
Cost related to putting in place CLBILS loan	**(201)**	(185)
Costs relating to the agreement of covenant waivers with our lenders	**(270)**	-
Fair value movements on financial instruments charged to profit and loss	**115**	35
Loss before taxation	**(16,412)**	(20,981)

Separately disclosed operating charges:

a) An impairment charge of £5,709,000 (2020: £16,071,000) in relation to 14 freehold properties and 17 right-of-use assets (see note 15).

b) A charge of £709,000 in respect of restructuring costs.

c) A recovery of £111,000 in relation to previously disclosed unlawful activity carried out by an employee.

During the 52 weeks ended 27 June 2020, there was a one-off net charge of £946,000 relating to the correction of erroneous charges made against certain accounts as a result of unlawful action by one employee, acting independently.

In addition, there was a provision of £498,000 in respect of potential charges relating to an enquiry opened by HMRC relating to the provision of uniforms and training to employees.

Separately disclosed finance costs:

During the 52 weeks ended 26 June 2021, the Group incurred £471,000 of legal and professional fees associated with agreeing revised covenants and agreeing covenant waivers with our lenders, as well as fees associated with the CLBILS loan. These charges are offset by £115,000 credited in respect of the ineffective portion of the movement in fair value interest rate swaps.

The non-underlying finance charges for the 52 weeks ended 27 June 2020 comprise £185,000 for fees in relation to putting in place the CLBILS loan following the COVID-19 outbreak, offset by £35,000 credited in respect of the ineffective portion of the movement in fair value interest rate swaps.

8 TAXATION

a Tax on loss

Tax charged to the Income Statement	52 weeks ended 26 June 2021 Underlying results £'000	Excluded from underlying results £'000	Total statutory £'000	52 weeks ended 27 June 2020 Underlying results £'000	Excluded from underlying results £'000	Total statutory £'000
Current income tax						
Current tax on loss for the year	**(37)**	**-**	**(37)**	(165)	(206)	(371)
Adjustments for current tax on prior periods	**(110)**	**47**	**(63)**	187	6	193
Total current income tax credit	**(147)**	**47**	**(100)**	22	(200)	(178)
Deferred income tax						
Origination and reversal of timing differences	**(1,724)**	**(784)**	**(2,508)**	(280)	(2,575)	(2,855)
Change in corporation tax rate	**-**	**4,032**	**4,032**	-	1,634	1,634
Adjustments for current tax on prior periods	**3**	**(48)**	**(45)**	(191)	-	(191)
Total deferred tax (credit)/charge	**(1,721)**	**3,200**	**1,479**	(471)	(941)	(1,412)
Total tax (credited)/charged to the Income Statement	**(1,868)**	**3,247**	**1,379**	(449)	(1,141)	(1,590)

Tax charged to other comprehensive income	2021	2020
Deferred tax		
Gains/(losses) arising on cash flow hedges in the period	**305**	(18)
Effect of increase in future rate of corporation tax	**(139)**	(105)
Total tax charged/(credited) to other comprehensive income	**166**	(123)

b Reconciliation of the total tax charge

	52 weeks ended 26 June 2021 £'000	52 weeks ended 27 June 2020 £'000
Loss before income tax	**(16,412)**	(20,981)
Tax on Group loss at UK standard rate of corporation tax of 19.0% (2020: 19.0%)	**(3,118)**	(3,986)
Expenses not deductible for tax purposes	**(9)**	141
Profit on sale of property less chargeable gains	**582**	619
Effect of a change in tax rate	**4,032**	1,634
Current and deferred tax (over)/under provided in previous years	**(108)**	2
Total tax charged/(credited) to the income statement	**1,379**	(1,590)

c Factors that may affect future tax charges

An increase in the future main corporation tax rate to 25% from 1 April 2023, from the previously enacted 19%, was announced in the Budget on 3 March 2021, and substantively enacted on 24 May 2021. Therefore deferred tax assets and liabilities that are expected to reverse on or after 1 April 2023 have been calculated at the rate of 25% as at the reporting date.

There is no expiry date on timing differences.

9 DIVIDENDS

	52 weeks ended 26 June 2021 £'000	52 weeks ended 27 June 2020 £'000
Declared and paid during the year		
Final dividend for 2020: nil (2019: 24.21p) per ordinary share	-	3,573
Dividends paid	**-**	3,573

No interim dividends were paid during the period (2020: nil) and no final dividend has been proposed for approval at the Annual General Meeting due to the Board wishing to preserve cash for the long-term health of the Company and the terms and conditions of the new financing arrangements that prohibit payment of dividends by the Group whilst the CLBILS facility and alternative covenants remain in place.

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

10 EARNINGS PER SHARE

	52 weeks ended 26 June 2021 £'000	52 weeks ended 27 June 2020 £'000
Loss attributable to equity shareholders	**(17,791)**	(19,391)
Items excluded from underlying results	**9,602**	16,200
Underlying loss attributable to equity shareholders	**(8,189)**	(3,191)
	Number	Number
Weighted average number of shares in issue	**14,760**	14,733
Dilutive outstanding options	**-**	-
Diluted weighted average share capital	**14,760**	14,733

Loss per 50p ordinary share		
Basic	**(120.5)p**	(131.6)p
Diluted	**(120.5)p**	(131.6)p
Underlying basic	**(55.5)p**	(21.7)p
Underlying basic pre IFRS 16	**(51.1)p**	(27.4)p

The basic earnings per share figure is calculated by dividing the profit attributable to equity shareholders of the parent Company for the period by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share have been calculated on a similar basis taking into account nil (2020: nil) dilutive potential shares, which excludes shares held by trusts in respect of employee incentive plans and options.

Underlying basic earnings per share are presented to eliminate the effect of the underlying items and the tax attributable to those items on basic and diluted earnings per share.

11 DIRECTORS' REMUNERATION

Details of Directors' remuneration required to be disclosed by the Companies Act 2006 are included in the table and footnotes on pages 46 and 47.

12 EMPLOYEES

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

	52 weeks ended 26 June 2021 Number	52 weeks ended 27 June 2020 Number
Brewery, head office and visitor centre	**230**	249
Retail pubs	**1,260**	1,489
	1,490	1,738

13 GOODWILL AND INTANGIBLE ASSETS

Group and Company	Distribution rights £'000	Goodwill £'000	Total £'000
Cost			
At 29 June 2019	-	1,074	1,074
Additions	92	-	92
At 27 June 2020	92	1,074	1,166
Amortisation and impairment			
At 29 June 2019	-	314	314
Amortisation charge for the period	17	-	17
Impairment charge for the period	-	161	161
At 27 June 2020	17	475	492
Net book value			
At 27 June 2020	75	599	674
At 29 June 2019	-	760	760

Group and Company	Distribution rights £'000	Goodwill £'000	Total £'000
Cost			
At 27 June 2020	92	1,074	1,166
Additions	-	-	-
At 26 June 2021	92	1,074	1,166
Amortisation and impairment			
At 27 June 2020	17	475	492
Amortisation charge for the period	18	-	18
Impairment charge for the period	-	328	328
At 26 June 2021	35	803	838
Net book value			
At 26 June 2021	57	271	328
At 27 June 2020	75	599	674

Distribution rights represent amounts paid to acquire the exclusive import and distribution rights to Singha Beer within the UK. The amortisation is charged over the period of rights in the Income Statement in the line item 'operating charges' (note 5b).

13 GOODWILL AND INTANGIBLE ASSETS CONTINUED

The opening Group goodwill of £599,000 arose on the acquisition of Ultimate Entertainment Services Limited, Village Green Restaurants Limited and the Horse and Groom (Dartford) Limited. None of the goodwill recognised is expected to be deductible for income tax purposes. All goodwill relates to the retail pub segment and is apportioned as shown.

Goodwill is allocated to cash-generating units as follows:

	52 weeks ended 26 June 2021 £'000	52 weeks ended 27 June 2020 £'000
Ultimate Entertainment Services Limited	**125**	125
Village Green Restaurants Limited	**94**	221
Horse and Groom (Dartford) Limited	**52**	253
Total goodwill	**271**	599

During the 52 weeks ended 26 June 2021, the Group recognised an impairment loss of £127,000 in respect of Village Green Restaurants Limited and £201,000 in respect of Horse and Groom (Dartford) Limited (2020: £161,000 in respect of Village Green Restaurants Limited). The impairment losses in the current and prior year were principally driven by poor performance during the year due to the COVID-19 pandemic. See note 15.

14 PROPERTY, PLANT AND EQUIPMENT

Group and Company	Freehold properties £'000	Leasehold properties under 50 years £'000	Plant, machinery, vehicles and containers £'000	Fixtures and fittings £'000	Assets under construction £'000	Total £'000
Valuation or cost						
At 29 June 2019	257,600	2,160	35,945	87,893	1,239	384,837
Additions	2,350	66	350	7,755	1,625	12,146
Assets classified as held for sale and other disposals	(783)	(197)	(12)	(1,121)	(242)	(2,355)
Transfers to investment property	(1,681)	1	163	(267)	(659)	(2,443)
At 27 June 2020	**257,486**	**2,030**	**36,446**	**94,260**	**1,963**	**392,185**
Accumulated depreciation and impairment						
At 29 June 2019	5,692	970	28,906	46,726	2	82,296
Charge for year	604	46	1,084	6,367	-	8,101
Impairment	4,688	64	-	1,952	44	6,748
Revaluation	(6)	-	-	(11)	-	(17)
Assets classified as held for sale and other disposals	(89)	(200)	(12)	(826)	-	(1,127)
Transfers to investment property	(765)	-	-	(348)	-	(1,113)
At 27 June 2020	**10,124**	**880**	**29,978**	**53,860**	**46**	**94,888**
Net book values						
At 27 June 2020	**247,362**	**1,150**	**6,468**	**40,400**	**1,917**	**297,297**
At 29 June 2019	251,908	1,190	7,039	41,167	1,237	302,541

Group and Company	Freehold properties £'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 27 June 2020	257,486	2,030	36,446	94,260	1,963	392,185
Additions	90	55	415	2,430	145	3,135
Revaluation	4	16	-	-	-	20
Disposals	(1,380)	-	-	(2,170)	(672)	(4,222)
Transfers to investment property	(1,637)	(13)	245	799	(1,206)	(1,812)
At 26 June 2021	**254,563**	**2,088**	**37,106**	**95,319**	**230**	**389,306**
Accumulated depreciation and impairment						
At 27 June 2020	10,124	880	29,978	53,860	46	94,888
Charge for year	549	70	1,057	6,160	-	7,836
Impairment	3,162	28	-	437	1	3,628
Revaluation	(11)	-	-	-	-	(11)
Disposals	(331)	-	-	(1,502)	-	(1,833)
Transfers to investment property	(224)	-	-	(41)	-	(265)
At 26 June 2021	**13,269**	**978**	**31,035**	**58,914**	**47**	**104,243**
Net book values						
At 26 June 2021	**241,294**	**1,110**	**6,071**	**36,405**	**183**	**285,063**
At 27 June 2020	247,362	1,150	6,468	40,400	1,917	297,297

Included in additions is £52,000 (2020: £45,000) of own labour capitalised.

