SINCE 1698
SHEPHERD NEAME
BRITAIN'S OLDEST BREWER

SHEPHERD NEAME LIMITED ANNUAL REPORT 2023

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 PURPOSE

To enrich the lives of our customers and communities.

Our mission is to delight our customers with the character of our beers, the uniqueness of our pubs and the passion of our people.

STRATEGIC REPORT

At a Glance	02
Financial Highlights	03
Chairman's Statement	04
Chief Executive's Review	08
Our Business Model	24
Environmental, Social and Governance	26
SECR Reporting	34
Financial Review	36
Principal Risks and Uncertainties	41
Section 172 Statement	44

GOVERNANCE

Board of Directors	48
Report of the Directors	50
Corporate Governance Report	52
Audit Committee Report	56
Remuneration Committee Report	58
Directors' Responsibilities Statement	63

FINANCIAL STATEMENTS

Independent Auditor's Report	65
Group Income Statement	71
Group Statement of Comprehensive Income	71
Group and Parent Company Statement of Financial Position	72
Group and Parent Company Statement of Changes in Equity	73
Group and Parent Company Statement of Cash Flows	74
Notes to the Financial Statements	75

OTHER INFORMATION

Company Advisors	117
Glossary – Alternative Performance Measures	118
Five Year Financial Summary	120

AT A GLANCE

SHEPHERD NEAME IS DEDICATED TO BREWING GREAT BEER AND RUNNING THE BEST PUBS.

There is a Shepherd Neame beer and pub to suit all tastes. Our beer styles range from classic ales to heritage and modern. Our pubs are unique and characterful and reflect the diversity of their location.

We have 296 pubs throughout London and the South East, from the historic heart of the City to the Kent coastline.

WHAT MAKES US DIFFERENT

We have an unmatched heritage. Long-term integration within our communities gives us unique insights, knowledge and trust, and enables us to adapt and develop our business with the evolving population, demographic and economic landscape.

OUR PURPOSE

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OUR MISSION

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

OUR VISION

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

DRIVEN BY SHARED VALUES

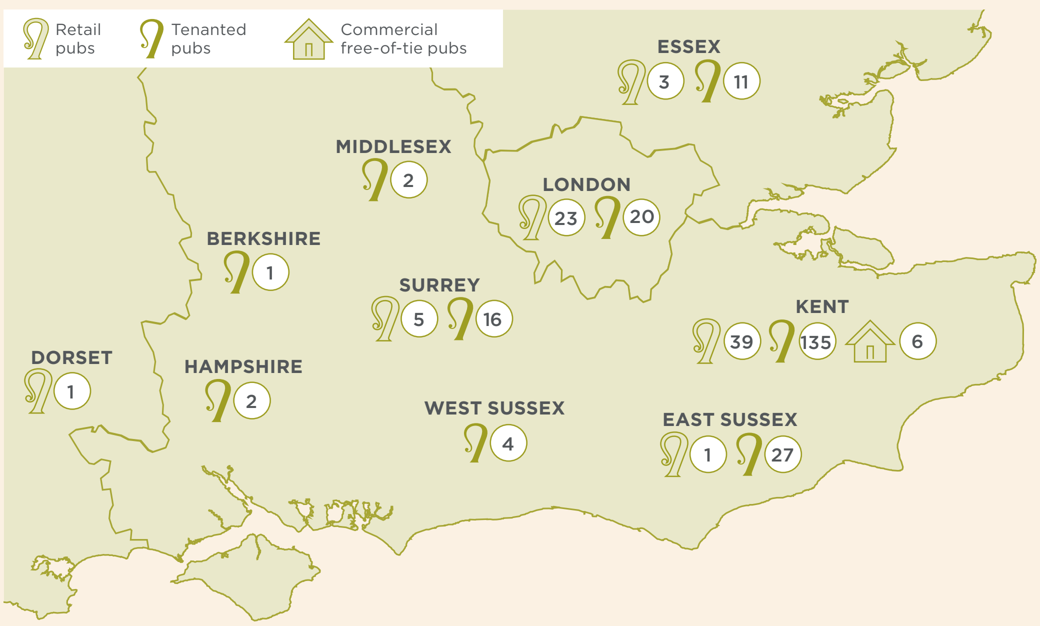
SHEPS SPIRIT
An empowered, flexible and can-do attitude.

PRIDE & PASSION
Passionate about our customers, communities and reputation.

WORKING TOGETHER
An inclusive and team-orientated culture based on trust and transparency.

AUTHENTIC
A caring culture of honesty, integrity and responsibility in all our actions.

OUR PUB ESTATE



296
Pub portfolio

248
Total retail letting rooms

OUR BEER BRANDS

The Company brews, markets and distributes its own beers to our own pubs and to local, national and export customers under a range of highly successful brand names including traditional classics such as Spitfire and Bishops Finger as well as contemporary brands such as Whitstable Bay, Bear Island and Orchard View Cider.

The Company also has a partnership with Boon Rawd Brewery Company for Singha premium lager, the original Thai beer.

FINANCIAL HIGHLIGHTS

REVENUE

£166.3m

2022: £151.5m

STATUTORY PROFIT BEFORE TAX

£4.9m

2022: £7.4m

UNDERLYING PROFIT BEFORE TAX[1]

£7.6m

2022: £7.3m

UNDERLYING BASIC EARNINGS PER SHARE[2]

41.1p

2022: 39.4p

NET ASSETS PER SHARE[3]

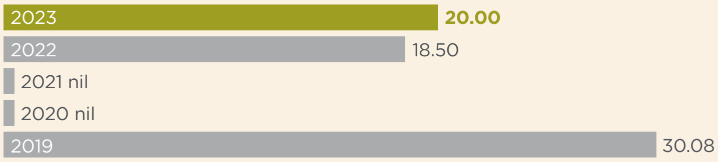
£12.05

2022: £11.94

DIVIDEND PER SHARE

20.00p

2022: 18.50p



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

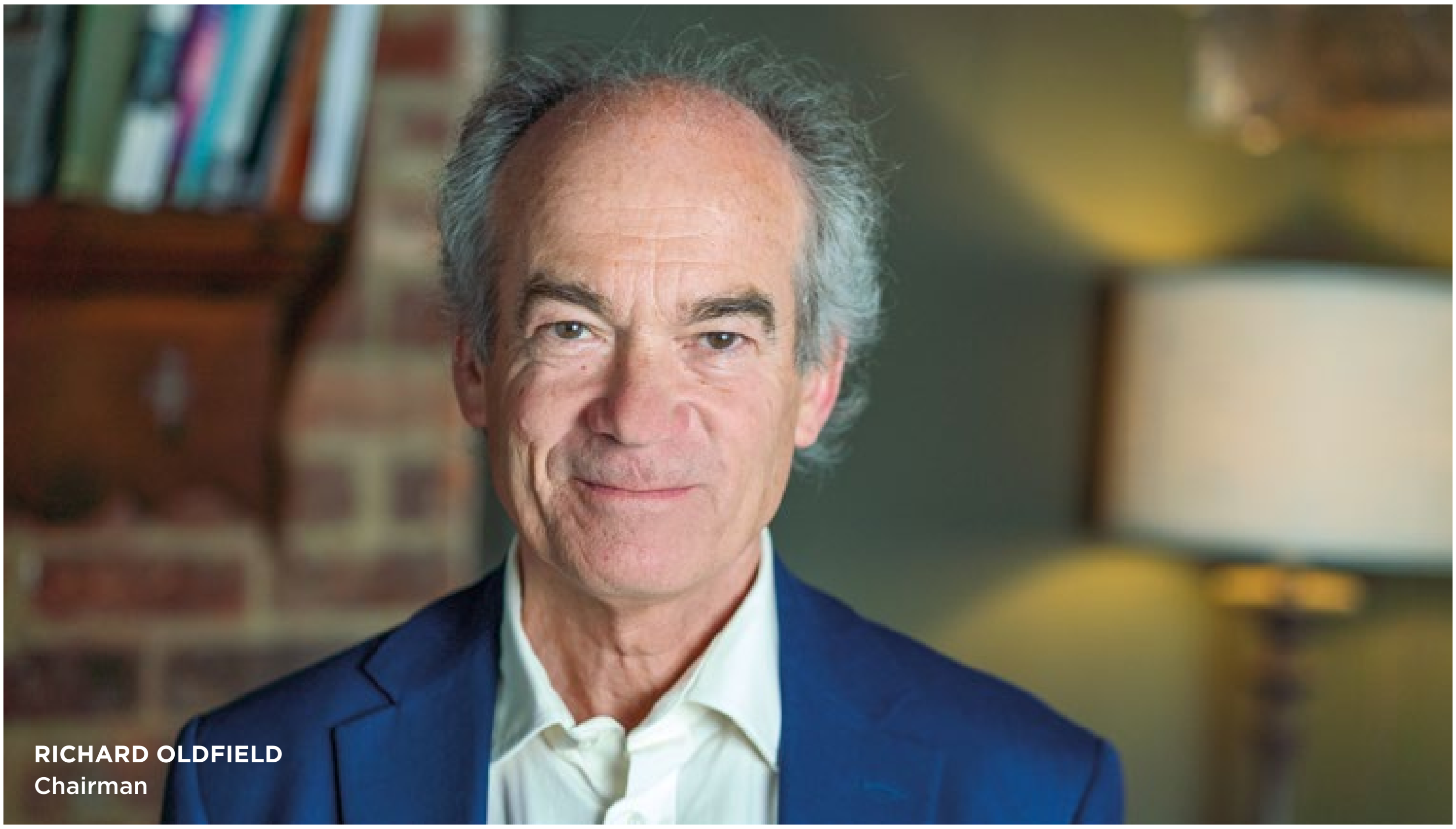
2 Underlying profit less attributable taxation divided by the weighted average number of ordinary shares in issue during the period (see note 10). The number of shares in issue excludes those held by the Company and not allocated to employees under the Share Incentive Plan, which are treated as cancelled.

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 25 June 2022.

An explanation of the Group's use of Alternative Performance Measures (APMs), including definitions, can be found on pages 118-119.

CHAIRMAN'S STATEMENT



RICHARD OLDFIELD
Chairman

OVERVIEW

In recent years your Company has been finding its way through a labyrinth of successive challenges common to all in the pubs and brewing sector and so I am pleased that we can report a year of progress, with good growth in revenue compared with last year and growth, though less significant, in underlying profits.

The gap between these two rates of growth is largely explained by the exceptional inflation in many of our costs, impacted by constraints on supply resulting first from lockdown and then from the war in Ukraine. These factors are covered in the Chief Executive's Review. In many of these areas we are beginning to see some relief. The management team has worked extraordinarily hard to cope with sudden and drastic changes in external conditions. Their commitment and adaptability give the Board as a whole confidence in the future.

FINANCIAL RESULTS AND DIVIDEND

Revenue for the year rose by +9.7% to £166.3m (2022: £151.5m). Statutory profit before tax was £4.9m (2022: £7.4m). Underlying profit before tax was £7.6m (2022: £7.3m). Basic earnings per share was 23.5p (2022: 42.5p). Underlying basic earnings per share was 41.1p (2022: 39.4p).

We have recognised an impairment charge in the year of £4.5m (2022: £2.9m). This is driven in part by the rise in interest rates which has resulted in a sharp increase in the weighted average cost of capital. This has led to an increase in write-downs in our pub estate. Nonetheless, the Company's net asset value per share has increased to £12.05 (2022: £11.94).

> "I AM PLEASED THAT WE CAN REPORT A YEAR OF PROGRESS, WITH GOOD GROWTH IN REVENUE COMPARED WITH LAST YEAR AND GROWTH, THOUGH LESS SIGNIFICANT, IN UNDERLYING PROFITS.

The Board has declared a final dividend of 16.00p, compared with 15.00p last year, a rise of +6.7%. In conjunction with the interim dividend paid in April, this brings the total dividend for the year to 20.00p, compared with 18.50p last year, an increase of +8.1%.

We are acutely conscious of the importance of dividends, current and future, to the Company's shareholders. In deciding on the appropriate level of dividend, we take into account the investment needs of the business, the level of debt, and the desire to be prudent. By maintaining a reasonable pay-out ratio, we should retain sufficient cash flow for investment, for growth, and future increases in dividend.

FINANCING

I am pleased to confirm that in November 2022 we completed the restructuring of our borrowings, foreshadowed in last year's report. The result is that our debt facilities give us ample headroom when needed; the debt is now longer-term than before, and moreover at a fixed rate which in view of recent developments in the gilt market appears to be on very advantageous terms. As noted in detail in the Finance Review, the ratio of debt to equity and to EBITDA rose slightly during the year, while remaining in what we regard as a reasonable range.

BOARD

Jonathon Swaine joined the Board at the beginning of the financial year, as noted in last year's report.

George Barnes, an Executive Director since 2001, will become Non-Executive on 1 January 2024. In addition to his Non-Executive role he will provide continuity by working on specific projects to ensure a smooth transition in his property responsibilities.

All the Directors, Executive and Non-Executive, have played a thoroughly active part in the year under review and in past years and I would like to thank all of them for their dedication to the cause.