Disposals includes an amount of £1,343,000 (2020: £764,000) in respect of fully depreciated items.

The Company has entered into certain operating leases as lessor. The gross cost of assets held for use under these leases amounted to £23,037,000 (2020: £24,174,000), the related accumulated depreciation charges amounted to £586,000 (2020: £524,000) and the aggregate rentals receivable amounted to £388,000 (2020: £985,000).

15 IMPAIRMENT

During the year, impairment losses of £5,709,000 (2020: £16,071,000) and impairment reversals of nil (2020: nil) were recognised within items excluded from underlying results:

Group and Company	2021 £'000	2020 £'000
Intangible assets	**328**	161
Property, plant and equipment	**3,628**	6,748
Right-of-use assets	**1,619**	8,882
Assets held for sale	**134**	280
Impairment losses net of reversals	**5,709**	16,071

The impairment losses were attributable to the following reportable segments:

Group and Company	2021 £'000	2020 £'000
Retail pubs	**4,816**	12,297
Tenanted pubs	**562**	3,291
Unallocated	**331**	483
Total impairment charge	**5,709**	16,071

Impairment is assessed at the income-generating unit level, considered to be on the basis of each individual pub, which is reviewed at each reporting date for indicators of impairment. Whether an asset was impaired or not was determined by comparing the carrying value against its estimated recoverable amount. The recoverable amount is taken as the higher of the fair value less costs to sell (FVLCS) and 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 key assumptions used are the long-term growth rates applied as 2.0% (2020: 2.0%) for retail pubs and 2.0% (2020: 2.0%) for tenanted pubs and a pre-tax discount rate of 9.66% (2020: 7.98%). These key assumptions have their assigned values based on management knowledge and historical information.

Where the value in use is higher than the carrying amount of the income-generating unit, no further assessment is required. For income-generating units where the value in use is lower than the carrying value (and at risk of impairment), a valuation of the property is performed to determine FVLCS. The property valuations are performed by the Group's own RICS-qualified staff.

Impairments are recognised where the property valuation is also lower than the income-generating unit's carrying value for those determined to be at risk of impairment. This is measured as the difference between the carrying value and the higher of FVLCS and its value in use. Where the property valuation exceeds the carrying value, no impairment is required.

Impairments are included in operating charges excluded from underlying results.

Sensitivity to changes in assumptions

The value in use calculations are sensitive to the assumptions used. A sensitivity analysis has been conducted to give an indication of the impact of movements in the most sensitive assumptions. The Directors consider a movement of 0.5% in the discount rate and 0.5% in the growth rate to be reasonable with reference to current market yield curves and current economic conditions. The impact is set out as follows:

Increased impairment resulting from:

	A 10% reduction in cash flow forecast		A 0.5% increase in discount rate		A 0.5% reduction in growth rate	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Property, plant and equipment	**2,895**	2,690	**1,433**	1,918	**1,180**	1,693
Right-of-use assets	**1,000**	1,400	**682**	640	**600**	786
	3,895	4,090	**2,115**	2,558	**1,780**	2,479

16 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 RICS-qualified. An independent valuation of the properties has not been performed.

The fair values for commercial property and land are based on the rental income earned on the properties in perputuity, discounted to present value at a rate of between 4% and 11% (2020: 8% to 11%) and average yields earned on comparable properties from publicly available information and for residential properties on comparable market evidence, which is a level 3 fair value valuation technique. The valuations and assumptions used are reviewed by the Board and the auditor. The highest and best use of the properties does not differ materially from their current use.

The techniques are consistent with the principles in IFRS 13 Fair Value Measurement and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 (2020: Level 3) in the fair value hierarchy. There has been no change to the valuation technique during the year.

For the years ending 26 June 2021 and 27 June 2020, the rapid spread of COVID-19 has disrupted activity in real estate markets creating heightened valuation uncertainty for the Company's valuers. As a result, the valuation includes a clause which highlights a 'material valuation uncertainty' which reads as follows:

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

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

Group and Company	2021 £'000	2020 £'000
Valuation:		
Carrying value at start of year	**8,811**	8,309
Additions	**108**	230
Disposals	**(2,002)**	(258)
Transfers to assets held for sale	**(2,483)**	(850)
Transfers from property, plant and equipment	**1,547**	1,330
Fair value movement	**87**	50
Carrying value at end of year	**6,068**	8,811

Investment property income

Amounts recognised in the Income Statement for the financial year relating to investment properties are as follows:

Group and Company	2021 £'000	2020 £'000
Rental income	**177**	334
Direct operating expenses	**181**	191
Fair value movement	**87**	50

All direct operating expenses relate to properties that generate rental income. The investment properties are leased to tenants under operating leases with rentals payable monthly or weekly. Lease payments for some contracts include RPI increases but there are no other variable lease payments that depend on an index or rate. Minimum lease payments receivable on leases of investment properties are included in note 34.

If the investment properties had not been revalued, they would have been carried in the Statement of Financial Position at 26 June 2021 at a historical cost of £3,667,000 (2020: £4,464,000).

17 RECOGNISED FAIR VALUE MEASUREMENTS

Fair value hierarchy

Group and Company at 26 June 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment properties	–	–	6,068	6,068
Assets held for sale	–	2,419	–	2,419
Total non-financial assets	**–**	**2,419**	**6,068**	**8,487**

Group and Company at 27 June 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment properties	–	–	8,811	8,811
Assets held for sale	–	850	–	850
Total non-financial assets	–	850	8,811	9,661

The financial instruments that are recognised and measured at fair value in the financial statements are classified into three levels prescribed under the accounting standards:

Level 1

Fair values measured using quoted prices in active markets for identical assets and liabilities.

Level 2

Fair values measured using inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly. The Group bases its valuations on information provided by financial institutions, which use a variety of estimation techniques based on market conditions, such as interest rate expectations, existing at each reporting date.

Level 3

Fair values measured using inputs for the asset or liability that are not based on observable market data. See note 16 for information on significant unobservable inputs.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the reporting period. There were no transfers between levels 1, 2 or 3 for recurring fair value measurements during the year.

18 OTHER NON-CURRENT ASSETS

Loans to customers due after one year

Group and Company	2021 £'000	2020 £'000
Carrying value at start of period	**5**	10
Redemptions	**(1)**	(2)
Loan discounts awarded	**-**	(3)
Unwinding of discounts on loans receivable	**1**	-
Carrying value at end of period	**5**	5

Loans receivable constitute financing transactions and are measured at the present value of the future cash flows, discounted at a market rate of interest. They are receivable between one and five years (2020: one and five years).

Of these loans none are expected to be repaid in cash and £5,000 is expected to be repaid by offset against discounts to be earned but not received by customers (2020: nil and £5,000 respectively). The level of discounts awarded and the interest and fees charged depends on the trading performance of each customer against individual targets.

19 INVESTMENTS IN SUBSIDIARIES

Company	2021 £'000	2020 £'000
Cost and net book value		
At beginning of period	**22**	5,509
Disposals	**-**	(5,487)
At end of period	**22**	22

The aggregate deemed cost of investments of £5,509,000 at the date of transition to IFRS is equal to the previous carrying amount under FRS 102.

At 26 June 2021 and 27 June 2020, the Group financial statements include the following subsidiary undertakings:

Principal subsidiary undertakings	Holding	Proportion held
Invicta Inns Limited[1]	£1 Ordinary shares	50%
Shepherd Neame (Trustees) Limited[2]	£1 Ordinary shares	100%
SN Finance plc[1]	£1 Ordinary shares	50%
	£0.25 Ordinary shares	100%
Thomas Grant & Sons Limited[1]	£1 Preference shares	100%
	£1 Ordinary shares	99.9%
Todd Vintners Limited[1]	£1 Ordinary shares	50%

1. These companies were dormant throughout the period
2. Shepherd Neame (Trustees) Limited is a non-trading subsidiary

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.

During the prior period, the Royal Albion (Broadstairs) Limited, The Place Sandwich VCT Limited, and the Horse and Groom (Dartford) Limited were dissolved. Prior to that, they were wholly owned subsidiaries of the Company.

20 LEASES

This note provides information for leases where the Group is lessee. For leases where the Group is a lessor, see note 14.

a Amounts recognised in the Statement of Financial Position

Group and Company	2021 £'000	2020 £'000	2019 £'000
Right-of-use assets			
Properties	**46,717**	45,794	57,540
Vehicles	**548**	442	440
Equipment	**46**	26	57
	47,311	46,262	58,037
Lease liabilities			
Current	**5,100**	5,360	3,953
Non-current	**53,226**	50,500	52,604
	58,326	55,860	56,557

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

Group and Company	Property £'000	Vehicles £'000	Equipment £'000	Total £'000
Net carrying value as at 29 June 2019	57,540	440	57	**58,037**
Additions	-	246	-	**246**
Lease amendments - rent concessions	(77)	-	-	**(77)**
Lease amendments[1] - other	647	(12)	1	**636**
Depreciation	(3,434)	(232)	(32)	**(3,698)**
Impairment	(8,882)	-	-	**(8,882)**
Net carrying value as at 27 June 2020	**45,794**	**442**	**26**	**46,262**

Group and Company	Property £'000	Vehicles £'000	Equipment £'000	Total £'000
Net carrying value as at 27 June 2020	45,794	442	26	**46,262**
Additions	-	348	53	**401**
Lease amendments - rent concessions	(492)	-	-	**(492)**
Lease amendments[1] - other	6,033	(18)	-	**6,015**
Depreciation	(2,999)	(224)	(33)	**(3,256)**
Impairment	(1,619)	-	-	**(1,619)**
Net carrying value as at 26 June 2021	**46,717**	**548**	**46**	**47,311**

1. *Lease amendments include lease terminations, modifications, reassessments and extensions to existing lease arrangements.*

A maturity analysis of gross lease liability payments is included within note 27.

b Amounts recognised in the Income Statement

Group and Company	2021 £'000	2020 £'000
Depreciation charge on right-of-use assets		
Properties	**2,999**	3,434
Vehicles	**224**	232
Equipment	**33**	32
	3,256	3,698
Interest expense (included in net finance costs)	**1,285**	1,298
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in operating charges)	**153**	167
Impairment of right-of-use asset	**1,619**	8,882

The Group's total cash outflow in relation to leases in 2021 is £3,930,000 (2020: £2,533,000).

The Group has applied the practical expedient regarding COVID-19-related rent concessions to all rent concessions that are eligible. The amount recognised as a negative variable lease payment in the Income Statement and corresponding decrease in the lease liabilities, which reflects the waivers of lease payments arising from rent concessions to which the practical expedient has been applied, is £733,000 (2020: £267,000).

The Group tests right-of-use assets for impairment when there are indicators that the assets may have been impaired. The loss of trade following the COVID-19 pandemic was considered an indicator of impairment. There will be an impairment if the recoverable amount is lower than carrying value. Recoverable amount is value in use. The same assumptions to calculate value in use are used for goodwill as for property, plant and equipment. See note 15.

The impairment calculation is most sensitive to the pre-tax discount rate and underlying EBITDAR assumptions. Management have performed a sensitivity analysis on the impairment test.

21 INVENTORIES

Group and Company	2021 £'000	2020 £'000
Raw materials and consumables	**2,244**	2,624
Work in progress	**415**	402
Finished goods including goods for resale	**4,661**	5,204
	7,320	8,230

Inventories recognised as an expense during the year ended 26 June 2021 totalled £43,311,000 (2020: £51,327,000). These were included in operating charges.

Write-down of inventories to net realisable value amounted to £684,000 (2020: £682,000), largely due to the temporary closure of pubs because of the COVID-19 pandemic. These were recognised as an expense during the year ended 26 June 2021 and are included in operating charges in the Income Statement.

22 TRADE AND OTHER RECEIVABLES

Group and Company	2021 £'000	2020 £'000	2019 £'000
Trade receivables	**12,236**	6,449	10,684
Other receivables	**127**	12	369
Derivative financial instruments (see note 26)	**9**	14	56
Prepayments	**2,553**	1,675	2,008
Accrued income	**435**	2,084	453
Corporation tax	**-**	95	-
	15,360	10,329	13,570

The trade receivables balance is shown net of the loss allowance. The Group provides against trade receivables based on an expected credit loss model, calculated from the probability of default for the remaining life of the asset.

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the number of days past due and also according to the channel of trade and geographic location of customers.

The expected loss rates are based on the payment profile for sales over the 24 months leading up to the end of the reporting period. The historical rates are adjusted to reflect current and forward-looking macroeconomic factors affecting customers' ability to settle the amount outstanding, the most significant factor being the COVID-19 pandemic.

The movements on the loss allowance during the year are summarised below:

Group and Company	2021 £'000	2020 £'000
Opening balance	**627**	539
Increase in loss allowance recognised in the income statement	**53**	88
Closing balance	**680**	627

The loss allowance for trade receivables is recorded in the accounts separately from the gross receivable. The contractual ageing of the trade receivables balance is as follows:

Group and Company	2021 £'000	2020 £'000	2019 £'000
Current	**10,964**	5,100	7,633
Overdue up to 30 days	**567**	(176)	2,831
Overdue between 30 and 60 days	**1,106**	199	(94)
Overdue more than 60 days	**279**	1,953	853
Trade receivables before loss allowance	**12,916**	7,076	11,223
Loss allowance	**(680)**	(627)	(539)
Trade receivables net of loss allowance	**12,236**	6,449	10,684

Included in other receivables are loans to customers of £91,000 (2020: £129,000) due within one year and £48,000 (2020: £210,000) due in more than one year, net of a provision of £10,000 (2020: £30,000).

23 ASSETS CLASSIFIED AS HELD FOR SALE

Group and Company	2021 £'000	2020 £'000
Property held for sale	**2,419**	850

At 26 June 2021, seven properties were classified as held for sale (2020: four properties). All were reclassified from investment properties during the year; they all sit within the unallocated operating segment (2020: all within the unallocated operating segment), and have been identified for sale based on their fit with the remaining estate. Sales are expected within 12 months from the reporting date. No material change in value was recognised on reclassifying the properties to held for sale.

24 TRADE AND OTHER PAYABLES

	Group 2021 £'000	Group 2020 £'000	Company 2021 £'000	Company 2020 £'000
Trade payables	**8,962**	4,148	**8,962**	4,148
Amounts due to subsidiary undertakings	**-**	-	**22**	22
Other tax and social security	**7,184**	12,578	**7,184**	12,578
Accruals	**6,904**	7,746	**6,904**	7,746
Deferred income	**696**	334	**696**	334
Trade deposits	**2,072**	1,909	**2,072**	1,909
Other payables	**565**	1,131	**565**	1,131
	26,383	27,846	**26,405**	27,868

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

Company amounts due to subsidiary undertakings of £22,000 (2020: £22,000) have no fixed repayment date or interest payable. Company amounts due to subsidiary undertakings are unsecured.

25 BORROWINGS

Group and Company	2021 £'000	2020 £'000
Bank loans	**62,000**	60,000
Other loans	**35,000**	35,000
Less: capitalised loan arrangement fees	**(635)**	(738)
Total borrowings	**96,365**	94,262
Analysed as:		
Borrowings within current liabilities	**1,600**	94,262
Borrowings within non-current liabilities	**94,765**	-
	96,365	94,262

Borrowings at the end of the reporting period comprise a 20-year term loan of £35.0m arranged in October 2018, a 20-year term loan of £22.5m arranged in April 2007 and drawings of £39.5m on the revolving credit facility. During the year, the Company reached agreement with its lenders to amend the Group's financial covenants through to June 2022, and set them based on a minimum level of liquidity. In the prior year, due to a technical breach of covenants as at the year end, loans were classified as due within one year.

The £35.0m loan represents a private placement with BAE Systems Pension Funds Investment Management Ltd and is repayable on 30 October 2038. The interest rate is fixed at 3.99% and payable quarterly. Due to a technical breach of covenants, the interest rate has been temporarily increased to 4.49% until the Company's leverage ratio returns to an accepted level for four consecutive quarters.

25 BORROWINGS CONTINUED

The £22.5m term loan was provided by Lloyds Banking Group plc and is repayable in five instalments of £1.6m payable every year commencing on 31 December 2021, with the outstanding balance being repayable on 31 December 2026. The interest rate payable is three-month LIBOR plus a margin dependent on the ratio of net debt to underlying EBITDA. The variable interest payments have been swapped for fixed interest payments payable quarterly. Details of the swap arrangements are given in note 26.

The five-year revolving credit facility with Lloyds Bank plc and Santander UK plc matures on 30 October 2023. This is a committed facility which permits drawings of different amounts and for different periods. These drawings carry interest at a margin above LIBOR with a commitment payment on the undrawn portions. Interest is payable at each loan renewal date.

The Group has a £5.0m overdraft facility within the revolving credit facility with interest linked to the Bank of England base rate.

During 2020, the Group's banking lenders Lloyds Bank plc and Santander UK plc agreed to increase the Group's overall debt facilities utilising the UK Government's CLBILS. This provided the Group with a £25.0m revolving credit facility of which £15.0m is committed, with a further £10.0m available on request. The new facility matures on 1 July 2022. At the end of the reporting period, £20.5m (2020: £7.5m) of the total £60.0m (2020: £45.0m) committed revolving credit bank facility was available and undrawn, as well as the £5.0m overdraft facility.

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

Fair value

Set out in the table below is a comparison of carrying amounts and fair values of the Group's borrowings:

2021 Group and Company	Term or expiry date	Period rate fixed (years)	Weighted average interest rate	Book value £'000	Fair value £'000	Fair value level
£22.5m loan swapped into fixed rate	**Dec 2026**	**5.5**	**6.90**	**22,500**	**22,500**	**3**
£35.0m private placement at fixed rate	**Oct 2038**	**17.3**	**4.49**	**35,000**	**35,000**	**3**
£45.0m revolving credit facility	**Oct 2023**	**-**	**2.56**	**39,500**	**39,500**	**3**
£25.0m revolving credit facility (CLBILS)	**July 2022**	**-**	**-**	**-**	**-**	**3**
				97,000		

2020 Group and Company	Term or expiry date	Period rate fixed (years)	Weighted average interest rate	Book value £'000	Fair value £'000	Fair value level
£22.5m loan swapped into fixed rate	Dec 2026	6.5	6.48	22,500	22,500	3
£35.0m private placement at fixed rate	Oct 2038	18.3	3.99	35,000	35,000	3
£45.0m revolving credit facility	Oct 2023	-	2.58	37,500	37,500	3
				95,000		

Non-current borrowings are classified as level 3 fair values in the fair value hierarchy due to the use of unobservable inputs, including own credit risk.

Other financial assets and liabilities of the Group are deemed to have a fair value approximating carrying value.

26 FINANCIAL INSTRUMENTS

a Capital management

The capital structure of the Group consists of loans (see note 25), cash and shareholders' equity, comprising share capital, reserves and retained earnings (see notes 30 and 31). In managing its capital the Group's main objectives are to ensure that it is able to continue to operate as a going concern 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 risk and returns at an acceptable level and maintains sufficient funds to meet its working capital and investment requirements and comply with lending covenants.

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

b Categories of financial assets and liabilities

The Group's financial assets and liabilities as recognised at the end of the reporting period may also be categorised as follows:

Group and Company 2021	**At fair value through profit and loss £'000**	**At fair value through other comprehensive income £'000**	**Financial assets carried at amortised cost £'000**	**Financial liabilities carried at amortised cost £'000**	**Total £'000**
Assets					
Loans (note 18)	**-**	**-**	**5**	**-**	**5**
Trade and other receivables (note 22)	**-**	**-**	**12,798**	**-**	**12,798**
Cash and cash equivalents	**-**	**-**	**5,560**	**-**	**5,560**
Derivative financial instruments not designated as hedging instruments	**9**	**-**	**-**	**-**	**9**
Total assets	**9**	**-**	**18,363**	**-**	**18,372**
Liabilities					
Borrowings (note 25)	**-**	**-**	**-**	**96,365**	**96,365**
Trade and other payables (note 24)	**-**	**-**	**-**	**18,503**	**18,503**
Derivative financial instruments designated as hedging instruments	**-**	**5,414**	**-**	**-**	**5,414**
Lease liabilities (note 20)	**-**	**-**	**-**	**58,326**	**58,326**
Total liabilities	**-**	**5,414**	**-**	**173,194**	**178,608**

Group and Company 2020	At fair value through profit and loss £'000	At fair value through other comprehensive income £'000	Financial assets carried at amortised cost £'000	Financial liabilities carried at amortised cost £'000	Total £'000
Assets					
Loans (note 18)	-	-	5	-	5
Trade and other receivables (note 22)	-	-	8,545	-	8,545
Cash and cash equivalents	-	-	9,807	-	9,807
Derivative financial instruments not designated as hedging instruments	14	-	-	-	14
Total assets	14	-	18,357	-	18,371
Liabilities					
Borrowings (note 25)	-	-	-	94,262	94,262
Trade and other payables (note 24)	-	-	-	14,934	14,934
Derivative financial instruments designated as hedging instruments	-	7,107	-	-	7,107
Lease liabilities (note 20)	-	-	-	55,860	55,860
Total liabilities	-	7,107	-	165,056	172,163

26 FINANCIAL INSTRUMENTS CONTINUED

c Derivatives

The Group has the following derivative financial instruments to manage the interest rate risks relating to the Group's operations and financing sources.

Interest rate swaps

At 26 June 2021 the Group held one (2020: one) interest rate swap contract for a nominal value of £25.0m (2020: £25.0m). The interest rate swap is classified as a cash flow hedge because the derivative financial instrument hedges the risk of variation in interest cash flows on its borrowings. The Group pays a fixed rate and receives a variable interest rate based on three-month LIBOR. The interest rate swaps settle on a three-monthly basis and the Group settles the difference between the fixed and floating interest on a net basis. At the end of the reporting period, £22.5m of the Group's borrowings (2020: £22.5m) were hedged by the interest rate swap at a fixed rate of 5.1% (2020: 5.1%), which expires in December 2026.