OUTLOOK

In recent years the Company has weathered storms and tempests. It has been battered but is unbowed. We are fully alive to the challenge of providing growth in profits, cash flow and dividends and are extremely grateful for the patience of shareholders during this period in which dividends have been lower than previously.

There are plenty of challenges within the business to confront and surmount. There are also many opportunities: opportunities to manage our portfolio of pubs to ensure that we have the right pubs in the right places, that pubs are attractive, and that they make the best use of space, inside and outside; opportunities to encourage and incentivise existing licensees and when there are vacancies, find energetic and imaginative new licencees; and opportunities to optimise the brewing and brands division.

The business is fundamentally sound, at the heart of life, important to people's sense of community. We have excellent assets in the form of a large freehold property portfolio with many high quality pubs.

We have a three-legged strategy – retail pubs, tenanted pubs and brewing and brands – which provides diversification and integration, and we have a management fully committed to making the best of each of these.

Above all we have our customers. We want more of them; we want them to come to our pubs, drink our beer and eat our food, and generally enjoy our hospitality. We want them to tell others about it and come back for more.

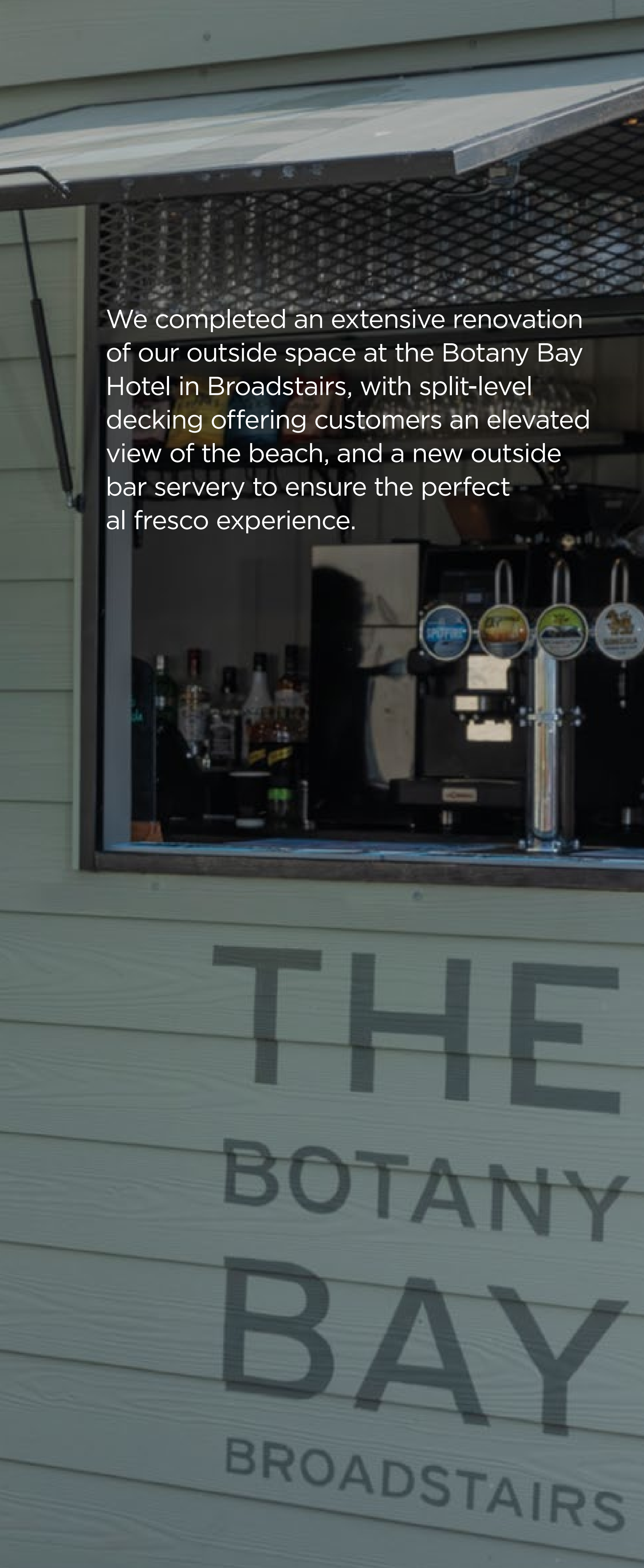
Our efforts in years to come will be on managing the balance of tradition and innovation, with emphasis on what customers want, different in each pub and with every type of customer, young and old, City or West End, rural or coastal, whether interested in having a good experience on a family outing or just a quiet pint with a friend. This report has evidence of all these things.

On top of this we remain optimistic about the future of our heartland. The long-term economic development of Kent continues to unfold with the opening of Thanet Parkway station, which reduces journey times to London from the Thanet towns to under 70 minutes.

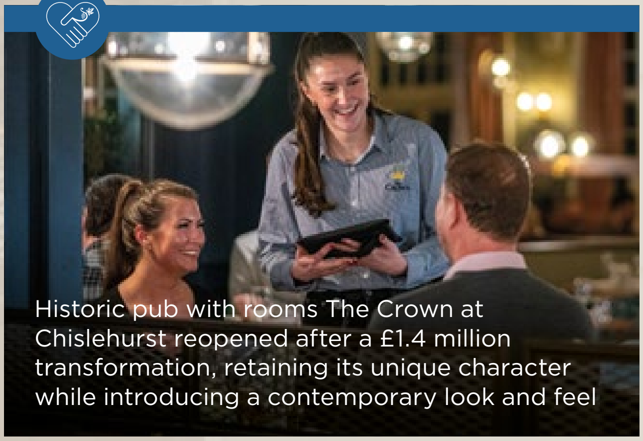
All of us on the Board want to express our great appreciation of all those in the Company and associated with the Company – in pubs, both retail and tenanted, in the brewery and in head office – who have worked so hard to ensure that the Company progresses and prospers.

RICHARD OLDFIELD
Chairman

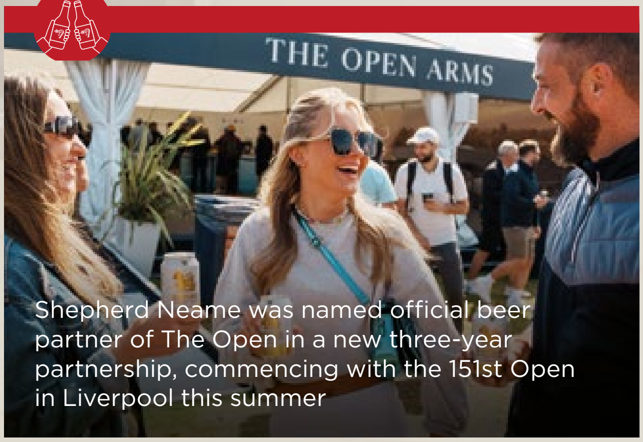
RECRUIT NEW CUSTOMERS



We completed an extensive renovation of our outside space at the Botany Bay Hotel in Broadstairs, with split-level decking offering customers an elevated view of the beach, and a new outside bar servery to ensure the perfect al fresco experience.


Historic pub with rooms The Crown at Chislehurst reopened after a £1.4 million transformation, retaining its unique character while introducing a contemporary look and feel


We launched our new kids' menu, which focuses on local, seasonal produce, with a pledge to donate money for every Meal Deal sold to our Charity of the Year FareShare



Shepherd Neame was named official beer partner of The Open in a new three-year partnership, commencing with the 151st Open in Liverpool this summer


A new pouring rights partnership was agreed with EFL Championship team Millwall Football Club, which will allow us to introduce our brands to its loyal base of supporters

CHIEF EXECUTIVE'S REVIEW

JONATHAN NEAME
Chief Executive

OVERVIEW

The last few years have presented exceptional challenges that none in the industry have faced before, and so I am pleased to report an encouraging set of results and good progress towards our strategic goals.

Shepherd Neame is built on strong foundations. We are a long-established business, with a long-term focus. We have a clear strategy focused on developing unique and characterful pubs, predominantly freehold, brewing distinctive beers, serving local and fresh food, with a great team of dedicated people.

This is the first full year restriction free since 2020, but it has brought its own headwinds and fresh challenges. We have been tested again, and so have had to remain agile and responsive to change in the business.

I am very grateful to our teams who have shown further extraordinary resilience to find a path to deliver record revenues, up by +9.7% to £166.3m (2022: £151.5m), and to re-build momentum in our key strategic projects and investment programme.

We have consistently tracked ahead of the Coffer CGA Business Tracker for pubs in our retail like-for-like sales. Growth in tenanted pub like-for-like income is comparable with the best in the market. Total beer volume is, however, down on pre-pandemic levels, as the market has seen a shift away from cask and premium bottled ales.

“SHEPHERD NEAME IS BUILT ON STRONG FOUNDATIONS. WE ARE A LONG-ESTABLISHED BUSINESS, WITH A LONG-TERM FOCUS.

Under normal conditions this performance would result in levels of profitability at pre-pandemic levels. But the impact of inflation on our business has been significant, as set out below.

The worst of inflation is starting to subside. With an improving outlook, our challenge now is to recover margins and drive higher returns, whilst continuing to serve our customers to the high standards they expect.

BUILDING MOMENTUM

Demand in pubs has remained strong throughout the year, in spite of the squeeze on household budgets. We have not experienced the reduced demand that has been evident in other parts of the consumer economy, as a result of the cost-of-living crisis.

We benefited from a good start to the year with a warm summer, and enjoyed record temperatures. The underlying performance has been driven by the progressive back-to-office momentum in towns and cities, particularly in central London. This has been partially offset by the repeated rail strikes, which cost us lost sales.

Christmas promised a great deal but the strikes hit the busiest week of the year and coincided with a spell of cold weather. The FIFA World Cup however provided a welcome boost to neighbourhood pubs in November.

Overseas tourists are returning to the UK, although there is further to go. The King's Coronation provided a great showcase for the country and hopefully will stimulate more inbound tourism.

MEETING THE INFLATION CHALLENGE

Our greatest challenge has been dealing with the material increase in our cost base.

We have experienced three phases of inflation over the last two years:

- the first was the inflationary surge in the summer of 2021, driven by supply chain shortages as demand suppressed during the pandemic returned;
- the second was the removal of government support, in the form of business rates, furlough and VAT, and the step-up in national minimum wage rates. In 2022, the VAT benefit to us was valued at £2.1m;
- the third was the inflationary surge in energy and grain prices, stimulated by the war in Ukraine which has led to much higher prices for almost all goods and services we purchase.

The Company has been well protected in a number of areas, with the majority of our debt on long-term fixed rates at low levels, and with all utilities in the brewery, and two thirds of our pub utilities, on a below-market fixed price deal until the end of 2024.

In last year's annual report we highlighted that we expected our cost base would increase by £5.7m in certain key categories. This included energy in our retail pubs (up +£1.2m), distribution costs (up +£2.0m), and brewery raw materials, such as glass and packaging waste (up +£2.5m).

In the event, inflation in our cost base was materially higher, calculated at £8.7m, as we faced further increases in costs for food and drink purchases, and labour rates, driven by the increase in the national minimum wage, which rose by +9.7% in April 2023.

All these factors have meant that we have had to increase prices in all channels. We are mindful that our customers face similar cost pressures in their own lives, with mortgage and energy rises squeezing household budgets. But thankfully demand has remained strong.

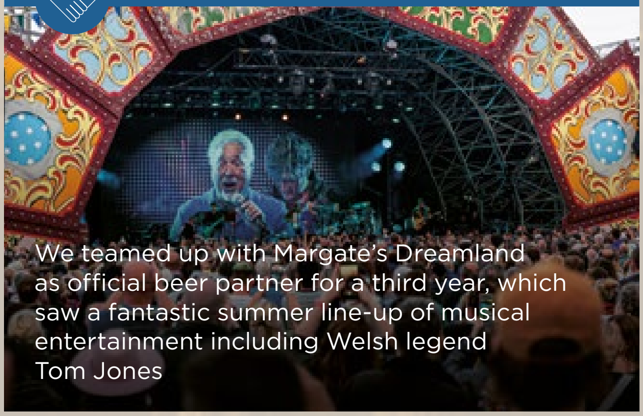
In most areas, the rate of inflation is now reducing and the outlook is improving. Food inflation remains high, driven by weather-related events and by the grain market; and there are some forecasts of higher energy costs this coming winter. But costs in other areas seem stable or are reducing.

These inflationary forces have resulted in higher interest rates which may squeeze some households as they come off fixed-rate mortgages. This may present a fresh challenge in 2024, if consumer demand reduces, but there is limited evidence of that so far.

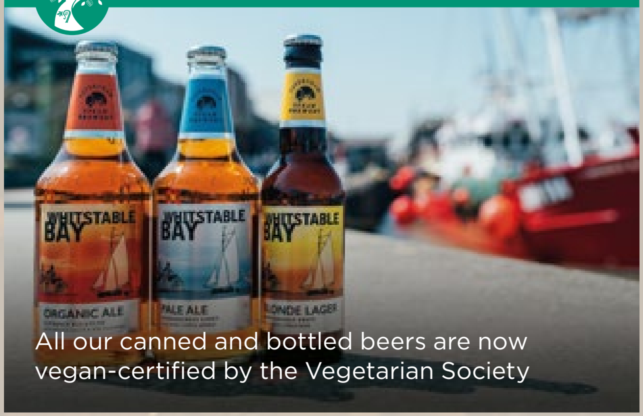
"THE IMPACT OF INFLATION ON OUR BUSINESS HAS BEEN SIGNIFICANT... BUT THE WORST OF INFLATION IS STARTING TO SUBSIDE.