The interest rate swap cash flow hedge was assessed as being highly effective at inception and changes in cash flow hedge fair values are recognised in the hedging reserve to the extent that the hedge is effective. A gain of £1,605,000 (2020: loss of £96,000) was recognised in other comprehensive income in respect of the swap in cash flow hedges. The ineffective portion of fair value movements of hedging instruments was recognised within finance costs, being a credit of £115,000 (2020: £77,000), due to the nominal value of the derivative exceeding the related loan.

Interest rate caps

During the 52 weeks ended 27 June 2020, the Group entered into an interest rate cap agreement in order to minimise the risk of variation in interest cash flows on its borrowings. At the end of the reporting period, £20.0m (2020: £20.0m) of the Group and Company's borrowings were hedged by the interest cap at a rate of 2.0% (2020: 2.0%), which expires in 2023. The fair value movement recognised in finance costs was a loss of £5,000 (2020: £42,000).

Fair value hierarchy for financial instruments measured at fair value

The financial instruments that are recognised and measured at fair value in the financial statements are classified into three levels prescribed under the accounting standards. See page 84 for an explanation of each level.

Group and Company at 26 June 2021	**Total £'000**	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Financial assets at fair value through profit or loss				
Interest rate cap	**9**	**-**	**9**	**-**
Financial liabilities at fair value through other comprehensive income				
Interest rate swaps	**(5,414)**	**-**	**(5,414)**	**-**
	(5,405)	**-**	**(5,405)**	**-**

Group and Company at 27 June 2020	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets at fair value through profit or loss				
Interest rate cap	14	-	14	-
Financial liabilities at fair value through other comprehensive income				
Interest rate swaps	(7,107)	-	(7,107)	-
	(7,093)	-	(7,093)	-

27 FINANCIAL RISK MANAGEMENT

The main risks associated with the Group's financial assets and liabilities are set out below, as are the Group's policies for their management.

In certain limited circumstances the Group uses derivative instruments to change the economic characteristics of certain commercial transactions and financial instruments. It is Group policy not to enter into or trade in financial instruments for speculative purposes.

Interest rate risk

Currently it is Group policy to manage the cost of its borrowings by using a mixture of fixed rates, variable rates and interest rate caps. Fixed rates do not expose the Group to cash flow interest rate risk, but also do not enjoy a reduction in borrowing costs in markets where rates are falling. Debt is represented by loan notes, a term loan, a five-year revolving credit facility, a two-year revolving credit facility and a short-term committed overdraft facility, all of which are secured by a first floating charge over the assets of the Group. All except the £35.0m loan notes bear interest at a variable rate based on LIBOR and the Bank of England base rate.

Exposure to market interest rate fluctuations primarily arises from the floating rate instruments. The Group has entered into an interest rate swap to manage the exposure and an interest rate cap to limit the maximum rate payable. The latter requires payment of a lump sum premium.

There are two components to the interest rates on the £22.5m 20-year term bank loan and revolving credit facility. One component is attached to the level of bank margin. The other component is attached to the rate of LIBOR and fixed by means of interest rate swap contracts which run for the same period as the loan, as disclosed in notes 25 and 26. LIBOR is currently subject to interest rate benchmark reform. The Group has been monitoring the output from the various industry working groups managing the transition to new benchmark interest rates. The Group will continue to apply IFRS 9 and IFRS 7 with respect to the timing and the amount of the underlying cash flows that the Group is exposed to. The Group expects fall back clauses to be agreed with the Group's lenders that reference the new interest rate benchmarks.

Interest on the £35.0m 20-year term loan notes is fixed at 3.99% (temporarily increased to 4.49% whilst out of covenant). Interest on drawings on the revolving credit facility and short-term overdraft facility are not fixed but £20.0m of the risk is capped at 2.0%. It has been Group policy to have short-term borrowing on a variable rate basis. At the year end, taking account of interest rate swaps, 61% (2020: 61%) of the Group's loans were at fixed rates and 82% (2020: 82%) were at fixed or capped rates.

Sensitivity

The Group borrows in sterling at market rates. Three-month sterling LIBOR rate during the 52 weeks ended 26 June 2021 ranged between 0.02% and 0.15%. The Directors consider 1.0% to be a reasonable possible increase in rates and 0.5% to be a reasonable possible decrease in rates, with reference to market yield curves and the current economic conditions.

The annualised effect of these changes to interest rates on the floating rate debt at the end of the reporting period, all other variables being constant, would affect pre-tax profit as follows:

Group and Company	**2021 £'000**	2020 £'000
Decrease interest rate by 0.5%	**198**	188
Increase interest rate by 1.0%	**(395)**	(375)

Liquidity risk

The Group manages its liquidity risk by monitoring cash receipts and payments and preparing rolling cash flow forecasts from which to predict short- and long-term funding requirements and ensure that borrowing facilities are available, if required, and that covenants in respect of bank loans are not contravened. Capital expenditure is approved by the Board and investment appraisal models used to evaluate proposed expenditure. It is currently the Group's policy to finance the majority of its business need by means of long-term loans which amounted to £97.0m fully drawn at the year end. 51% (2020: 54%) of the Group's borrowings are repayable after more than five years, 47% (2020: 46%) within the first to fifth years and 2% (2020: nil) within one year.

27 FINANCIAL RISK MANAGEMENT CONTINUED

The balance of requirements at the end of the reporting period was provided by: a five-year revolving credit loan facility of £45.0m, which is due to mature in October 2023; a two-year revolving credit loan facility of £25.0m due to mature in July 2022; and a committed overdraft facility of £5.0m, which matures in October 2023. The size of the facilities is regularly reviewed and the overdraft facility is renewed annually. At the year end £39.5m (2020: £37.5m) of the revolving credit loan facility and nil (2020: nil) of the overdraft facility was being utilised.

The tables below analyse the Group's financial liabilities into relevant maturity groupings for the contractual undiscounted cash flows. Floating rate interest is estimated using the prevailing interest rate at the end of the reporting period.

Group and Company at 26 June 2021	Within one year £'000	Between one and two years £'000	Between two and five years £'000	After five years £'000	Total £'000
Borrowings including interest payable	**4,588**	**4,559**	**50,282**	**69,015**	**128,444**
Derivative financial instruments	**1,207**	**1,128**	**2,904**	**424**	**5,663**
Lease liabilities	**4,424**	**3,857**	**11,158**	**53,977**	**73,416**
Trade and other payables	**18,503**	**-**	**-**	**-**	**18,503**
	28,722	**9,544**	**64,344**	**123,416**	**226,026**

Group and Company at 27 June 2020	Within one year £'000	Between one and two years £'000	Between two and five years £'000	After five years £'000	Total £'000
Borrowings	2,813	4,398	48,862	70,147	126,220
Derivative financial instruments	1,232	1,192	3,104	1,296	6,824
Lease liabilities	5,355	4,020	11,183	51,829	72,387
Trade and other payables	14,934	-	-	-	14,934
	24,334	9,610	63,149	123,272	220,365

Covenants

The Group's borrowings are dependent on certain financial covenants being met. If these were breached, funding could be withdrawn, leaving the Group with insufficient working capital. If the Group were unable to find alternative sources of funding it might not be possible to continue trading in its current form. The Group has considered the effects of its latest forecasts on its compliance with bank covenants, which are tested each quarter on a 12-month rolling basis. During the year, the Group agreed with its lending banks and private placement lenders that the financial covenants should be amended and the tests were replaced by liquidity headroom covenants until the quarter ending June 2022. The funding position is continuously reviewed against the headroom in the Group's borrowing facilities.

Counterparty credit risk

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

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

28 PROVISIONS FOR LIABILITIES

Group and Company	2021 £'000	2020 £'000
Historic taxation provision	**498**	498

A provision of £498,000 was made in the prior year in respect of potential charges relating to an enquiry opened by HMRC relating to the provision of uniforms and training to employees.

29 DEFERRED TAX

Group and Company	Asset 2021 £'000	Liability 2021 £'000	Net 2021 £'000	Asset 2020 £'000	Liability 2020 £'000	Net 2020 £'000
As at start of period	**3,209**	**(14,665)**	**(11,456)**	1,058	(14,048)	(12,990)
Credited/(charged) to the Income Statement	**1,985**	**(3,464)**	**(1,479)**	2,029	(617)	1,412
(Charged)/credited to other comprehensive income	**(166)**	**-**	**(166)**	122	-	122
As at end of period	**5,028**	**(18,129)**	**(13,101)**	3,209	(14,665)	(11,456)

The deferred tax included in the Statement of Financial Position is as follows:

	Asset 2021 £'000	Liability 2021 £'000	Net 2021 £'000	Asset 2020 £'000	Liability 2020 £'000	Net 2020 £'000
Derivative financial instruments	**998**	**-**	**998**	1,164	-	1,164
Corporate interest restriction carried forward	**153**	**-**	**153**	174	-	174
Accelerated capital allowances	**-**	**(2,808)**	**(2,808)**	-	(2,552)	(2,552)
Revaluation of freehold pubs	**-**	**(8,999)**	**(8,999)**	-	(7,209)	(7,209)
Rolled-over capital gains	**-**	**(5,935)**	**(5,935)**	-	(4,598)	(4,598)
Tax losses carried forward	**3,864**	**-**	**3,864**	1,855	-	1,855
Others	**13**	**(387)**	**(374)**	16	(306)	(290)
As at end of period	**5,028**	**(18,129)**	**(13,101)**	3,209	(14,665)	(11,456)

30 SHARE CAPITAL

	2021 £'000	2020 £'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.

31 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 any transfers between property, plant and equipment, and investment property.

Own shares

The own shares held reserve relates to shares held by Shepherd Neame (Trustees) Limited and the Trustees of the Shepherd Neame Share Incentive Plan to satisfy potential awards under the Long Term Incentive Plan and Share Incentive Plan respectively. 88,148 ordinary shares were held at 26 June 2021 with a market value of £894,700 (2020: 113,744 and £941,000). No shares were purchased during the year (2020: 25,300 shares at an average cost of £11.45).

Of the own shares held, 38,964 are allocated to employees under the Share Incentive Plan but have not yet vested. A further 78,659 shares, previously held by the Company, have vested unconditionally and as such are no longer treated as own shares held (2020: 59,191 and 75,537 respectively). Of these shares 65,492 can be distributed to employees free of tax (2020: 52,602).

31 RESERVES CONTINUED

Hedging reserve

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

Retained earnings

Retained earnings represents all current and prior period retained profits and losses, including fair value gains and losses on the re-measurement of investment properties. Retained earnings represents all current and prior period retained profits and losses, including fair value gains and losses on the re-measurement of investment properties, and the transfer of historic revaluation reserves on adoption of new accounting standards. Therefore, not all of the retained earnings reserve is considered distributable and available for future distribution as dividends

32 NOTES TO THE CASH FLOW STATEMENT

a Reconciliation of operating loss to cash generated by operations

	52 weeks ended 26 June 2021			52 weeks ended 27 June 2020		
	Underlying results £'000	Excluded from underlying results £'000	Total £'000	Underlying results £'000	Excluded from underlying results £'000	Total £'000
Operating loss	**(4,240)**	**(6,307)**	**(10,547)**	1,515	(17,515)	(16,000)
Adjustment for:						
Depreciation and amortisation	**11,110**	**-**	**11,110**	11,816	-	11,816
Impairment of property, plant and equipment	**-**	**3,628**	**3,628**	-	7,028	7,028
Impairment of intangible assets	**-**	**328**	**328**	-	161	161
Impairment of right-of-use assets	**-**	**1,619**	**1,619**	-	8,882	8,882
Impairment of assets held for sale	**-**	**134**	**134**	-	-	-
Share-based payments expense	**428**	**-**	**428**	317	-	317
Decrease/(increase) in inventories	**910**	**-**	**910**	(1,119)	-	(1,119)
(Increase)/decrease in debtors and prepayments	**(5,280)**	**-**	**(5,280)**	3,141	-	3,141
(Decrease)/increase in creditors and accruals	**(870)**	**(678)**	**(1,548)**	3,843	884	4,727
Free trade loan discounts	**-**	**-**	**-**	3	-	3
Loss on sale of assets (excluding property)	**840**	**-**	**840**	216	-	216
Interest received	**3**	**-**	**3**	10	-	10
Income tax received/(paid)	**195**	**-**	**195**	(185)	-	(185)
Fair value movements on financial assets	**5**	**-**	**5**	-	-	-
Net cash inflow/(outflow) from operating activities	**3,101**	**(1,276)**	**1,825**	19,557	(560)	18,997

b *Reconciliation of movement in cash to movement in net debt*

	52 weeks ended 26 June 2021 £'000	52 weeks ended 27 June 2020 £'000
Opening cash and overdraft	**9,807**	(2,082)
Closing cash and overdraft	**5,560**	9,807
Movement in cash in the period	**(4,247)**	11,889
Cash from increase in bank loans	**(2,000)**	(13,000)
Movement in loan issue costs	**(103)**	(102)
Movement in net debt resulting from cash flows	**(6,350)**	(1,213)
Net debt at beginning of the period	**(84,455)**	(83,242)
Net debt	**(90,805)**	(84,455)
Current lease liability	**(5,100)**	(5,360)
Non-current lease liability	**(53,226)**	(50,500)
Statutory net debt	**(149,131)**	(140,315)

c Analysis of net debt

Group and Company 2020	June 2019 £'000	Cash flow £'000	Reclassification of long-term loans £'000	New loans £'000	Non-cash £'000	June 2020 £'000
Cash	-	9,807	-	-	-	**9,807**
Bank overdraft	(2,082)	2,082	-	-	-	**-**
Cash and cash equivalents	(2,082)	11,889	-	-	-	**9,807**
Debt due in less than one year	-	-	(94,262)	-	-	**(94,262)**
Debt due after more than one year	(81,160)	-	94,262	(13,000)	(102)	**-**
Net debt	(83,242)	11,889	-	(13,000)	(102)	**(84,455)**
Lease liabilities	(56,557)	2,533	-	-	(1,836)	**(55,860)**
Statutory net debt	(139,799)	14,422	-	(13,000)	(1,938)	**(140,315)**

Group and Company 2021	June 2020 £'000	Cash flow £'000	Reclassification of long-term loans £'000	New loans £'000	Non-cash £'000	June 2021 £'000
Cash and cash equivalents	9,807	(4,247)	-	-	-	**5,560**
Debt due in less than one year	(94,262)	-	92,662	-	-	**(1,600)**
Debt due after more than one year	-	-	(92,662)	(2,000)	(103)	**(94,765)**
Net debt	(84,455)	(4,247)	-	(2,000)	(103)	**(90,805)**
Lease liabilities	(55,860)	3,930	-	-	(6,396)	**(58,326)**
Statutory net debt	(140,315)	(317)	-	(2,000)	(6,499)	**(149,131)**

Non-cash movements in lease liabilities comprises lease additions and modifications of £5,844,000 (2020: £805,000), interest of £1,285,000 (2020: £1,298,000) less waivers of £733,000 (2020: £267,000).

33 CAPITAL COMMITMENTS - GROUP AND COMPANY

Contracts for capital expenditure not provided for in the accounts amounted to £344,000 (2020: £1,300,000).

34 OPERATING LEASE COMMITMENTS

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 end of the reporting period, future minimum rentals receivable by the Group as follows:

Group and Company	Investment properties 2021 £'000	Other property, plant and equipment 2021 £'000	Investment properties 2020 £'000	Other property, plant and equipment 2020 £'000
Within one year	**237**	**1,027**	257	989
Between one and five years	**898**	**2,320**	455	1,544
After five years	**417**	**-**	200	-
	1,552	**3,347**	912	2,533

35 DIRECTORS' INTERESTS

The interests of the Directors in the Company's shares and options over the Company's ordinary shares held by Directors at 26 June 2021 and 27 June 2020 are included in the tables and footnotes on pages 47 and 48.

36 SHARE-BASED PAYMENT

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

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

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

a The Shepherd Neame Employee Share Incentive Plan

The Shepherd Neame Employee Share Incentive Plan (SIP) is open to all employees with 18 months' service at the award date. A free award of shares, based on length of service and salary and subject to the maximum of £3,600, was made to all eligible employees in all years from 2003 to 2019 with the exception of 2009. No award was made in 2020 or 2021 as a result of the impact of COVID-19. 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 SIP in either 2021 or 2020.

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

	2021 Number	2020 Number
Outstanding shares at start of year	**134,728**	128,605
Granted during the year	**-**	23,540
Forfeited during the year	**(1,648)**	(2,674)
Distributed during the year	**(15,457)**	(14,743)
Outstanding shares at end of year	**117,623**	134,728
Distributable at end of year	**78,659**	75,537

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 £8.20 (2020: £10.19).

In the prior year, the weighted average fair value of the shares granted in November 2019 was £11.55 per share. 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 the SIP in respect of employee services during the year to 26 June 2021 was £189,000 (2020: £234,000).

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 secondary 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 26 June 2021 had a remaining contractual life of 1.6 years.

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

	2021 Number	2021 Weighted average exercise price	2020 Number	2020 Weighted average exercise price
Outstanding at start of year	**2,141**	**£0.83**	2,141	£0.83
Exercised	**-**	**-**	-	-
Forfeited during the year	**-**	**-**	-	-
Outstanding options at end of year	**2,141**	**£0.83**	2,141	£0.83
Exercisable at end of year	**2,141**	**£0.83**	2,141	£0.83

The range of the exercise price for options outstanding at the end of the year was £0.50 - £1.00.

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

There was no charge recognised for share-based payments made under this scheme in respect of employee service during the year to 26 June 2021 (2020: nil).

36 SHARE-BASED PAYMENT CONTINUED

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 to senior managers and are exercisable three years after they are awarded subject, normally, to the grantee remaining in the Company's employment. The Directors are granted secondary options which are exercisable three years after they are awarded if the Group achieves certain financial performance targets and, normally, provided that the Director remains in the Company's employment.

During the year the Company purchased nil shares (2020: 25,300 shares at an average cost of £11.45).

The contractual life of each option granted is ten years and the options outstanding at 26 June 2021 had a remaining contractual life of 7.2 years.

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

	2021 Number	2021 Weighted average exercise price	2020 Number	2020 Weighted average exercise price
Outstanding at start of year	**183,417**	**£0.50**	167,999	£0.50
Granted during the year	**199,325**	**£0.50**	53,657	£0.50
Exercised	**(7,017)**	**£0.50**	(27,420)	£0.50
Forfeited during the year	**(46,105)**	**£0.50**	(10,819)	£0.50
Outstanding options at end of year	**329,620**	**£0.50**	183,417	£0.50
Exercisable at end of year	**11,649**	**£0.50**	7,964	£0.50

The weighted average fair value of the options granted during the year was £5.76 (2020: £8.98). The exercise price for all options outstanding at the end of the year was £0.50.

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

The following table lists the inputs to the models used for the years ended 26 June 2021 and 27 June 2020:

	2021	2020
Expected share price volatility	**31%**	13%
Risk-free interest rate	**0%**	0.48%
Dividend yield	**0%**	2.60%
Expected life of option (years)	**3**	3
Weighted average share price	**£6.98**	£11.55

A charge of £239,000 was recognised for share-based payments made under the Shepherd Neame 2015 Restricted Share Scheme in respect of employee service during the year to 26 June 2021 (2020: £83,000).

37 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 £940,000 (2020: £1,036,000). Contributions of £162,000 (2020: £148,000) were payable to the schemes at the year end. One of the Executive Directors (2020: one) is a contributing member of one of the Company's defined contribution schemes. The highest paid Director and two other Executive Directors are no longer contributing members of this scheme although they do have entitlement to deferred benefits.

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

38 RELATED PARTY TRANSACTIONS

The key management personnel of the Group are considered to be the Board of Directors, the total remuneration for whom was £1,290,000 for the year (2020: £1,486,000), being remuneration of £1,290,000 (2020: £1,313,000) and share-based payment expenses of nil (2020: £173,000) as disclosed in the Remuneration Committee Report on pages 44-48. The Directors are granted discounts on purchases from the Company, in line with the discount given to all other staff.

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

George Barnes is an Executive Director of Shepherd Neame Limited. Mr A J A Barnes, a close member of George Barnes' family, was up until 31 December 2019 a partner of Clarke Barnes Solicitors LLP and since 1 January 2020 has been a partner at Barnes Solicitors LLP. During the year to 26 June 2021, Barnes Solicitors LLP provided legal services at a cost of £40,000, including VAT and disbursements to third parties (2020: £13,000 to Clarke Barnes Solicitors LLP and £39,000 to Barnes Solicitors LLP). No balance was owed to Barnes Solicitors LLP by Shepherd Neame Limited at the end of the reporting period (2020: nil).

Nigel Bunting, an Executive Director of Shepherd Neame Limited, is also a Director of Davy and Company Limited. During the year, the Group did not purchase any goods (2020: nil) but made sales to the value of £19,000 (2020: £115,000) to Davy and Company Limited and its associated companies. At the end of the reporting period, nil was owed by Shepherd Neame Limited to the Davy Group of companies (2020: £1,000) and £5,000 was owed to the Group by the Davy Group of companies (2020: nil).

Kevin Georgel, a Non-Executive Director of Shepherd Neame Limited, is also a Director of St Austell Brewery Company Limited. During the year, the Group did not purchase any goods (2020: nil) or make any sales (2020: 18,000) to St Austell Brewery Company Limited. At the end of the reporting period, nil (2020: nil) was owed by Shepherd Neame Limited to St Austell Brewery Company Limited (2020: nil) and £3,000 was owed to the Group by St Austell Brewery Company Limited (2020: nil).

Hilary Riva, a Non-Executive Director of Shepherd Neame Limited, is also a Director of the Alexander Centre CIC. During the year, the Group did not make any sales (2020: £6,000) to the Alexander Centre CIC. At the end of the reporting period, no balance was owed to the Group by the Alexander Centre CIC (2020: nil).