DELIGHT OUR CUSTOMERS WITH GREAT EXPERIENCES

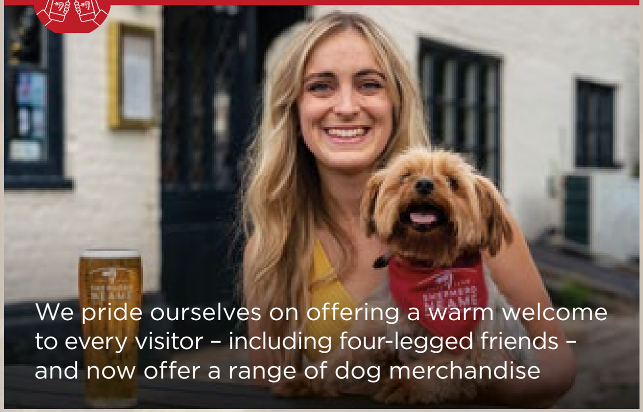
Traditional community pub the Windsor Castle in Carshalton underwent a £300,000 refurbishment, including a stylish redecoration of its spacious bar, restaurant and beer garden. The pub has also re-introduced food, offering a fresh new menu to complement its extensive selection of beers.



We teamed up with Margate's Dreamland as official beer partner for a third year, which saw a fantastic summer line-up of musical entertainment including Welsh legend Tom Jones



All our canned and bottled beers are now vegan-certified by the Vegetarian Society



We pride ourselves on offering a warm welcome to every visitor – including four-legged friends – and now offer a range of dog merchandise

The Sportsman in Seasalter was named Kent Fine Dining Experience of the Year at the Taste of Kent awards, the latest of many accolades for this Michelin-starred pub

GOVERNMENT SUPPORT FOR PUBS

Through the winter of 2022/23, pubs and small businesses were given some protection from high energy prices with the Energy Bills Relief Scheme. This has now ended, but new controls to protect small business from excess bills are being introduced. Whilst this is welcome, many pubs will continue to pay twice the amount for energy than they did before the war in Ukraine.

Many of our pubs continue to benefit from partial rates relief which will continue through to Spring 2024. We believe it is important that rates relief continues thereafter.

In August 2023, the UK Government introduced a new excise duty regime, which taxes alcohol according to its strength and where it is sold. This will mean even higher duties for wines, spirits, and bottled beers, but a welcome freeze on duties for draught beer and a new lower rate for beers under 3.4% ABV.

OUR STRATEGIC OBJECTIVES

Against this volatile cost backdrop, we continue to focus on those projects that will deliver against our long-term objectives.

Our goals are to Recruit New Customers, to Delight our Customers with Great Experiences, to Build a Great Team of Dedicated People and to Create Passionate Advocates for our Beers and Pubs.

We have invested in our head office teams to deliver against these goals. Specifically, we have built up our People Team to support learning and development of our own talent, improved retention levels and a focus on excellent service. We have strengthened our food development team to support the introduction of a menu refresh; and we have strengthened our property team and built the capacity of the IT team to deliver fresh projects.

RECRUIT NEW CUSTOMERS

We acquired four new pubs at the start of the year, three in Essex and one in Bournemouth. We carried out a major redevelopment of the Crown at Chislehurst, and several smaller schemes including at the Old Jamaica Winehouse in the City, the Windsor Castle at Carshalton and created new outside space at the Botany Bay Hotel in Broadstairs.

We have completed a major scheme at the Duke of Cumberland in Whitstable in August 2023 to upgrade the whole site and add eight boutique bedrooms. We are on site at the Tom Cribb in Haymarket, which will reopen in October 2023. Beyond this, we have an ambitious programme for the coming year as we rebuild the momentum of our refurbishment programme.

Our signage and external decorations schemes continue to be rolled out, which will be substantially complete by the end of December 2024.

The Company's sponsorship of sporting clubs of all types is well known and highly successful. We have sponsored Kent County Cricket Club for many years, and we support many other cricket, golf and rugby clubs too. In recent years we have also built a good base in football. Last year we entered a partnership with Bromley FC, and this year we are delighted to have become the supplier to Millwall FC in Bermondsey.

We were the official beer supplier at the Open, supporting the Singha brand, as we were in 2021 and 2022, at Royal Liverpool in July 2023, and have extended our agreement for a further two years.

DELIGHT OUR CUSTOMERS WITH GREAT EXPERIENCES

We regularly review and enhance the drinks ranges within our pubs to ensure we offer a premium experience.

We have reintroduced our own Cask Club range with considerable success. We have commissioned the small-batch brewery and launched our first brew. This plant will enable us to develop a wider range of tastes and flavour in our new beers, and brew more speciality beers.

We have also expanded the range of third-party beers in our pubs. We are seeing good growth in premium world lagers, craft beers and stout. Singha is now stocked on draught in the majority of our outlets and is performing well. However, our partnership with Boston Beer for Sam Adams has now terminated and is not being renewed. We are expanding the distribution of Noughty Bear 0.5% beer on draught.

We continue to see excellent growth in key categories such as cocktails, rosé wines and low-alcohol drinks.

Consumers are looking for brands with local provenance. In this regard, we have developed Creekside Coffee, a full-flavour local blend, for our retail pubs.

In our food business, we have carried out a comprehensive overhaul of all menus in our retail pubs. The aim is to source the highest quality ingredients with a strong emphasis on seasonal and local produce. We review and change menus on a regular basis, to create more dynamic and seasonal choice for customers.

We have introduced a new kids' menu, – Menus for Minis – and we are donating 50p for every two-course meal sold to FareShare, our 2023 Charity of the Year.

BUILD A GREAT TEAM OF DEDICATED PEOPLE

A key focus this year has been to build the appropriate training and support infrastructure so that we can attract and retain the best people and build rewarding career pathways for those entering the pub trade.

We have introduced a wide range of apprenticeship courses at all levels, ranging from Level 2 to Level 7, and have successfully launched partnerships with new training providers for all our hospitality and catering needs.

Our apprentice programme has been highly successful and continues to gain momentum. Over 40 people have undertaken apprentice programmes this year and we have uncovered some outstanding talent for the future.

Congratulations go to Sallyanne Carter of the George Hotel in Cranbrook, who was our Apprentice of the Year.

We have developed a Chef Academy and a chef mentoring programme, and are consequently attracting better chefs. Our Chef of the Year was Peter Baldwin of the Fish on the Green in Bearsted.

We have an excellent team of General Managers. We also aim to develop individual talent and nurture the next generation of General Managers from within the business. The success of this approach can be seen in recent appointments at the Evenhill in Littlebourne and at the Windsor Castle at Carshalton.

It is great to see how many of our tenanted pub partners run outstanding pubs. For example, Barons Pub Company run two of our pubs and won the Best Operations team and Best Pub Employer in the Publican Awards. Jo and Jane Mullane, won the Shepherd Neame Pub of the Year award for the exceptional and unique way that they run the New Flying Horse in Wye.

We regularly monitor what our teams say about us and were very pleased that our Employee Promoter Score via our Sheps Voice survey was 65.5% (2022: 65.0%). Our tenanted pub operations again scored in the top five of the Tenant Tracker industry benchmark survey.

The Duke of Cumberland, Whitstable

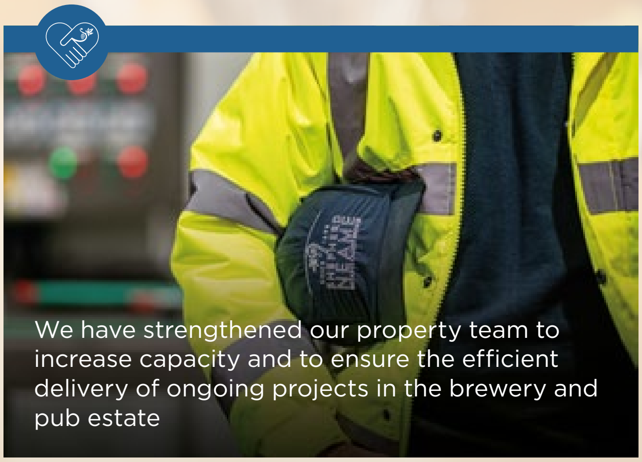
BUILD A GREAT TEAM OF DEDICATED PEOPLE

Our apprenticeship programme continues to go from strength to strength. We are working with new partners HIT Training to offer a more diverse range of courses, and have more than quadrupled our levy spend in the past year as we continue to create extensive development opportunities throughout our business.

The annual Shepherd Neame Pub Awards took place at Canterbury Rugby Club, celebrating exceptional standards across our estate

Since joining Shepherd Neame four years ago, Hannah McDonough has progressed with us to take on her first General Manager role at the Evenhill in Littlebourne

As part of ongoing investment in our food offer, we welcomed new Head of Food Sang Nguyen, who is working with chefs across the business to refresh our menus



We have strengthened our property team to increase capacity and to ensure the efficient delivery of ongoing projects in the brewery and pub estate

CREATE PASSIONATE ADVOCATES FOR OUR BEERS AND PUBS

We have remodelled our service offer around five standards – Smile to get Smiles, Own it, Power the Party, Hop in your Heart, No Detail's too Small – and are building great team and customer engagement.

We have introduced a new framework to gather feedback from our customers on their experience in our retail pubs and hotels. We are building the number of responses throughout the year. We have achieved a Net Promoter Score of 60%.

Bishops Finger won the Taste of Kent Beer of the Year Award and Gold in the International Beer Challenge 2023, and three of our beers won Gold in the British Bottlers Institute Awards. All of our beers are now vegan-accredited by the Vegetarian Society.

We are also building long-term advocates for our beers through targeting high-profile events to showcase our beers. We have enjoyed a successful partnership with Dreamland in Margate, as they build a highly successful events venue, and we have supported Smoked and Uncut with the Pig Hotel Group.

We maintained a high presence in London through our support for the City Beerfest in the Guildhall Yard, Summer by the River near Tower Bridge and the University Boat Race.

We look to enhance the visit to the pub with more customer activity, for example, Shakespeare with Sheps, at the Belle Vue Tavern in Margate and at the Three Mariners at Oare, and promotions such as our Summer Drinks menu.

DO THE RIGHT THING FOR OUR COMMUNITIES

Shepherd Neame is a business that aims to put the brewery, its pubs and our people at the heart of our communities.

I am delighted that we raised £30,000 for our 2022 Charity of the Year, the Kent Wildlife Trust. Our 2023 Charity of the Year is FareShare – fighting hunger and tackling food waste.

We continue to support many community events including the Faversham Hop Festival which returned this year after a gap for the pandemic, and the ever-popular Faversham Literary Festival. We have continued to support the preservation of over 300 rare hop varieties in the National Hop Collection.

I congratulate the Flying Horse at Smarden for being recognised by Pub Aid for their fundraising efforts for the people of Ukraine.

We have made considerable progress this year in energy reduction initiatives. We have installed metering across the business so that we have more accurate data on consumption. We have successfully piloted new energy-saving technology in several pub cellars and introduced a Save While You Sleep initiative with Zero Carbon Forum in our retail pubs. We have trialled electric-only induction hobs to save energy in kitchens.

The results of these initiatives have been encouraging. We have a wider roll-out of these programmes in the coming year and will pilot further technology for new initiatives.

BUSINESS OPERATIONS

Retail and Tenanted Pubs Overview

As at June 2023 we owned 296 pubs (June 2022: 300), of which 217 (June 2022: 231) are tenanted or leased, 72 (June 2022: 63) are retail pubs and seven (June 2022: six) are operated on a free-of-tie basis as investment properties. 85% of our pubs are owned freehold.

During the period we have transferred six tenanted pubs to retail, and two to investment property. We have sold eight properties, including six pubs and two investment properties (six freehold disposals and two leases surrendered) and have acquired four pubs (three freehold pubs and one leasehold). These disposals have realised net proceeds of £2.3m (2022: £9.1m).

We have invested £17.2m in total, including £6.7m in new site acquisitions, including fees, and £10.5m in brewery and pub investments, of which the major projects have been £1.4m at the Crown at Chislehurst and a further £0.5m for partial completion of works at the Duke of Cumberland in Whitstable.

> SHEPHERD NEAME IS A BUSINESS THAT AIMS TO PUT THE BREWERY, ITS PUBS AND OUR PEOPLE AT THE HEART OF OUR COMMUNITIES.

Retail Pubs and Hotels

For the 52 weeks to 24 June 2023, our retail pubs achieved strong growth. Total revenue was up +21.5% to £74.4m (2022: £61.2m). Same outlet like-for-like sales grew by +12.9%. VAT-adjusted like-for-like sales grew by +17.0%. Within the M25, like-for-like sales are +30.6%. Outside the M25 like-for-like sales are +6.6%.