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

39 EVENTS AFTER THE REPORTING PERIOD

After the reporting period, the Royal Wells, Tunbridge Wells and the Conningbrook, Ashford exchanged contracts for a total consideration of £5.75m.

40 EXPLANATION OF TRANSITION TO IFRS

Transition to IFRS

This is the first year the Group and Company have presented their financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union. The last financial statements under FRS 102 were for the 52 weeks ended 27 June 2020 and the date of transition to IFRS was 29 June 2019.

Set out below are the FRS 102 to IFRS equity reconciliations for the Group and Company at 29 June 2019, the Group's date of transition to IFRS, and 27 June 2020 (last financial statements prepared under FRS 102) and loss reconciliation for the 52 weeks to 27 June 2020.

First-time adoption

IFRS 1 First-time Adoption of IFRS allows companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the year of transition. The Group has elected to take the following key exemptions.

i) The carrying value of licensed freehold properties was previously based on the 2014 property revaluation on transition to FRS 102. As permitted, this valuation was not subsequently revised. IFRS 1 permits this carrying value to become the deemed cost of the licensed freehold properties. Accordingly, the FRS 102 revaluation reserve is transferred to retained earnings on the date of transition to IFRS.

ii) The carrying value of investments in subsidiaries under FRS 102 has been taken as the deemed cost at the date of transition to IFRS, which is permitted under IFRS 1.

iii) IFRS 2 Share-based Payments has not been applied to equity-settled share-based payments granted on or before 7 November 2002, nor has it been applied to share-based payments granted after 7 November 2002 that vested before the date of transition to IFRS standards.

iv) IFRS 3 Business Combinations has not been applied to business combinations that took place before transition to IFRS, but will be applied prospectively from 29 June 2019.

v) IFRS 16 Leasing has optional transitional reliefs and practical expedients permitted for first-time adopters of IFRS, which have been applied as follows:

- Determination of whether contracts existing at the date of transition contain leases based on an assessment of the facts and circumstances existing at that date, instead of determining retrospectively whether a contract contained a lease at the inception date of the lease.
- Recognition and measurement of lease liabilities and right-of-use assets at the date of transition to IFRS. The lease liability is discounted using the incremental borrowing rate at the date of transition to IFRS and the right-of-use asset is measured as an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statement of Financial Position immediately before the date of transition to IFRS. IAS 36 (impairment of assets) is applied to right-of-use assets at the date of transition to IFRS.
- The use of a single discount rate has been applied to each portfolio of leases with reasonably similar characteristics.
- Reliance on previous assessments of whether leases are onerous.
- The accounting for operating leases, with a remaining lease term of less than 12 months as at 29 June 2019, as short-term leases.

vi) IAS 23 Borrowing Costs has been applied from July 2018, as permitted for a first-time adopter.

Explanation of reconciling items between FRS 102 and IFRS

The financial impacts on the Income Statement and Statement of Financial Position are highlighted below. Within the notes to the accounts, disclosures supporting a third balance sheet have been presented where there was a material adjustment on transition to IFRS.

The transition from FRS 102 to IFRS is in effect a change in the underlying accounting policies of the Group and there is no impact on the actual cash flows of the Group. However, due to the difference in treatment of electronic fund transfers, described in part 9c) below, there is a difference in the reported cash position under IFRS.

1) Goodwill

Under FRS 102, goodwill on acquisitions is capitalised and amortised over its useful economic life. Under IFRS, amortisation is no longer charged; instead goodwill is tested for impairment annually and again where indicators are deemed to exist. Goodwill is carried at cost less accumulated impairment losses.

The transitional provision to apply IFRS 3 prospectively means that there was no adjustment to the Group's IFRS opening Statement of Financial Position at 29 June 2019. The pre-tax impact for the 52 weeks ended 27 June 2020 is a reduction in operating charges of £117,000 due to reversal of goodwill amortisation.

2) Assets held for sale

Under FRS 102, any relevant assets that are to be disposed of were valued at cost net of depreciation and any provision for impairment, or fair value if investment property, prior to disposal. Under IFRS, assets and liabilities whose carrying amounts will be recovered principally by sale rather than continuing use are reclassified from property, plant and equipment or investment property to "assets held for sale". Any such properties are revalued to fair value less costs to sell upon reclassification.

There is no net impact on the Group's IFRS opening balance sheet at 29 June 2019 but there is a reclassification of £485,000 from Investment Properties to assets held for sale. The pre-tax impact for the 52 weeks ended 27 June 2020 is nil, however, there is a reclassification of £280,000 from loss on disposal to impairment charges due to impairment of a property at the time of reclassification to assets held for sale.

3) Leases

Under FRS 102, leases where the Group is lessee are treated as operating leases, where appropriate and rentals charged on a straight-line basis. On adoption of IFRS 16, the Group recognises lease liabilities in relation to leases which were previously classified as operating leases under FRS 102, using the cumulative catch-up approach. These liabilities are measured at the present value of remaining lease payments, discounted using the lessee's incremental borrowing rate (IBR) as at 29 June 2019. The IBR applied to the lease liabilities on 29 June 2019 was 2.19-2.99% depending on the category, the remaining length and location of the lease.

i. Adjustments recognised on adoption of IFRS 16:

	£'000
Operating lease commitments disclosed at 29 June 2019	69,974
Leases not previously treated as operating	3,456
Subtotal gross IFRS 16 liabilities recognised at 29 June 2019	73,430
Discount at transition	(16,873)
Lease liability recognised as at 29 June 2019	56,557

Of which:	
Current lease liability	3,953
Non-current lease liability	52,604
Lease liability recognised as at 29 June 2019	56,557

The associated right-of-use assets for leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statement of Financial Position as at 29 June 2019. Onerous lease provisions of £29,000 at 29 June 2019 have been offset against the right-of-use asset at the date of initial application, while £3,393,000 of previously recognised lease premiums have been reclassified to right-of-use assets.

40 EXPLANATION OF TRANSITION TO IFRS CONTINUED

The recognised right-of-use assets relate to the following types of asset:

	2021 £'000	2020 £'000	2019 £'000
Properties	46,717	45,794	57,540
Vehicles	548	442	440
Equipment	46	26	57
	47,311	46,262	58,037

ii. Adjustments recognised in the Statement of Financial Position

The Group's IFRS opening Statement of Financial Position at 29 June 2019 included the following adjustments in relation to leases:

- Right-of-use assets - increase by £58,037,000
- Other receivables - reduction by £663,000
- Lease liabilities - increase by £54,010,000
- Property, plant and equipment - reduction by £3,393,000
- Provisions - reduction by £29,000

There is no impact on the Group's IFRS opening Statement of Financial Position at 29 June 2019. The pre-tax impact for the 52 weeks ended 27 June 2020 is a decrease in operating charges of £415,000 due to reversal of rentals charged offset by increased depreciation, and an increase in finance costs of £1,298,000.

4) Impairment

Right-of-use assets are tested for impairment on the same basis as other properties, with the same discount rates used. However, the value in use is calculated excluding any rentals payable. The COVID-19 pandemic was deemed a trigger for impairment review at 27 June 2020, and consequently, the impairment of right of use assets increased the impairment provision under IFRS to £9,698,000.

There is no impact on the Group's IFRS opening Statement of Financial Position at 29 June 2019. The pre-tax impact for the 52 weeks ended 27 June 2020 is an increase in operating charges of £8,132,000, due to impairment of right-of-use assets. This is excluded from the Group's definition of underlying operating profit.

5) Expected credit losses

Under FRS 102, the bad debt provision is calculated on a specific basis per customer. Under IFRS, an "expected loss" impairment model applies, which requires a loss allowance to be recognised based on expected credit losses. The impact on the Group's IFRS opening Statement of Financial Position at 29 June 2019 is an increase of £23,000 due to the decrease in bad debt provision. The pre-tax impact for the 52 weeks ended 27 June 2020 is a decrease in operating charges of £18,000 due to the decrease in bad debt provision.

6) Government grants

Under FRS 102, grants related to income should be treated as other income. IAS 20 allows presentation of grants related to income as part of profit or loss as a deduction in reporting the related expense or inclusion as other income. The Group has elected to treat the Coronavirus Job Retention Scheme grant as a deduction to operating charges under IFRS. There is no impact on the Group's IFRS opening Statement of Financial Position at 29 June 2019. The pre-tax impact for the 52 weeks ended 27 June 2020 is nil but there is a reclassification of £4,962,000 from other income to credit operating charges.

7) Taxation

IFRS accounting adjustments have been tax-amended where appropriate. Under FRS 102, deferred tax is accounted for on the basis of taxable timing differences that have originated but not reversed at the Statement of Financial Position date. Under IFRS, the Statement of Financial Position method recognises current tax consequences of transactions and events and the future tax consequences of the future tax recovery or settlement of carrying amount of an entity's assets and liabilities. Under IFRS, the Statement of Financial Position method recognises current tax consequences of transactions and events and the future tax consequences of the future tax recovery or settlement of carrying amount of an entity's assets and liabilities. The Group's IFRS opening Statement of Financial Position at 29 June 2019 includes an increase in the net deferred tax liability of £4,000 arising from transition differences. For the 52 weeks ended 27 June 2020, the net difference in deferred tax liability under IFRS has decreased by £1,852,000 to a difference of £1,847,000. In addition, £613,000 relating to increased deferred tax on the revaluation reserve under FRS 102, is accordingly reclassified from tax relating to other comprehensive income to tax charged to the Income Statement.

There is not expected to be a material change to the Group's underlying tax rate as a result of the implementation of IFRS.

8) Reclassifications

a) Revaluation reserve

The Group has elected to treat the carrying values of properties as being at deemed cost at the date of transition to IFRS, as permitted by IFRS 1 First-time Adoption of IFRS. As a result, the historic revaluation reserve of £71,858,000 under FRS 102 has been reclassified as part of retained earnings in the Group's IFRS Statement of Financial Position at 29 June 2019. This does not affect distributable profits.

b) Cash received via electronic transfer as settlement for a financial asset

Cash received via an electronic transfer system for settlement of a financial asset is settled at a later date than when the payment is initiated by the payer. Under IFRS 9, the trade receivable with the customer should not be derecognised and the cash should not be recognised until the transfer is settled. The impact on the Group's IFRS opening Statement of Financial Position Statement at 29 June 2019 is a reclassification of £1,265,000 from cash to trade receivables.

9) Presentational differences

a) Investment properties

IAS 1 requires that, when material, the aggregate amount of the entity's investment property should be presented in the Statement of Financial Position. The Group previously elected to present investment properties within tangible fixed assets. The investment property valuation of £8,309,000 at 29 June 2019 is now being reported separately from property, plant and equipment.

b) Current and deferred tax

IAS 1 requires presentation of current and deferred tax assets/liabilities in the Statement of Financial Position. The Group's IFRS opening Statement of Financial Position at 29 June 2019 therefore presents £296,000 income tax separately from trade and other payables; and also presents separately a net deferred tax liability of £12,986,000, being £14,044,000 deferred tax liabilities previously presented within provisions, offset by £1,058,000 deferred tax assets previously presented within current assets.