All individual months were in growth on the prior year, with the strongest growth in July 2022, December 2022 and June 2023. December was nonetheless below expectations as we lost sales due to the rail strikes.

This growth has been mainly driven by drinks sales. Total drinks sales were up +31.3% to £43.4m, with like-for-like drinks sales +22.4%, driven largely by the recovery of our London pubs as people return to their offices.

Total food sales are up +15.4%, to £24.8m, with like-for-like food sales +3.1%.

We have seen slightly weaker room occupancy after the staycation boom of last year, with accommodation sales down -7.3% to £5.8m, and like-for-like accommodation sales down -4.2%. At June 2023, we operated 248 (2022: 218) rooms in our retail estate. Overall occupancy was slightly down at 74% (2022: 76%), but overall RevPAR was up to £81 (2022: £80).

Tenanted Pubs

Trade in our tenanted pubs has remained resilient during this period. Like-for-like tenanted pub income was +3.9%.

We have an outstanding tenanted estate with a first-class team of licensees. Although turnover levels of licensees is slightly higher than previously, we continue to attract good licensees when pubs become available.

We have supported our licensees as best we can in recent years, and continued to do so in the last year, as appropriate, through the energy crisis. The UK Government Energy Bills Relief Scheme provided support through the winter months. Whilst wholesale rates have now started to ease, the overall cost for utilities is estimated to remain on average twice that of before the war in Ukraine.

We continue to maintain our estate to a high level, even though the cost of repairs and maintenance has increased substantially. We plan to accelerate our external decoration schemes in the coming year.

Brewing and Brands

Total beer volumes were down -2.7%. Own brewed beer volumes were up +5.2%. This growth is driven by the brewing of Singha beer at Faversham which commenced in February 2022, and has offset the declines in cask ale and premium bottled ales, as experienced across the market.

Cost of goods inflation in beer production has been material. For example, the cost of inputs for bottled beers alone has increased in excess of £2m, before logistics and distribution costs. Legislative changes in packaging waste due to be introduced in 2025 will drive further inflation. We also expect higher logistics costs going forward.

We have a strong heartland on-trade business and enjoy first-class customer relations, and our customers have been generally supportive as we try to recover some of this inflationary impact through higher prices. The off-trade has proved more challenging though, after many years of strong performance.

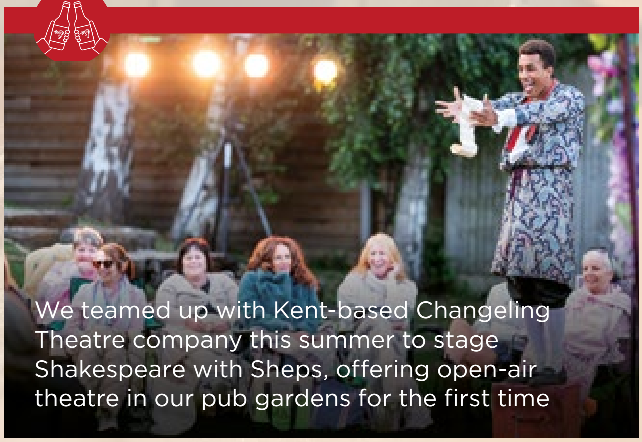
Noughty Bear 0.5% IPA

CREATE PASSIONATE ADVOCATES FOR OUR BEER & PUBS

We have been proud to be principal sponsor of the popular Hop Festival in our home town of Faversham for more than three decades. The event celebrates Kent's hop-picking heritage and attracts thousands of visitors each year.

Our Chief Executive Jonathan Neame raised a glass with drinkers in the City of London to promote this year's City Beerfest, which raises money for the Lord Mayor's Appeal

Zesty new beer Citra Smack was released in August as part of our popular Cask Club initiative, aimed at encouraging drinkers to enjoy real ale



We teamed up with Kent-based Changeling Theatre company this summer to stage Shakespeare with Sheps, offering open-air theatre in our pub gardens for the first time

Our beers continue to win acclaim at a local and national level, including Bishops Finger which was named Kent Beer of the Year in the Taste of Kent Awards

Investment Property

As at June 2023, the Company owned investment property valued at £7.2m (2022: £6.7m). We have sold two investment properties during the period.

We continue to promote sites in the local area for potential development. We remain confident that all these schemes have considerable merit, and that at least one of these schemes will be approved in the near term, but policy changes at local and national level make others less likely in the short term.

OUTLOOK AND CURRENT TRADING

The hospitality sector has faced an unprecedented series of crises in the last three years. We still have known cost increases to absorb, but the dust is settling, the outlook is more positive and the fundamentals of the business are good.

Consumer spending has remained resilient all year, better than many had expected, and better than many other parts of the retail and consumer economy. People are prioritising going out over other types of expenditure.

Pubs are generally performing better than restaurants. Premium and neighbourhood pubs are performing well. We have an excellent pub estate with considerable potential, a loyal customer base, and a high profile within the individual communities we serve.

Shepherd Neame pubs have been performing in line with the best in the sector. All of which gives us confidence even if we go into a new phase of pressure on household budgets, as mortgage rates increase.

We do face considerable inflationary and market challenges within our Brewing and Brands business, but, notwithstanding the inflationary pressures, we have a strong core of loyal and happy customers.

After the wonderful June 2023 weather, wet, cool and windy conditions returned in July and August. This period compares with the record-breaking sunshine and heat in July 2022. Inevitably trade at our coastal sites has suffered somewhat, but was boosted by warm weather in early September. Nonetheless, trade has remained encouraging in our pubs, albeit the beer market remains challenging.

For the 13 weeks to 23 September 2023, like-for-like sales in our retail pubs were +5.6% vs the 2023[1] financial year. For the nine weeks to 26 August 2023, same outlet like-for-like income in our tenanted pubs was up +3.0% vs 2023[1]. Total beer volumes were -10.3% vs 2023[1]. Own brewed beer volume was -15.9% vs 2023[1].

We have much to look forward to. The balance sheet remains strong and the business has momentum in our pipeline of investment. We are confident we have the team and skills to deliver good returns for our shareholders over the long term.

JONATHAN NEAME
Chief Executive

"THE HOSPITALITY SECTOR HAS FACED AN UNPRECEDENTED SERIES OF CRISES IN THE LAST THREE YEARS. WE STILL HAVE KNOWN COST INCREASES TO ABSORB, BUT THE DUST IS SETTLING, THE OUTLOOK IS MORE POSITIVE AND THE FUNDAMENTALS OF THE BUSINESS GOOD.

1 The periods referred to for financial year 2023 are the comparative month(s) of July, August and September 2022 which are during the financial year 52 weeks to 24 June 2023.

LONG-TERM GROWTH DRIVERS

We have a unique heritage in our heartland, and a track record of delivering sustainable growth over many years.

We are well connected within our communities, with a deep knowledge of the local demographic and behavioural dynamics.

Our geographical heartland will undergo further major infrastructure development over the next 15 years that will stimulate long-term growth.

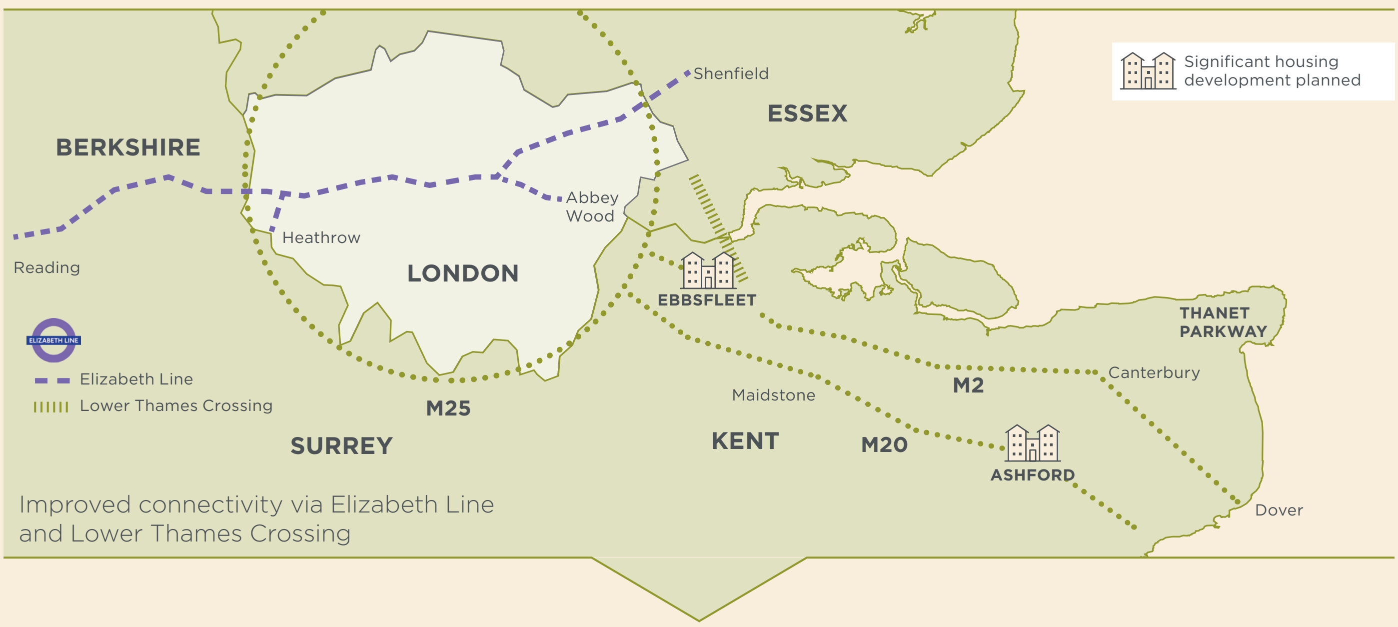
Outstanding pub estate with investment potential

Strong market position within individual communities

Growing demand for premium experiences

Growing demand for authentic brands with local provenance

MAJOR HOUSING DEVELOPMENT AROUND EBBSFLEET AND ASHFORD AND FURTHER ROAD AND RAIL INFRASTRUCTURE ARE PLANNED OVER THE NEXT 15 YEARS



Improved connectivity via Elizabeth Line and Lower Thames Crossing

THIS WILL DRIVE SOCIO-DEMOGRAPHIC CHANGE IN OUR KENT HEARTLAND

Significant population growth expected within the next decade

Increasingly younger age profile

Growing affluence

DO THE RIGHT THING FOR OUR COMMUNITIES

We are committed to supporting a range of sports from grassroots to county level. This includes our long-time sponsorship of Kent Cricket, with their Canterbury headquarters, The Spitfire Ground, St Lawrence, named after our beer brand.

Our chefs are passionate about working with local producers wherever possible: companies like Cheesemakers of Canterbury who supply our pubs with artisan cheeses

Customers joined us in toasting the coronation of King Charles III across our pub estate, enjoying our limited edition Coronation Ale brewed for the historic occasion

We were delighted to host the Hartley Morris Men, one of Kent's oldest troupes, as they toured a selection of our pubs including the Golden Lion at Broad Oak

FareShare, which fights hunger and food waste, was named our Charity of the Year partner for 2023/24, in line with our efforts to do the right thing for our communities, people and environment

OUR BUSINESS MODEL

THE SHAPE OF OUR BUSINESS

We are a high quality integrated pub and brewing business with three separate divisions, each with their own financial and market characteristics.

RETAIL PUBS

Typically freehold-owned pubs across the South East, operated and managed by Shepherd Neame employees.

TENANTED PUBS

Typically freehold-owned pubs across the South East, operated and managed by independent licensees.

BREWING AND BRANDS

Manufacturing and wholesale business providing a portfolio of ales, lagers and ciders to bars, pubs, sports clubs, supermarkets and online sales.

OUR STRATEGY FOR GROWTH... **...is driven by our purpose, to enrich the lives of our customers and communities.**

WHAT WE ACHIEVED IN 2023

RECRUIT NEW CUSTOMERS

Our unique pubs, distinctive beers and strong customer relationships help attract new customers.

- Carried out major development at the Crown in Chislehurst
- Signed three-year deal for pouring rights at Open Golf
- Signed pouring rights at Millwall FC

DELIGHT OUR CUSTOMERS WITH GREAT EXPERIENCES

Delighting our customers is ingrained in our purpose and mission.

- Re-introduced cask club
- Developed Creekside coffee brand
- Introduced new kids menu

BUILD A GREAT TEAM OF DEDICATED PEOPLE

We are dedicated to helping our teams be at their best, enabling them to learn and develop, thus creating rewarding and fulfilling careers for all of our employees.

- Expanded apprenticeship programme
- Developed chef academy
- Strengthened our food development team

CREATE PASSIONATE ADVOCATES FOR OUR BEER AND PUBS

We create advocates who are invested in our purpose, our mission and who share our values.

- Introduced new customer service standards

WHAT MAKES US DIFFERENT

We have an unmatched heritage. Long-term integration within our communities gives us unique insights, knowledge and trust, and enables us to adapt and develop our business with the evolving population, demographic and economic landscape.

The Crown at Chislehurst

THE ASSETS THAT ENABLE OUR BUSINESS TO CREATE AND SUSTAIN VALUE

THE VALUE THAT WE CREATE FOR OUR STAKEHOLDERS

BRAND AND HERITAGE

We have a strong local presence and our brand has enduring appeal and is a powerful tool for attracting customers, partners and talent.

COMMUNITIES

We are a significant and long-term contributor to the life of our communities through many sponsorships and local activities. We directly and indirectly support approximately 5,000 jobs in our pubs business.

PEOPLE AND CULTURE

We nurture an environment in which people can flourish and realise their full potential, individuality and creativity.

CUSTOMERS

We invest in our pubs, our people and brands to ensure the best possible experience for all who engage with us.

PUB ESTATE

We have a unique and characterful estate of premium pubs and hotels in prime locations.

COLLEAGUES

We strive to create an inclusive culture, supporting our people to learn, develop and progress. We are proud to have an average length of service of 10 years across the business and we enjoy excellent relations with our licensees.

PARTNERSHIPS

We build strong, long-term relationships with like-minded partners whose principles align with ours and through which each partner benefits.

PARTNERS

We take pride in offering strong support for our partners such as Kent Cricket and work with as many local suppliers as possible.

INVESTMENT

We have a stable shareholder base that gives us the platform to consistently invest for the long-term in our people, estate and communities and to plan responsibly for a sustainable future.

INVESTORS

We aim to deliver consistent long-term returns for shareholders that give consistent dividend returns.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

We are committed to doing the right thing for our communities, our people and our environment.

During the past 12 months, we have continued implementing our environmental, social and governance (ESG) agenda across the business. This has been led at a senior level by the ESG sub-committee of our Executive Board, which has been working to ensure these objectives actively influence all decisions across the business.

While we recognise that there is more to be done, we are proud of our achievements so far. Our extensive investment in new energy-saving initiatives and technology across our pubs and brewery is already demonstrating positive results.

We have also been pleased to see the incredible support and enthusiasm for our ESG commitments from team members and licensees. Our objectives are purposely ambitious so it is essential that everyone in our business is aligned and works together as we continue on this journey.

OUR THREE MAJOR PLEDGES:

1. Net zero carbon for direct emissions by 2030
2. Net zero for Scope 3 emissions no later than 2040
3. Zero waste to landfill by 2025

100%
green CO_2 used in our production process

100%
electricity from renewable sources
Across our brewery and retail estate since October 2020

80%
of our hops are sourced in Kent

97%
of spent grain and hops recycled by local farms

55%
of water used is recycled

99%
recyclable packaging materials used in brewery

ACTIVITY HIGHLIGHTS

ENERGY

Sustainable sourcing: Since October 2020 our brewery electricity contract has been with Haven Power, which uses 100% renewable energy sourced from sustainably-managed wood pellets along with wind, solar and hydro power. Total Energies supplies the majority of our retail pubs with electricity from 100% renewable sources. All the CO_2 required for our production process is sourced locally from within Kent. It is 100% green CO_2, extracted from biogas produced by natural processes through anaerobic digestion.

Energy management: To improve the accuracy of our energy management, we have installed smart electric automatic meter readers (AMRs) across our retail pub estate, and continue to roll out gas AMRs. The smart electric AMRs link to an online portal showing the consumption by site at half-hour intervals, in order to enable us to identify areas for improvement and target our investment and training. The brewery is already metered and we are investigating sub-metering on energy-intensive pieces of equipment to provide further insight. Our teams avoid running equipment when not necessary and organise site operations to optimise the performance of all machines.

We are participating in the UK Government's Energy Saving Opportunities Scheme (ESOS) at the brewery and in a sample of retail and tenanted pubs with the support of consultant Carbon Architecture. We hope this will be completed by October and will involve comparing our operations to best practice in the industry. This should enable us to identify further opportunities for us to save energy and reduce emissions across the business.

Our team at the Wharf, Dartford have successfully trialled Zero Carbon Forum's (ZCF) Save While You Sleep initiative. This is aimed at providing the resources and expertise to identify energy and emissions savings in pubs from improved processes and disciplines when the site is not trading. It has been rolled out across 19 retail sites and we hope it will deliver significant savings.

Green Mark: We are working towards achieving Green Mark sustainability certification for the brewery, visitor centre and support offices by October 2023. This recognised award is for organisations that have robust environmental management systems in place, together with an action plan for improvement, and is fully in line with our three core objectives. As part of this accreditation, training on our environmental plans was offered to all team members at the brewery site and we will maintain regular communications on our progress.

Investing in equipment: We have just completed a major investment in the cellar underneath the historic Jamaica Wine House in central London, using a range of new technologies to save energy. The original cellar was extended to incorporate the extra equipment, which is already delivering significant results. One of the key elements is insulation, with new thermal curtains on all exits to ensure the area remains at the optimum temperature. An Energy Saviour programme runs at night, allowing the cooler to be automatically turned off at regular intervals, saving energy and running costs, whilst continuing to keep everything at the right temperature. Following the success of this project, a similar approach will be rolled out to other sites around the business.

Electricity use is minimised with LED lighting and lighting sensors around the business where possible. All refurbished sites receive this lighting, and following a survey to identify any areas for further implementation, we are rolling it out around our estate.

In January we began work on a £100,000 trial project to introduce energy-saving improvements at 10 retail sites: the Albion Taverna, Faversham; Shakespeare, Canterbury; the Limes, Faversham; Market House, Maidstone; the Royal, Tankerton; the Marine Hotel, Tankerton; the Royal Albion Hotel, Broadstairs; Royal Hotel, Deal; the Botany Bay Hotel, Kingsgate; and the Sun Inn, Faversham. Areas of improvement include insulation, heating and hot water controls, refrigeration, kitchen extraction, water reduction, cellar work and lighting. Moving into the new financial year we are budgeting for £1.0m of our total pub capital expenditure to be invested in equipment that will provide energy and emissions savings.

98%
of waste avoids landfill

109,374L
of cooking oil recycled and converted to green energy
61% of total oil used

98.5%
of malt is UK sourced

100%
of our milk and cream sourced from Kent

75%
of our seasonal fruit and vegetables sourced from farms in Kent and East Sussex

4x
increase in our apprenticeship levy spend in the last year, as we expand our programme

WASTE

Pubs and brewery recycling:
As part of our work to achieve zero waste to landfill by 2025, we expanded our waste contract with 1st Waste Management in November 2022 to include not just our pubs but also our brewery.

We currently only send 2% of waste to landfill across the business, but we are monitoring and auditing our estate to identify areas where we can improve. New initiatives include introducing a crisp bag recycling scheme in all our pubs and hotels to remove them from landfill. We continue to encourage behaviour change among team members by providing regular communications reinforcing the importance of making sustainable choices and recycling. Work is underway to identify alternatives for any non-recyclable items currently sourced by the business.

Through our partnership with 1st Waste we are also investing in and implementing a carbon offset scheme to create a zero balance (i.e. carbon neutrality) for our business's waste collection.

We continue to recycle wherever possible at the brewery and use 99% recyclable packaging materials. This year we introduced a baling machine in our bottling hall which allows us to separate cardboard and plastic to send for recycling. We recycle 97% of the grain and hops used in the brewing process as animal feed on local farms. The mineral-rich organic matter which is a by-product of the water treatment plant is collected by Kent farms for use on their land. We have also introduced new recycling bins throughout the brewery site for use by team members.

We have also introduced a variety of recycling initiatives across our pub estate in recent years. All our food waste is recycled along with mixed recycling for cardboard, glass and plastics, and we have introduced recycling bins in hotel rooms. We no longer offer stirrers, only stock paper straws, and all toiletries in our retail accommodation are SLS and paraben-free and come in biodegradable packaging.

Food packaging: We use porcelain crockery, glassware and metal cutlery across our retail estate as much as possible to reduce single-use food packaging. We have just launched a new initiative to recycle old crockery where new crockery is introduced. Our teams use recyclable food packaging wherever possible, such as cardboard pizza boxes.

Food waste: Our food teams are doing everything possible to minimise food waste through improved menu and portion design, and new bins and processes for more efficient food waste separation in the kitchen. During the 12 months from May 2022 we recycled 109,374 litres of the cooking oil used across our managed estate. It was collected by renewable company Olleco and converted to green energy. This was 61% of the total oil used.

WATER

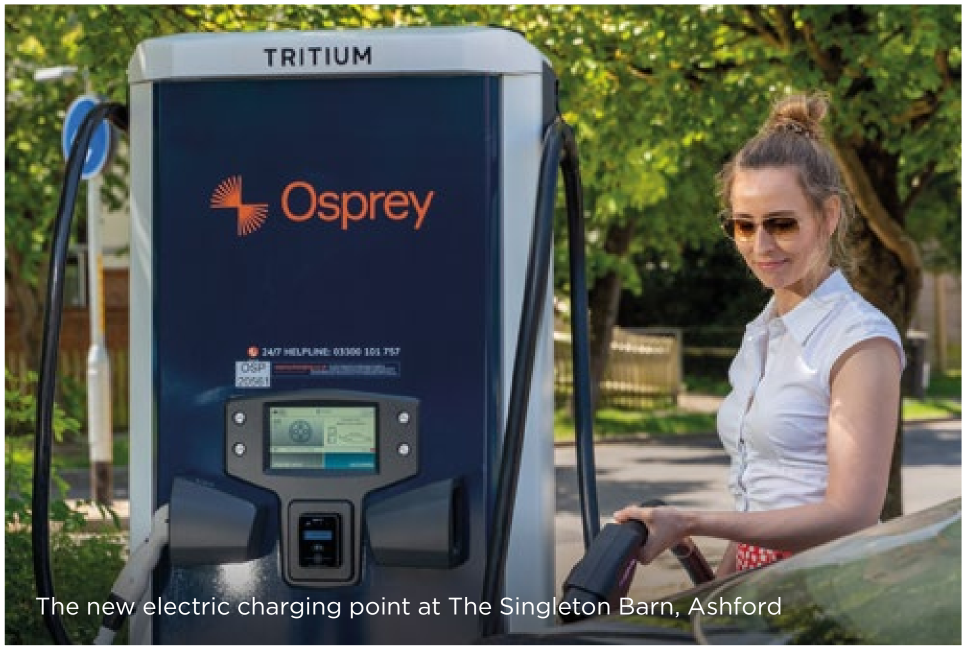
We installed a water recovery plant on the edge of the brewery's site in 2013, which allows us to recycle the waste water that results from brewing and cleaning, rather than sending it to the drain. We brew with legally certified natural mineral water, drawn from an artesian well deep beneath the brewery. Brewing requires large quantities of water, and we use approximately 40 million gallons of water per year, with a total of 16% of the extracted water in the finished product. At full capacity this equipment enables us to recycle 55% of water used, returning the clean water to Faversham Creek.

TRAVEL

Electric car charging: We have installed electric car rapid charging facilities at four more of our pubs. Three rapid charging points have been installed at the Singleton Barn in Ashford, and new points have also gone live at the Ship and Trades in Chatham Maritime, the Woolpack in Banstead, Surrey and the Blue Anchor in Crowborough. The installations bring the number of our pub sites with electric charging facilities to six. An electric charging station was also installed for use by team members at the Brewery. Points are in the pipeline for the Spitfire in Kings Hill and coastal site, the Marine Hotel at Tankerton. The points at the Wharf have proven incredibly popular with customers, used more than 1,000 times in just the first five months of 2023. The charging stations are being installed and operated by Osprey Charging, which has a UK-wide rapid charging network for electric vehicles, powered by 100% renewable energy.

We continue to increase the number of hybrid or electric cars in our fleet:

	2023	2022
Hybrid	**39**	32
Electric	**5**	3
Diesel/electric	**1**	1
Total	**45**	36



The new electric charging point at The Singleton Barn, Ashford

Deliveries: We have taken steps to remove road miles from our supply chain, including working with suppliers to find collaborative solutions to reduce carbon footprint by reducing delivery days.

Packaging: We remain focused on keeping packaging as lightweight and minimal as possible to reduce weight and volume during transit. Following successful initial trials on reduced-weight bottles, we have begun trialling them on a larger scale, and hope to move to the new bottles in early 2024. We took the decision to discontinue our Euroflask bottle from July due to excessive weight when compared to our other bottles. Each Euroflask weighed an extra 60g per bottle, so this action has reduced 45 tonnes of weight per year.

TRAINING

Bespoke training: To support our Green Mark accreditation, this summer we partnered with Carbon Architecture on a bespoke training programme for our people at the brewery site, aimed at ensuring that teams were aware of our environmental commitments and is motivated and supported to deliver them.

CARBON ARCHITECTURE

'People Pubs Planet' campaign: We will be launching our 'People Pubs Planet' campaign in October to promote our ESG successes externally and internally, and encourage team members and licensees to support our ESG efforts. This will include unveiling a new logo, along with new photography and a series of short films showcasing our achievements, together with a new website page. We are also planning internal promotions to incentivise energy reduction around our business, including offering prizes for top eco-friendly suggestions and examples of behaviour which could be used as case studies for best practice. We will also be sharing best practice examples from the ZCF Action Group.