40 EXPLANATION OF TRANSITION TO IFRS CONTINUED

Prior year adjustment

In completing the transition to IFRS the group has identified two prior year adjustments which have been restated in the tables presented.

1) In the prior year Government grants received were shown as revenue in the consolidated profit and loss account. This has been restated to be shown as other income. There is no net impact on operating loss or loss after tax and no impact on net assets as a result of this restatement.

2) As at 27 June 2020 and 29 June 2019, the deferred tax assets and liabilities were shown gross, however, under FRS 102 (as for IFRS) given the circumstances related to these balances and the fact they relate to the same tax authority they are required to be shown net. This has no impact on the result for the period but reduces current assets by £1.35m and £1.06m in 2020 and 2019 respectively and decreases net current liabilities by the equivalent amounts at each reporting date. There is no impact on net assets or retained earnings as a result of this restatement.

The financial impact of the errors identified are as follows:

2020	FRS 102 Reported £'000	Restatement £'000	FRS 102 Restated £'000
Revenue	**123,619**	**(5,412)**	**118,207**
Other income	-	5,412	5,412
Operating charges	(131,757)	-	(131,757)
Operating loss	**(8,138)**	**-**	**(8,138)**

2020	FRS 102 Reported £'000	Restatement £'000	FRS 102 Restated £'000
Deferred tax asset	1,354	(1,354)	-
Deferred tax liability	(14,657)	1,354	(13,303)

2019	FRS 102 Reported £'000	Restatement £'000	FRS 102 Restated £'000
Deferred tax asset	1,058	(1,058)	-
Deferred tax liability	(14,044)	1,058	(12,986)

Group and Company reconciliation of Income Statement for the 52 weeks ended 27 June 2020

	FRS 102 Restated £'000	Goodwill £'000	Assets held for sale £'000	Leases £'000	Impairment £'000	Expected credit loss £'000	Government Grants £'000	Taxation £'000	IFRS £'000
Revenue	**118,207**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**118,207**
Other income	5,412	-	-	-	-	-	(4,962)	-	450
Operating charges	(131,757)	117	(280)	415	(8,132)	18	4,962	-	(134,657)
Operating loss	**(8,138)**	**117**	**(280)**	**415**	**(8,132)**	**18**	**-**	**-**	**(16,000)**
Finance costs	(4,042)	-	-	(1,298)	-	-	-	-	(5,340)
Fair value movements on financial instruments charged to profit and loss	35	-	-	-	-	-	-	-	35
Net finance costs	(4,007)	-	-	(1,298)	-	-	-	-	(5,305)
(Loss)/profit on disposal of property	(6)	-	280	-	-	-	-	-	274
Investment property fair value movements	50	-	-	-	-	-	-	-	50
Loss before taxation	**(12,101)**	**117**	**-**	**(883)**	**(8,132)**	**18**	**-**	**-**	**(20,981)**
Taxation	351	-	-	168	1,688	(4)	-	(613)	1,590
Loss after taxation	**(11,750)**	**117**	**-**	**(715)**	**(6,444)**	**14**	**-**	**(613)**	**(19,391)**

Group reconciliation of Statement of Comprehensive Income for the 52 weeks ended 27 June 2020

	FRS 102 Restated £'000	Goodwill £'000	Assets held for sale £'000	Leases £'000	Impairment £'000	Expected credit loss £'000	Government Grants £'000	Taxation £'000	IFRS £'000
Loss after taxation	**(11,750)**	**117**	**-**	**(715)**	**(6,444)**	**14**	**-**	**(613)**	**(19,391)**
Losses arising on cash flow hedges during the period	(96)	-	-	-	-	-	-	-	(96)
Revaluation gain	17	-	-	-	-	-	-	-	17
Tax relating to components of other comprehensive income	(490)	-	-	-	-	-	-	613	123
Other comprehensive (losses)/gains	**(569)**	**-**	**-**	**-**	**-**	**-**	**-**	**613**	**44**
Total comprehensive loss	**(12,319)**	**117**	**-**	**(715)**	**(6,444)**	**14**	**-**	**-**	**(19,347)**

40 EXPLANATION OF TRANSITION TO IFRS CONTINUED

Group reconciliation of equity as at 29 June 2019 (IFRS transition date)

	FRS 102 Restated £'000	Goodwill £'000	Assets held for sale £'000	Leases £'000	Expected credit loss £'000	Reclassification £'000	IFRS £'000
Non-current assets							
Goodwill and intangible assets	760	-	-	-	-	-	760
Property, plant, and equipment	305,934	-	-	(3,393)	-	-	302,541
Investment properties	8,794	-	(485)	-	-	-	8,309
Other non-current assets	10	-	-	-	-	-	10
Right-of-use assets	-	-	-	58,037	-	-	58,037
Total non-current assets	315,498	-	(485)	54,644	-	-	369,657
Current assets							
Inventories	7,111	-	-	-	-	-	7,111
Trade and other receivables	12,945	-	-	(663)	23	1,265	13,570
Cash and cash equivalents	116	-	-	-	-	(116)	-
Assets held for sale	-	-	485	-	-	-	485
Total current assets	20,172	-	485	(663)	23	1,149	21,166
Current liabilities							
Trade and other payables	(22,827)	-	-	-	-	-	(22,827)
Borrowings	(933)	-	-	-	-	(1,149)	(2,082)
Income tax payable	(269)	-	-	-	-	-	(269)
Lease liabilities	-	-	-	(3,953)	-	-	(3,953)
Total current liabilities	(24,029)	-	-	(3,953)	-	(1,149)	(29,131)
Net current liabilities	(3,857)	-	485	(4,616)	23	-	(7,965)
Total assets less current liabilities	311,641	-	-	50,028	23	-	361,692
Non-current liabilities							
Lease liabilities	(2,547)	-	-	(50,057)	-	-	(52,604)
Borrowings	(81,160)	-	-	-	-	-	(81,160)
Derivative financial instruments	(6,822)	-	-	-	-	-	(6,822)
Deferred tax liabilities	(12,986)	-	-	-	(4)	-	(12,990)
Provisions	(29)	-	-	29	-	-	-
Total non-current liabilities	(103,544)	-	-	(50,028)	(4)	-	(153,576)
Net assets	**208,097**	**-**	**-**	**-**	**19**	**-**	**208,116**
Capital and reserves							
Share capital	7,429	-	-	-	-	-	7,429
Share premium account	1,099	-	-	-	-	-	1,099
Revaluation reserve	71,858	-	-	-	-	(71,858)	-
Own shares	(1,551)	-	-	-	-	-	(1,551)
Hedging reserve	(4,990)	-	-	-	-	-	(4,990)
Retained earnings	134,252	-	-	-	19	71,858	206,129
Total equity	**208,097**	**-**	**-**	**-**	**19**	**-**	**208,116**

Group reconciliation of equity as at 27 June 2020

	FRS 102 Restated £'000	Goodwill £'000	Assets held for sale £'000	Leases £'000	Impairment £'000	Expected credit loss £'000	Taxation £'000	Reclassification £'000	IFRS £'000
Non-current assets									
Goodwill and intangible assets	557	117	-	-	-	-	-	-	674
Property, plant, and equipment	299,702	-	-	(3,155)	750	-	-	-	297,297
Investment properties	9,661	-	(850)	-	-	-	-	-	8,811
Other non-current assets	5	-	-	-	-	-	-	-	5
Right-of-use assets	-	-	-	55,144	(8,882)	-	-	-	46,262
Total non-current assets	309,925	117	(850)	51,989	(8,132)	-	-	-	353,049
Current assets									
Inventories	8,230	-	-	-	-	-	-	-	8,230
Trade and other receivables	9,968	-	-	266	-	41	-	54	10,329
Cash and cash equivalents	9,861	-	-	-	-	-	-	(54)	9,807
Assets held for sale	-	-	850	-	-	-	-	-	850
Total current assets	28,059	-	850	266	-	41	-	-	29,216
Current liabilities									
Trade and other payables	(27,846)	-	-	-	-	-	-	-	(27,846)
Borrowings	(94,262)	-	-	-	-	-	-	-	(94,262)
Lease liabilities	-	-	-	(5,360)	-	-	-	-	(5,360)
Total current liabilities	(122,108)	-	-	(5,360)	-	-	-	-	(127,468)
Net current liabilities	(94,049)	-	850	(5,094)	-	41	-	-	(98,252)
Total assets less current liabilities	215,876	117	-	46,895	(8,132)	41	-	-	254,797
Non-current liabilities									
Lease liabilities	(2,693)	-	-	(47,807)	-	-	-	-	(50,500)
Derivative financial instruments	(7,107)	-	-	-	-	-	-	-	(7,107)
Provisions	(527)	-	-	29	-	-	-	-	(498)
Deferred tax liabilities	(13,303)	-	-	168	1,688	(9)	-	-	(11,456)
	(23,630)	-	-	(47,610)	1,688	(9)	-	-	(69,561)
Net assets	**192,246**	**117**	**-**	**(715)**	**(6,444)**	**32**	**-**	**-**	**185,236**
Capital and reserves									
Share capital	7,429	-	-	-	-	-	-	-	7,429
Share premium account	1,099	-	-	-	-	-	-	-	1,099
Revaluation reserve	70,409	-	-	-	-	-	613	(71,005)	17
Own shares	(1,328)	-	-	-	-	-	-	-	(1,328)
Hedging reserve	(4,963)	-	-	-	-	-	-	-	(4,963)
Retained earnings	119,600	117	-	(715)	(6,444)	32	(613)	71,005	182,982
Total equity	**192,246**	**117**	**-**	**(715)**	**(6,444)**	**32**	**-**	**-**	**185,236**

40 EXPLANATION OF TRANSITION TO IFRS CONTINUED

Group reconciliation of cash flows for the 52 weeks ended 27 June 2020

	FRS 102 £'000	Goodwill £'000	Assets held for sale £'000	Leases £'000	Impairment £'000	Expected credit loss £'000	Reclassification £'000	IFRS £'000
Cash flows from operating activities	15,438	–	–	2,533	–	–	1,211	19,182
Cash generated from operations	(185)	–	–	–	–	–	–	(185)
Net cash generated by operating activities	15,253	–	–	2,533	–	–	1,211	18,997
Cash flows from investing activities								
Proceeds from disposal of property and equipment	1,752	–	–	–	–	–	–	1,752
Purchases of property, equipment and lease premiums	(12,025)	–	–	–	–	–	–	(12,025)
Purchase of intangible assets	(92)	–	–	–	–	–	–	(92)
Customer loan redemptions	2	–	–	–	–	–	–	2
Acquisition of subsidiaries	(151)	–	–	–	–	–	–	(151)
Net cash used in investing activities	(10,514)	–	–	–	–	–	–	(10,514)
Cash flows from financing activities								
Dividends paid	(3,573)	–	–	–	–	–	–	(3,573)
Interest paid	(3,211)	–	–	–	–	–	–	(3,211)
Payments of principal portion of lease liabilities	–	–	–	(2,533)	–	–	–	(2,533)
Proceeds from borrowings	13,000	–	–	–	–	–	–	13,000
Purchase of own shares	(290)	–	–	–	–	–	–	(290)
Share option proceeds	13	–	–	–	–	–	–	13
Net cash generated by financing activities	5,939	–	–	(2,533)	–	–	–	3,406
Net movement in cash and cash equivalents	10,678	–	–	–	–	–	1,211	11,889
Cash and cash equivalents at beginning of the period	(817)	–	–	–	–	–	(1,265)	(2,082)
Cash and cash equivalents at end of the period	**9,861**	**–**	**–**	**–**	**–**	**–**	**(54)**	**9,807**