Food waste: We have begun regularly sharing Waste and Resources Action Programme (WRAP) guidance with our pubs to offer guidance on reducing food waste and to encourage best practice.


Dr Peter Darby at the new National Hop Collection site in Homestall Farm, Faversham

SUPPLIERS

As we continue to make progress in reducing our Scope 1 emissions, we are now beginning to focus on our carbon emissions across the value chain, most notably from our supplier base. During the coming year we intend to partner with Zero Carbon Forum to calculate the carbon footprint of our supplier base. We will also be engaging with our top 10 suppliers to understand their environmental plans and net zero ambitions so we can calculate the impact these will have on our strategy. This programme will start in October with Encirc, who provide all the bottles for our brewery.

For more than a decade Shepherd Neame has been a member of Sedex, one of the world's leading ethical trade organisations, working to help businesses operate responsibly and sustainably, protect workers and source ethically. The majority of our suppliers are Sedex-registered and have an environmental accreditation where relevant. We regularly monitor our suppliers' standards to ensure they are in keeping with our own ethos and values, and work with them to improve sustainability performance.

We are also promoting initiatives in areas including environmental preservation and human rights throughout the entire supply chain by working closely with suppliers, processing vendors, customers and distribution companies.

Shepherd Neame's other accreditations include the BRC (British Retail Consortium) Global Standard for Food Safety and FEMAS (Feed Materials Assurance Scheme).

We hold Soil Association organic accreditation for our award-winning Whitstable Bay Organic Ale, and are the only brewer in the UK to have Protected Geographical Indication (PGI) status for our beers, aimed at highlighting regional and traditional food and drink whose authenticity and origin can be guaranteed. Our beers with PGI status are Spitfire Amber Kentish Ale and Master Brew Kentish Ale, Bishops Finger Kentish Strong Ale and 1698 Bottle Conditioned Kentish Strong Ale.

LOCAL SOURCING

Produce: Up to 90% of seasonal fruit and vegetables on our menus are British, with 75% of seasonal fruit and vegetables from 20 farms in Kent and East Sussex. We only use British free-range eggs, under the Yes Chef quality scheme, and all milk and cream is sourced within Kent.

The core of our cheese is British, including artisan cheeses from three suppliers in Kent. Beef, lamb and pork is UK-sourced where possible, and when in season, we only use UK game.

We offer plant-based dishes on every menu, and our chefs only use British-harvested rapeseed oil in cooking. We have also just started sourcing our burger buns from Margate-based bread supplier Speciality Bread. The majority of our fish comes from Kent supplier Chapmans, with all fresh-catch fish from boats registered with the Marine Management Organisation.

Beers: A total of 98% of our malt supply is sourced in the UK and 80% of our hops are sourced in Kent.

Wines and spirits: We are committed to working with family-owned and independent properties and growers to ensure we offer the very best wines from around the world. We are particularly passionate about championing home grown wines, currently offering 10 English sparkling wines and 12 still wines. These include offerings from our Kentish homeland, as we have built successful partnerships with the highly-acclaimed Gusbourne Estate situated just outside Appledore, the Balfour Estate situated in the heart of the Weald, and Simpson Estate sitting on the hills just outside Canterbury.

Kent's chalky soil and mild climate provide the perfect conditions for the wine-growing industry, similar to the Champagne region in France, and in fact later this year we look forward to welcoming our friends from French champagne producer Taittinger who will open their Domaine Evremond winery at Chilham, just a few miles from Faversham. We are also working with some exciting Kent partners on our spirits offer, including the Copper Rivet Distillery in Chatham which supplies us with local gin and vodka, created using locally-grown ingredients. Anno Distillery in Marden also supplies us with gin, along with a remarkable Dark Spiced Rum, both made here in Kent. We have just started sourcing White Cliffs Gin from the Pleasant Land Distillery situated on a farm near Ashford, which is fully sustainable due to its innovative use of renewable energy sources, bespoke water systems and environmentally-beneficial waste management.

Tea: We source our premium range of teas from Britain's oldest tea merchant, Twinings, and these are 100% ethically sourced from gardens that are independently certified by recognised standards including Rainforest Alliance and Fairtrade.

Coffee: We launched our own Creekside Coffee in July, teaming up with Greenhithe-based supplier John Street Beverage to create a superior exclusive Arabica coffee blend which is available across our pub estate and in our brewery. The coffee beans are Rainforest Alliance certified, sourced from the regions of Brazil, Guatemala, Ethiopia and Colombia, and packed in recyclable vacuum-packed bags.

Soft drinks: We source our still and sparkling bottled water and sparkling pressés locally from Kingsdown, based in Upper Walmer. The company is committed to environmental and ethical sustainability and has achieved carbon neutral status. All its drinks are supplied in glass bottles, and all materials and ingredients are sourced in the UK.

PEOPLE

Apprenticeships: Following our recruitment of a new Apprenticeship Lead last year, we have made significant progress in our apprenticeship programme. This year we are working with new partners HIT Training on a more diverse range of courses than ever before, to create extensive development opportunities throughout our retail pub estate and in our brewery and support office. They include hospitality and catering, team leading, HR, health and safety risk management, operations management and professional coaching. We had 49 active apprentices by the end of June 2023, and increased our estimated annual levy spend from £38,882 in March 2023 to £166,998 in June 2023. During the past year we have also celebrated many successes, including five completed apprenticeships – four with distinction. A vegan recipe entered by apprentice chef Lewis Weygang of the Horse and Groom, Wilmington in a national competition organised by HIT is to be included in a forthcoming cookbook. For the first time we included an Apprentice of the Year honour in our Shepherd Neame Pub Awards, and will continue to offer recognition every year. As part of our work to ensure our Kitchen apprentices feel integrated into the business, we also created a new Chef Academy logo, which is embroidered on the white chef jackets given to apprentices when they enrol.

Health and safety: We continue to invest in this area of our business to lead efforts to achieve our key strategic target of zero preventable accidents. We have also funded a number of courses to ensure all members of our health and safety team have the necessary skills in areas including food safety, site management, production operations and occupational health. This is part of our Brewing A Safe Culture campaign to promote a robust health and safety culture around the business. To help champion this goal and encourage engagement, the team have organised a number of internal events at the brewery, including a day of defibrillator and manual handling training, and a presentation by motivational and behavioural safety speakers Jason Anker and Sean Toon.

Apprenticeship Lead David Everett with apprentices Megan Philips and Lewis Weygang visiting a local supplier

STRATEGIC REPORT

Diversity and engagement: Our People Team partnered with WiHT (Diversity in Hospitality Travel and Leisure) to provide an inclusive leadership journey programme for our senior team at the start of this year. The online course, attended by more than 50 of our people leaders, took place during January and February. As a result of this work, we are launching a Diversity, Equity and Inclusion (DEI) forum to monitor the employee experience for all our people, whatever their race, gender or sexual orientation. We hope that this will guide further actions to deliver on equality of opportunity for all. This will be chaired by our Chief Executive Jonathan Neame and there will be sub-groups focusing on specific areas which will feed into the main forum. Our Gender Pay Gap report is available to read on our website.

Our People Team run the annual Sheps Voice team member engagement survey. We work with People Experience Hub to create this bespoke survey offering all team members the opportunity to share their thoughts on working for Shepherd Neame. We are pleased with the response rate and are able to identify a number of actions as a result of the initiative, and these are being rolled out across the business.

Celebrating our people: We welcomed more than 230 team members and licensees to the Shepherd Neame Pub Awards ceremony, held this year at Canterbury Rugby Club. The annual event is held to recognise exceptional standards and long service across our pubs and hotels. We also recognise team members in our brewery and support office with our own 'Shepherd Neame Oscars' ceremony at the end of the year. During the last year we were delighted to reward 14 team members for long service ranging from 10 to 40 years across our business.

COMMUNITY

Sheps Giving: We were proud to raise £30,000 for our 2022/23 Charity of the Year, the Kent Wildlife Trust during the past year, through a host of fundraising activities by team members at the brewery and across our pub estate.

FareShare fighting hunger, tackling food waste

We launched our new Charity of the Year partnership with FareShare, the UK's biggest charity fighting hunger and food waste – in July this year. We wanted to support an organisation which makes a real difference to families and individuals in need, and its ethos also fits with our ongoing efforts throughout the business to limit waste and recycle wherever possible. In addition to raising money for the charity during the year ahead, we will be offering our team members the opportunity to take time away from their roles to volunteer with FareShare, including helping out at one of their warehouses and supporting food drives or collections.

It is our fourth Charity of the Year partnership following the relaunch of our Sheps Giving charitable arm in 2018.

The Sheps Giving committee also co-ordinates the donation of thousands of pounds worth of beer each year, along with vouchers for our pub and hotel estate, to local groups and individuals in support of their fundraising activities.

We are proud that our pubs and our brewery hold an important place at the heart of their communities. In addition to the support offered to our Charity of the Year, licensees and team members across the business also raise large sums each year for a diverse range of good causes and local initiatives, and have received external recognition for their efforts. Natasha Hartfield of the Flying Horse at Smarden was among dozens of licensees and team members who held fundraising events. She was a finalist in the Charity Fundraising Hero category of the recent PubAid Community Pub Hero Awards, in recognition of this effort, and also won the Heart of the Community award at the Shepherd Neame Pub Awards in May 2023.

Poet Patience Agbabi performing in The Old Brewery Store at the Faversham Literary Festival

Sports sponsorship: Pubs and sports clubs share an affinity as places for communities to come together, and we are proud to contribute significant sums annually to local sports sponsorship as part of our supply agreements, from grassroots to county level.

We have been a long-time sponsor of Kent Cricket, with the Club's Canterbury headquarters, The Spitfire Ground, St Lawrence, named after our beer brand. We are the principal sponsor of Maidstone United FC, and in February 2022 agreed a four-year pouring rights partnership with National League team Bromley FC. We have also just agreed a new pouring rights partnership with Millwall FC.

Following the success of our partnership as official beer supplier of The Open during the past two years, in June we were named as the official beer supplier for the golf championship in a new three-year partnership, with Singha, the original Thai beer, chosen as the official beer of the tournament. In March this year, we also partnered for a second year with one of the world's oldest and most iconic sporting events, The University Boat Race. Visitors at the fan parks were able to enjoy a range of beers and ciders from our diverse portfolio. We are also principal sponsor of Kent Rugby, which secured its first Bill Beaumont Men's County Championship in 96 years in May.

In February 2023 we donated £1,000 to local football club Faversham Strike Force, with a further £3,000 donated from the Royal Warrant Holders' Association through our connections as a member.

Promoting our Kent heartland: We actively promote our county through our membership of tourism and trade organisations including Visit Kent and Produced in Kent. We also take great pride in supporting our communities through sponsorship of a diverse range of local events including the Faversham Hop Festival, Faversham Literary Festival, Taste of Kent Awards, Spirit of Tenterden Festival, Broadstairs Folk Week and a number of airshows across the county including at Headcorn.

Shepherd Neame Chief Executive Jonathan Neame presents our donation to Kent Wildlife Trust Chief Executive Evan Bowen-Jones

We have just signed up to be among the local landmarks to feature on Faversham's own Monopoly board, which will be released before Christmas 2023. Proceeds from every game sold will go directly to local charities and community groups.

In August last year, we also launched a campaign to celebrate the 100th anniversary of Kentish sport bat and trap – at Shepherd Neame pub Ye Olde Beverlie in Canterbury, where it first began. We kicked off the centenary celebrations in August by issuing new limited-edition anniversary bat and trap kits to eight of our Kent pubs, holding events encouraging people of all ages to come together to have a go at the sport. We also enlisted help from two Kent Cricket players, George Linde and Matt Quinn, to promote the game, filming a 'how to' bat and trap guide at The Spitfire Ground.

In addition to charity work, we also support a number of other projects for the good of our community, including the National Hop Collection, which preserves historic varieties of hops and provides the resources to breed new varieties. It is to expand after moving to a larger garden in May with our support. The collection was originally established at Wye College in Kent, but after the college's closure in 2007, it moved to land provided by Shepherd Neame at Queen Court Farm in Ospringe, near our Faversham brewery. It has grown significantly during the past 14 years, so more space was needed, and a new site at Homestall Farm in Faversham was identified. We have pledged not only to fund the move but to continue providing a significant annual contribution to its establishment and maintenance for at least the next five years.

SECR REPORTING

SHEPHERD NEAME – ENERGY & CARBON REPORT 2022/23 SUMMARY

With the UK legally committed to achieving net zero carbon emissions by 2050, Shepherd Neame is dedicated to contributing towards this goal by focussing on sustainability and energy efficiency. Through directing efforts to minimise our effect on the environment, we are ensuring a greener future for staff, customers, and consumers.

In accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, Shepherd Neame has prepared a Streamlined Energy & Carbon Report (SECR) for the previous financial year. The ongoing measurement and reporting of energy consumption and carbon emissions drives change within the organisation, lowering ongoing energy consumption and an improved understanding of our environmental impact.