Company reconciliation of equity as at 29 June 2019 (IFRS transition date)

	FRS 102 Restated £'000	Goodwill £'000	Assets held for sale £'000	Leases £'000	Expected credit loss £'000	Reclassification £'000	IFRS £'000
Non-current assets							
Goodwill and intangible assets	760	-	-	-	-	-	760
Property, plant, and equipment	305,934	-	-	(3,393)	-	-	302,541
Investment properties	8,794	-	(485)	-	-	-	8,309
Other non-current assets	5,519	-	-	-	-	-	5,519
Right-of-use assets	-	-	-	58,037	-	-	58,037
Total non-current assets	321,007	-	(485)	54,644	-	-	375,166
Current assets							
Inventories	7,111	-	-	-	-	-	7,111
Trade and other receivables	12,945	-	-	(663)	23	1,265	13,570
Cash and cash equivalents	116	-	-	-	-	(116)	-
Assets held for sale	-	-	485	-	-	-	485
Total current assets	20,172	-	485	(663)	23	1,149	21,166
Current liabilities							
Trade and other payables	(28,201)	-	-	-	-	-	(28,201)
Borrowings	(1,068)	-	-	-	-	(1,149)	(2,217)
Income tax payable	(269)	-	-	-	-	-	(269)
Lease liabilities	-	-	-	(3,953)	-	-	(3,953)
Total current liabilities	(29,538)	-	-	(3,953)	-	(1,149)	(34,640)
Net current liabilities	(9,366)	-	485	(4,616)	23	-	(13,474)
Total assets less current liabilities	311,641	-	-	50,028	23	-	361,692
Non-current liabilities							
Lease liabilities	(2,547)	-	-	(50,057)	-	-	(52,604)
Borrowings	(81,160)	-	-	-	-	-	(81,160)
Derivative financial instruments	(6,822)	-	-	-	-	-	(6,822)
Deferred tax liabilities	(12,986)	-	-	-	(4)	-	(12,990)
Provisions	(29)	-	-	29	-	-	-
Total non-current liabilities	(103,544)	-	-	(50,028)	(4)	-	(153,576)
Net assets	**208,097**	**-**	**-**	**-**	**19**	**-**	**208,116**
Capital and reserves							
Share capital	7,429	-	-	-	-	-	7,429
Share premium account	1,099	-	-	-	-	-	1,099
Revaluation reserve	71,858	-	-	-	-	(71,858)	-
Own shares	(1,551)	-	-	-	-	-	(1,551)
Hedging reserve	(4,990)	-	-	-	-	-	(4,990)
Retained earnings	134,252	-	-	-	19	71,858	206,129
Total equity	**208,097**	**-**	**-**	**-**	**19**	**-**	**208,116**

40 EXPLANATION OF TRANSITION TO IFRS CONTINUED

Company reconciliation of equity as at 27 June 2020

	FRS 102 Restated £'000	Goodwill £'000	Assets held for sale £'000	Leases £'000	Impairment £'000	Expected credit loss £'000	Taxation £'000	Reclassification £'000	IFRS £'000
Non-current assets									
Goodwill and intangible assets	557	117	-	-	-	-	-	-	674
Property, plant, and equipment	299,702	-	-	(3,155)	750	-	-	-	297,297
Investment properties	9,661	-	(850)	-	-	-	-	-	8,811
Other non-current assets	27	-	-	-	-	-	-	-	27
Right-of-use assets	-	-	-	55,144	(8,882)	-	-	-	46,262
Total non-current assets	309,947	117	(850)	51,989	(8,132)	-	-	-	353,071
Current assets									
Inventories	8,230	-	-	-	-	-	-	-	8,230
Trade and other receivables	9,968	-	-	266	-	41	-	54	10,329
Cash and cash equivalents	9,861	-	-	-	-	-	-	(54)	9,807
Assets held for sale	-	-	850	-	-	-	-	-	850
Total current assets	28,059	-	850	266	-	41	-	-	29,216
Current liabilities									
Trade and other payables	(27,868)	-	-	-	-	-	-	-	(27,868)
Borrowings	(94,262)	-	-	-	-	-	-	-	(94,262)
Lease liabilities	-	-	-	(5,360)	-	-	-	-	(5,360)
Total current liabilities	(122,130)	-	-	(5,360)	-	-	-	-	(127,490)
Net current liabilities	(94,071)	-	850	(5,094)	-	41	-	-	(98,274)
Total assets less current liabilities	215,876	117	-	46,895	(8,132)	41	-	-	254,797
Non-current liabilities									
Lease liabilities	(2,693)	-	-	(47,807)	-	-	-	-	(50,500)
Derivative financial instruments	(7,107)	-	-	-	-	-	-	-	(7,107)
Provisions	(527)	-	-	29	-	-	-	-	(498)
Deferred tax liabilities	(13,303)	-	-	168	1,688	(9)	-	-	(11,456)
	(23,630)	-	-	(47,610)	1,688	(9)	-	-	(69,561)
Net assets	**192,246**	**117**	**-**	**(715)**	**(6,444)**	**32**	**-**	**-**	**185,236**
Capital and reserves									
Share capital	7,429	-	-	-	-	-	-	-	7,429
Share premium account	1,099	-	-	-	-	-	-	-	1,099
Revaluation reserve	70,409	-	-	-	-	-	613	(71,005)	17
Own shares	(1,328)	-	-	-	-	-	-	-	(1,328)
Hedging reserve	(4,963)	-	-	-	-	-	-	-	(4,963)
Retained earnings	119,600	117	-	(715)	(6,444)	32	(613)	71,005	182,982
Total equity	**192,246**	**117**	**-**	**(715)**	**(6,444)**	**32**	**-**	**-**	**185,236**

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GLOSSARY – ALTERNATIVE PERFORMANCE MEASURES

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

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

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

Measure	Definition	Location of reconciliation to GAAP measure
Underlying operating profit/(loss)	Operating profit/(loss) excluding operating charges that are either material or infrequent in nature and do not relate to the underlying performance.	Note 7
Underlying profit/(loss) before tax	Underlying operating profit/(loss) less underlying net finance costs.	Income Statement
Underlying profit/(loss) after tax	Underlying profit/(loss) before tax less attributable taxation.	Income Statement
Underlying basic earnings/(loss) per share	Underlying profit/(loss) after tax divided by the weighted average number of ordinary shares in issue during the period. The number of shares in issue excludes those held by the Company and not allocated to employees under the Share Incentive Plan, which are treated as cancelled.	Note 10
Underlying net finance costs	Finance costs excluding charges that are either material or infrequent in nature and do not relate to the underlying performance and fair value movements on financial instruments charged to profit and loss.	Note 6
Underlying tax rate	Calculated by dividing underlying tax by underlying profit before tax.	
Underlying EBITDA	Underlying profit/(loss) before tax pre net finance costs, depreciation, amortisation, profit or loss on sale of fixed assets excluding property and free trade loan discounts.	
Underlying EBITDAR	Underlying profit/(loss) before tax pre net finance costs, depreciation, amortisation, rent payable, profit or loss on sale of fixed assets excluding property and free trade loan discounts.	
Pub income	Pub profit before depreciation, amortisation, rent and property costs and other cost allocations.	
Retail like-for-like (LFL) sales	Retail LFL sales includes revenue from the sale of drink, food and accommodation but excludes machine income. LFL sales performance is calculated against a comparable 52 week period in the prior year for pubs that were trading in both 52-week periods.	
Like-for-like (LFL) tenanted pub income	Tenanted income calculated to exclude from both years those pubs which have not been trading throughout the two years. The principal exclusions are pubs purchased or sold, pubs which have closed, and pubs transferred to or from our retail business. Income is calculated against a comparable 52 week period in the prior year for pubs that were trading in both 52-week periods.	
Statutory Net Debt	Statutory net debt comprises cash, bank overdrafts, lease liabilities, bank and other loans less unamortised loan fees.	
Net Debt	Net debt comprises cash, bank overdrafts, bank and other loans less unamortised loan fees.	Note 32
Gearing	Calculated by dividing net debt by net assets.	
Ratio of net debt to EBITDA	Net debt divided by underlying EBITDA.	

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

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

FIVE-YEAR FINANCIAL SUMMARY

	IFRS 52 weeks *Group* 2021 £'000	IFRS Restated 52 weeks *Group* 2020 £'000	FRS 102 52 weeks *Group* 2019 £'000	FRS 102 53 weeks *Group* 2018 £'000	FRS 102 52 weeks *Group* 2017 £'000
Income Statement					
Revenue	**86,884**	118,207	145,801	156,567	156,198
Other income	**2,839**	450	-	-	-
Underlying operating (loss)/profit	**(4,240)**	1,515	15,258	16,064	15,259
Operating items excluded from underlying results	**(6,307)**	(17,515)	(168)	(2,381)	(469)
Net underlying finance costs	**(5,817)**	(5,155)	(3,901)	(4,295)	(4,094)
Net non-underlying finance costs	**(356)**	(150)	(10,772)	-	-
Profit on disposal of property	**221**	274	2,848	1,908	588
Investment property fair value movements	**87**	50	206	823	496
(Loss)/profit on ordinary activities before taxation	**(16,412)**	(20,981)	3,471	12,119	11,780
Taxation	**(1,379)**	1,590	(882)	(2,104)	(1,568)
(Loss)/earnings available to shareholders	**(17,791)**	(19,391)	2,589	10,015	10,212
Assets employed					
Non-current assets	**338,775**	353,049	315,498	308,733	306,599
Current assets	**30,659**	29,216	21,230	25,494	31,020
Current liabilities	**(33,083)**	(127,468)	(24,029)	(24,614)	(31,145)
Non-current liabilities	**(167,004)**	(69,561)	(104,602)	(108,561)	(115,363)
Net assets	**169,347**	185,236	208,097	201,052	191,111

Per 50p ordinary share	**2021**	2020	2019	2018	2017
Basic (loss)/earnings	**(120.5)p**	(131.6)p	17.6p	68.1p	69.1p
Underlying earnings available to shareholders	**(55.5)p**	(21.7)p	60.9p	63.0p	59.1p
Dividends (interim and proposed final)	**-**	-	30.08p	29.20p	28.35p
Net assets	**£11.40**	£12.47	£14.01	£13.53	£12.86
Dividend cover	**-**	-	0.6	2.3	2.4
Underlying dividend cover	**-**	-	2.0	2.2	2.1

Celebrating the reopening of the City of London with the Right Honourable Lord Mayor William Russell.

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Designed and produced by Instinctif Partners
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