Shepherd Neame consumed 33,887 MWh of energy this financial year resulting in gross carbon emissions of 6,632 tCO_2e. This represents a 3% reduction in energy consumption and a 2% reduction in emissions compared to the previous financial year, despite the UK electricity grid being more carbon-intense than the previous year. Emissions are normalised for the two distinct areas of the business (retail pubs and brewing) to provide a method of direct comparison across multiple years.

These separate business units have their own comparison metrics: brewery emissions are normalised with respect to the volume of product packed, while the retail pub emissions are normalised by revenue generated. Within the brewery, intensity reduced by 12%, to 12.5$kgCO_2e$/hL brewed, while retail pubs intensity made a significant 18% improvement, down from 54 to 45$kgCO_2e$/£k.

This financial year represents the first in recent years which has been relatively unaffected by the impacts of the COVID-19 pandemic, the business has seen a significant increase in turnover in the retail estate and in volume brewed, while energy consumption within the two business areas has had a slight reduction. This increase in activity has been a substantial driving force in reducing carbon intensity.

Shepherd Neame brewed 243,011 hL this financial year, a 9% increase on the previous year, while simultaneously reducing the brewery's total energy consumption by 6%.

As the business exclusively purchases Renewable Energy Guarantee of Origins (REGO)-backed electricity for the brewery and all retail pubs, the net impact of electricity is reduced in this respect to 0 tCO_2e from the gross emission value of 2,743 tCO_2e. The total net carbon emissions are therefore 3,889 tCO_2e.

Shepherd Neame has continued progressing with energy improvement measures across its business functions. The main focus for this year were the trials of energy-saving equipment within the retail estate. Several measures aiming to reduce out-of-hours energy consumption were trialled. The primary example was smart cellar cooling, which aims to switch equipment off when not required.

Report written by: Carbon Architecture LTD

SHEPHERD NEAME – 2022/23 STREAMLINED ENERGY & CARBON REPORT

SHEPHERD NEAME GHG EMISSIONS AND ENERGY USE DATA FOR PERIOD 26 JUNE 2022 TO 24 JUNE 2023

Parameter	Units	Current reporting year 01/07/22-30/06/23	Comparison calendar year 01/07/21-30/06/22
Natural gas consumption – Brewery	kWh	9,504,797	10,519,623
Natural gas consumption – Retail Pubs	kWh	9,998,821	10,250,289
Electricity consumption – Brewery	kWh	6,127,390	6,160,220
Electricity consumption – Retail Pubs	kWh	7,118,758	7,283,005
Transport fuels consumption	kWh	1,137,443	798,647
Total energy consumption used to calculate emissions	**kWh**	**33,887,209**	**35,011,784**
Emissions from combustion of gas (scope 1)	tCO_2e	3,607	3,798
Emissions from transportation in vehicles owned or controlled by reporting company (scope 1)	tCO_2e	150	183
Fugitive emissions from refrigeration plant (scope 1)	tCO_2e	22	53
Emissions from purchased electricity (scope 2)	tCO_2e	2,743	2,727
Emissions from business travel in vehicles owned or operated by 3rd parties (scope 3)	tCO_2e	110	11
Total gross emissions	**tCO_2e**	**6,632**	**6,772**
Carbon reduction through green electricity tariff	tCO_2e	-2,743	-2,727
Total net emissions	**tCO^2e**	**3,889**	**4,045**
Intensity ratio: Total brewery gross emissions/total brewed product	**tCO_2e/hL**	**0.012**	**0.014**
Intensity ratio: Total retail pubs gross emissions/total £k turnover	**tCO_2e/£k**	**0.045**	**0.054**
Intensity ratio: Total brewery net emissions/total brewed product	**tCO_2e/hL**	**0.007**	**0.009**
Intensity ratio: Total retail pubs net emissions/total £k turnover	**tCO_2e/£k**	**0.025**	**0.034**

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 fourth SECR reporting year; 2021/22 has been used as the comparison calendar year.

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

Energy efficiency action

This financial year the business has been conducting trials of energy reduction devices within its retail estate. These reduce out-of-hours consumption by the equipment.

Similar trials have also been run using cellar control technology, which reduce the operating hours of the cooling when not required.

As the business moves forward into an increasingly challenging economic environment it will continue to identify energy efficiency opportunities and prioritise these based on capital required and return on investment.

Prepared in line with guidance from: Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance HM Government (March 2019).

External verification provided by: Carbon Architecture LTD

FINANCIAL REVIEW

MARK RIDER
Chief Financial Officer

INVESTING FOR A STRONG FUTURE

This time last year I noted that we had exited the COVID-19 challenges of recent financial years and had started to see our cost base increasing from inflation. The 52 weeks to 24 June 2023 has seen revenue growth in all our channels, combined with a restart of our pub refurbishment and investment programme, but has also seen significant pressure on margins as inflation has been higher than our expectations.

Throughout the year our largest profit division, tenanted pubs, has been robust and continued to deliver like-for-like income growth and generate free cash.

The significant focus of our investment plans has been in our retail pubs, where we have increased our levels of maintenance spend, transferred and transformed sites from the tenanted estate, purchased new sites and delivered strong like-for-like growth.

This division has also seen a high level of inflation and as a result margins are lower than the pre-Covid equivalents.

Our Brewing and Brands division has returned to a modest profit despite a significant level of inflation to input prices and distribution costs.

Our actions to invest capital expenditure in the future growth of the business means that our net debt, excluding lease liabilities, has increased by £5.1m over the financial year. We have allowed our year end covenant leverage ratio to increase to 4.1 times (2022: 3.7 times) to support this year of investment, although our focus is to run at levels at or around three times over the medium-term.

In line with this increasing investment in the business and increased underlying earnings, full year dividends have increased to 20.00p (2022: 18.50p).

“THE 52 WEEKS TO 24 JUNE 2023 HAS SEEN REVENUE GROWTH IN ALL OUR CHANNELS, COMBINED WITH A RESTART OF OUR PUB REFURBISHMENT AND INVESTMENT PROGRAMME.

UNDERLYING PERFORMANCE

	2023 £'000	2022 £'000	Change %
Revenue			
Retail Pubs & Hotels	**74,442**	61,240	+21.5
Tenanted Pubs	**33,853**	32,773	+3.3
Brewing and Brands	**56,905**	56,615	+0.5
Unallocated	**1,067**	910	+17.3
Total business	**166,267**	151,538	+9.7
Underlying profit			
Retail Pubs & Hotels	**8,322**	8,288	+0.5
Tenanted Pubs	**12,599**	13,359	-5.6
Brewing and Brands	**957**	(252)	+479.8
Unallocated	**(8,563)**	(8,502)	-0.7
Underlying operating profit	**13,315**	12,893	+3.3
Underlying net finance costs	**(5,741)**	(5,599)	-2.5
Underlying profit before tax	**7,574**	7,294	+3.8

Retail Pubs & Hotels revenues were £74.4m (2022: £61.2m), up +21.5% reflecting a full year of trade without restrictions and a higher number of pubs. Like-for-like sales were +12.9%, with our sites within the M25 delivering +30.6% and the sites outside the M25 growing at +6.6%. New sites delivered £4.7m of revenue and transferred sites from tenanted £1.3m.

Drink sales benefited from the growth of pubs within the M25 that tend to be wet led in their sales mix and totalled £43.4m (2022: £33.0m). Food sales of £24.8m (2022: £21.5m) benefited less from the return to growth in the M25 and were impacted by the resumption of the full rate of VAT which returned to 20% in March 2022, with like-for-like volume of meals sold down -1.2%.

Accommodation revenues were £5.8m (2022: £6.3m), with like-for-like sales down -4.2%. Within accommodation, like-for-like occupancy fell slightly from previous record levels to 76% (2022: 77%), following the previous staycation summers. Like-for-like RevPAR increased to £85 (2022: £82).

Retail Pubs & Hotels underlying operating profit was £8.3m (2022: £8.3m), at an underlying operating margin of 11.2% (2022: 13.5%). Offsetting the increased profit from the growth of revenues was the loss of the VAT benefit of £2.1m, as well as furlough, government grants and business rates of £2.4m. This area of the business has faced significant cost inflation from utilities (£1.1m), and food inflation (£1.0m).

Tenanted pub revenues were £33.9m (2022: £32.8m), up +3.3% on the previous year. Within this increase, property rental income was up to £8.6m (2022: £8.5m) and drinks revenues were up +5.2% to £24.6m. The tenanted estate continues to deliver robust performance despite a lower number of pubs. During the year, six sites were transferred to retail and two sites to investment property for future disposal. Like-for-like income growth for the pubs trading throughout the year was +3.9% and average income per pub increased by 3.4%.

Brewing and Brands revenues were up +0.5% to £56.9m (2022: £56.6m), reflecting a reduction in total volumes sold in this channel, offset by a higher average revenue per barrel. An increasing sales mix was achieved across our higher margin on-trade channels. This margin mix improvement has been offset by expected increases in brewery raw materials and distribution costs.

FINANCE CHARGES

	2023 £'000	2022 £'000	Change %
Underlying finance costs			
Bank and loan note interest	**4,499**	4,363	+3.1
IFRS 16 interest	**1,247**	1,244	+0.2
Other financial liabilities not at fair value through profit or loss	**39**	–	+100.0
Other	**(2)**	(8)	-75.0
Interest income	**(42)**	–	+100.0
Total net underlying finance costs	**5,741**	5,599	+2.5
Items excluded from underlying finance costs	**19**	(314)	+106.1
Net finance costs	**5,760**	5,285	+9.0

Within underlying finance charges, bank and loan note interest was £4.5m (2022: £4.4m), reflecting an increase in interest rates in the period. Whilst the majority of our net debt position attracts fixed interest rates, during the year we have paid floating rate on our drawings above £74.3m which have reflected an increase in SONIA rates.

There were limited changes to our lease arrangements in the year and as a result finance charges relating to IFRS 16 lease debt were broadly level at £1.2m (2022: £1.2m).

ITEMS EXCLUDED FROM UNDERLYING RESULTS

- The largest items reflect property matters which totalled a net charge of £1.7m:
  1. The annual impairment review resulted in an impairment charge of £4.5m relating to 20 properties, of which £2.9m is attributed to leased right-of-use assets. The 2022 comparative impairment charge of £2.2m related to 15 properties, of which £1.2m was attributed to leased right-of-use assets. A key driver of the increase in impairment costs in the year is the increase in the weighted average cost of capital, and therefore the discount rate used when assessing the fair value of our pubs. This discount rate is used to discount future projections of pub performance and has increased from 9.83% to 14.39%.
  2. Property profits of £3.0m (2022: £1.7m) were generated on the sale of six freehold pubs and two leasehold pub surrenders. (2022: two freehold pubs, one leasehold pub surrender and investment property and land).
  3. The annual revaluation to fair value of investment properties in the Statement of Financial Position resulted in an increase in value of £0.1m (2022: £0.5m).
  4. The acquisition of retail pubs resulted in one-off costs of £0.3m (2022: £0.1m).
- In relation to other operating items:
  1. One-off costs of £0.6m have been incurred as we transition from a ten year distribution agreement to a new long-term agreement. A further £0.2m of costs relate to further restructuring activity during the year.
  2. The business transferred its pension administration in line with recommended best practice from being internally managed to an independent master trust. The one-off cost of this change was £0.2m over two financial years.
  3. Within the 2022 financial year the business completed its review with HMRC of team members paid the national minimum wage leading to a release of £0.4m of the previously held provision and recovered proceeds from a previously disclosed employee fraud of £0.2m.
- In relation to finance costs:
  1. There was a £0.2m gain (2022: £0.4m gain) in relation to the fair value of the ineffective portion of the interest rate swap.
  2. £0.2m of costs were charged in relation to setting up the new financing arrangements.
  3. In the previous financial year, costs of £0.1m were incurred having to transition existing banking facilities to being pegged to SONIA from the previous benchmark LIBOR.

TAXATION

The company has recognised a total tax charge of £1.5m (2022: £1.1m) at an effective rate of 30.0% (2022: 14.8%). The average statutory rate of corporation tax in the UK for the period we are reporting has increased to 20.5% (2022: 19.0%) The underlying rate of tax was 19.9% (2022: 20.0%) and the net credit on items excluded from underlying results was £0.1m (2022: £0.4m).

Deferred tax balances on the balance sheet are held at 25% (2022: 25%) and looking into the new financial year we would expect our underlying rate to be just over the new rate of corporation tax of 25% due to the impact of disallowable expenses.

EARNINGS PER SHARE AND DIVIDENDS

Underlying basic earnings per ordinary share was 41.1p (2022: 39.4p), an increase of 4.3% following the increase in underlying profits. Basic earnings per ordinary share of 23.5p (2022: 42.5p) reflect the improved underlying profit position offset by higher costs excluded from underlying results. The final dividend of 16.0p (2022: 15.0p) takes the full year dividend to 20.0p (2022: 18.5p), an increase of 8.1%, meaning underlying dividend cover is 2.1 times (2022: 2.1 times).

CASH FLOW

The increase in underlying operating profit means underlying EBITDA increased to £23.6m (2022: £23.4m), offset by a working capital outflow of £1.2m (2022: £2.3m outflow).

Cash outflows for items excluded from underlying results total £1.5m and include acquisition costs, distribution transition costs, restructuring and refinancing costs.

Total interest paid was £4.2m (2022: £4.4m). The dividend cash flow of £2.8m (2022: £0.5m) reflects the recovery of dividend payments after non-payment during Covid.

Total disposal proceeds of £2.3m (2022: £9.1m) were realised from the sale of pubs and assets that no longer fit our strategy.

The 2023 financial year saw the business start to reinvest in the business after constraining levels of investment during the Covid outbreak in order to preserve cash. Core capital expenditure was £10.5m (2022: £5.4m) with pub acquisition spend of £6.7m, including fees (2022: nil).

Total net debt, excluding lease liabilities, was up following this year of investment to £80.4m (2022: £75.3m). Statutory net debt increased to £135.6m (2022: £131.2m) as lease liabilities remained largely level.

Cash flow and net debt

Summary cash flow statement	2023 £'000	2022 £'000
Underlying EBITDA	**23,561**	23,428
Working capital and other operating cash flows	**(1,203)**	(2,306)
Tax	**(199)**	–
Operating charges excluded from underlying results	**(1,540)**	19
Cash flow from operations	**20,619**	21,141
Dividends paid and share option proceeds	**(2,806)**	(518)
Interest paid	**(4,241)**	(4,436)
Payments of principal portion of lease liabilities	**(4,099)**	(4,220)
Purchase of own shares	**(610)**	–
Disposal proceeds	**2,328**	9,085
Internally generated free cash flow	**11,191**	21,052
Core capital expenditure	**(10,465)**	(5,433)
Cash flow pre acquisitions and debt repayment	**726**	15,619
Acquisitions	**(6,271)**	–
Cash acquired on acquisition	**766**	–
Increase in/(repayment of) borrowings	**1,400**	(15,600)
New financing related cash flows	**(756)**	–
Net cash (outflow)/inflow for the period	**(4,135)**	19
Movement in loan issue costs	**450**	(105)
Movement in loans	**(1,400)**	15,600
Movement in lease liabilities	**624**	2,440
Movement in net debt	**(4,461)**	17,954

STATEMENT OF FINANCIAL POSITION

There was a £5.9m increase in non-current assets (2022: decrease of £12.8m) of which the pre-IFRS 16 increase was £7.0m (2022: decrease of £7.5m), following the acquisition of pubs in the year. The increase in non-current assets combined with the increase in net debt means net assets increased by £1.6m (2022: increase of £8.0m).

Taking these elements together, shareholders' funds at 24 June 2023 were £179.0m (2022: £177.3m) meaning net assets per share showed an increase of 0.9% to £12.05 (2022: £11.94).

FINANCING AND LOAN FACILITIES

A new long-term financing facility and revolving credit facility was put in place in November 2022. This provides certainty of funds, a reduction in exposure to interest rate rises and an improved debt maturity profile.

Specifically, we now have a four-year revolving credit facility of £40m that matures in 2026, and a second private placement tranche of £20m with BAE Systems Pension Funds Investment Management Ltd at a fixed interest rate of 5.47% for 10 years.

This is in addition to the 20 year private placement arranged with the same party in October 2018 at a fixed interest rate of 3.99%. The new facilities sit alongside the existing term loan of £19.3m which remains in place until December 2026, with the repayment of £1.6m payable on 31 December each year.

At the year end, we had total committed facilities of £114.3m, and 65% of these committed facilities are at a fixed rate, with all debt medium and long term. All borrowings beyond the fixed level of debt of £74.3m are floating rate.

INFLATION

Last year I wrote that the 2023 financial year was going to see a significant level of inflation of £5.7m. In reality, and as noted in our Interim results, the impact was far larger as further cost pressures followed on from the initial utility driven inflation. Whilst procurement and overall cost efficiencies were recognised the real level of cost inflation was in the region of £8.7m. As we enter the new financial year we are expecting further inflation in distribution, labour and food costs.

GOING CONCERN

I am grateful of the efforts of all our teams to ensure that the business has overcome the obstacles arising from the pandemic and is now able to reinvest in building a strong future, despite the inflation challenges that we have faced through the last 12 months.

Looking forward we have demonstrated that the business can trade well and generate cash through challenging times. We now seek to grow and recover margins from the inflation shock so that we can build the business back to previous levels of profitability.

Any prolonged downturn in demand will have an impact on earnings but we have a number of levers to pull during any economic downturn – such as reducing discretionary and capital expenditure for a period as we did during the COVID-19 pandemic. Our balance sheet remains strong and our well-invested pubs are resilient businesses.

MARK RIDER
Chief Financial Officer

PRINCIPAL RISKS AND UNCERTAINTIES

RISK MANAGEMENT OVERVIEW

The Board and management team continually assess the risks to which the Company is exposed, assessing the likelihood of their occurrence and the scale of potential impact (both financial and reputational) on the business. In the Board's opinion, the principal risks and uncertainties facing the Company are as listed below. This is not intended as an exhaustive list of all the risks and uncertainties actively managed by the business and is subject to a continually changing and emerging risk driven by global economic uncertainty. Our risk management process aims to ensure that the business can respond effectively to changes in the external 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.

Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk trend
ECONOMIC AND POLITICAL			
Inflation, the economy and consumer confidence	Lower disposable income as a result of inflationary pressures, increases in interest rates and personal debt levels, together with the threat of recession could impact consumer spending. There is also an increased risk that the level of input cost inflation experienced across all areas of the business cannot be offset or passed on to our customers, resulting in reduced margins.	We aim to mitigate cost inflation through price increases, menu changes, good procurement, and through driving efficiencies. We aim to deliver a high-quality, customer-focused offer aimed at encouraging a variety of consumers to use our products, pubs and hotels. We aim to continually improve service levels, monitoring customer feedback through Net Promoter Score and on social media. The Executive team continually monitors market news and legislation in order to respond effectively to changes in consumer trends.	Risk unchanged
Disruption in supply chains	Supply issues could disrupt production and distribution. Supply disruption to our pubs could affect customer satisfaction and revenue. Prolonged disruption to our supply chain could affect availability of our product and cause financial and reputational damage. Cost pressures could make some suppliers unable to supply and some areas of business no longer viable.	We monitor inventory levels carefully and carry buffer supplies of key materials to protect against periods of supply delay. We have increased emphasis on our contract renewal processes. We have regular reviews with suppliers regarding availability of source materials and review recipes to have alternatives if required for major products. The Executive team are made aware of procurement issues and proposed actions to resolve as part of our 'inflation watch'. We are working with our suppliers to find solutions, but are likely to incur higher costs of production or in delivery for the foreseeable future.	Risk decreasing
Pandemic or major external event	A major external event could have far-reaching consequences for the business, as seen following the outbreak of COVID-19. A subsequent pandemic could lead to restrictions on the public and on trading in our estate, which would negatively impact the business.	A diversified business and a strong balance sheet provide resilience. The strength and adaptability of the business was demonstrated by the response to the COVID-19 pandemic. The experience gained and the processes developed in that period improve our ability to respond effectively to any future event.	Risk decreasing

Risk increasing Risk unchanged Risk decreasing

STRATEGIC REPORT

Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk trend
FINANCIAL			
Interest rate risk	The Company's financial structure includes some borrowings subject to floating interest rates. The cost of capital is increasing, putting pressure on investment returns and increasing the risk of impairment of our estate.	48% of our financing is in the form of long-term debt, with the interest rate being fixed on 65% of the total committed facility. This gives less exposure to interest rate risk, although borrowing is more expensive at the margin. The Company's strategy is to invest to obtain the highest returns, and all major capital investments are required to be approved by the Board.	↑
REGULATORY			
Health and safety	Operating a large number of pubs and a brewery manufacturing site results in complexity of operations and processes. We are required to comply with ever-increasing health and safety obligations. Any non-compliance with legislation could have serious consequences for our customers, employees and licensees. Significant penalties can be applicable for breaches, which could impact Company profitability. A serious incident could result in loss of life or major injury, resulting in reputational damage and potential regulatory penalties.	The Company has a clear health and safety strategy with a focus on establishing a safety culture throughout the business. Progress updates and KPIs are reported to the Board. A compliance package is available to support our licensees in the tenanted estate.	↔
OPERATIONAL			
People and skills shortage	The recruitment and retention of high-quality people and licensees is essential in order to provide our customers with a great experience. The labour market has become more competitive, with labour shortages and wage inflation.	We have invested in our People Team, who have developed initiatives targeting the best ways of recruiting and retaining team members. Our reward packages are competitive and we have invested to become an employer of choice, with emphasis on training and career development through the employee work cycle. We are looking to deliver our own pool of skilled team members for the future, with further development of our apprenticeship programme. Quarterly talent and succession reviews are also embedded in our pubs and ongoing in the brewery and offices. We carry out an annual employee satisfaction review, with the aim of responding to issues raised, to ensure we are an employer of choice.	↓

↑ Risk increasing ↔ Risk unchanged ↓ Risk decreasing

Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk trend
OPERATIONAL			
Site and logistics dependency	The Company's operations are managed from its sole brewery site in Faversham, and the Company relies on GXO as its principal warehousing and distribution partner. Loss of the brewery site would cause production to cease for a period, which would impact Company profitability. A serious incident could result in loss of life or major injury, resulting in reputational damage and potential regulatory penalties. Prolonged disruption to our supply chain could affect the availability of our product and cause financial and reputational damage.	We regularly review our crisis management response and have a signed agreement with the Independent Brewers Group for assistance to be provided in a crisis failure if possible. Regular safety reviews are carried out, with an upgrade of standard operating procedures ongoing. Training is provided in key risk areas. For shorter periods of disruption, stock held off-site could act as a buffer. We work closely with GXO to monitor and mitigate the risk of disruption to logistics.	Risk unchanged
Information technology failure	All areas of the business – production, customer-facing and support – are significantly reliant on IT systems. Prolonged disruption caused by a significant failure, destruction of hardware or facilities, or the growing threat of cyber attack could cause prolonged disruption, affecting the Company's ability to trade and its profitability.	We have back-up systems, virus protection, a cyber protection strategy, a business continuity plan and a disaster recovery plan. Protection against cyber attacks has been improved through outsourcing key security services to a specialist third-party supplier, and we have rolled out regular cyber training to all Company network users. We have commenced a number of 'modern workplace' projects to upgrade our systems and improve working practices. We will use the cloud to reduce our reliance on on-site hardware. We are also investing in a number of projects which will improve our customer service.	Risk unchanged
Environment and sustainability	Climate change and environmental damage could impact our ability to source product due to reduced availability. Government regulation is likely to increase further, which could lead to increased costs for the Company. Our customers and investors have an increased interest in the way in which the Company manages its business to minimise the environmental impact. Perceived failures in this area could result in damage to the Company's reputation.	We have an ESG policy which centres on three major pledges as set out in our ESG Report. We monitor the feedback received from our customers and are investing to meet the standards expected by all stakeholders, as well as to conform to regulatory requirements.	**New Risk**

Risk increasing Risk unchanged 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 interests of the Company's employees	Details about our 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 relationships with suppliers, customers and others	Details of our 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 focused on the impact it has on its environment and is committed to reducing its carbon footprint. Commentary can be found in the ESG Report
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 through regular employee surveys, briefings, and weekly internal newsletters. We are keen to promote health and wellbeing, development opportunities, fair pay and benefits and understanding among employees of the Company's values, strategy and financial performance.

The employee engagement section within the Report of the Directors on page 50-51 provides more information on how we have responded to team member interests.

Customers

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

We have responded to customers' interests by:

- monitoring online review platforms to respond where appropriate to the feedback received;
- providing the opportunity for our retail pubs and hotels customers to provide feedback and comments on their experience;
- monitoring the Net Promoter Score at individual outlets to ensure service levels are maintained; and
- from time to time conducting market research on customer perceptions.

Suppliers

The Company relies on the availability and high quality of 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; and
- inviting suppliers to our ShepsWay trade fairs and other events.

Engagement with customers, suppliers and others is covered in the business relationships section within the Report of the Directors on page 51.

Shareholders

The Board values regular dialogue with institutional shareholders and provides 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 Annual General Meeting (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.

Company announcements, reports and governance information, together with details of private shareholders, entitlements to discounts at the Company's retail pubs and brewery shop, are available via a dedicated section of our website. A direct link to the Company's listing on the Aquis web site is also provided in this area to enable shareholders to access the Company's share price and key information relating to the listing on this market.

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 our loan facilities, the Company's lenders receive quarterly covenant compliance certificates and management information.

We have responded to lenders' interests by:

- ensuring that they have a clear understanding of our strategy and our operating and financial performance so that they can more accurately assess the opportunities to finance our business.

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 our pub licensees' interests by:

- providing regular advice, training and guidance via newsletters to share information;
- improving the drinks portfolio available; and
- contributing to refurbishment projects.

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 here are the principal decisions made by the Directors during the period.

1. Approval of annual budget and strategic plan

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

The Board has considered the significant cost inflation pressures resulting from the wider economic climate and also from our new logistics contract. The Board considered it remained appropriate to invest in projects with the ability to deliver the Company's long-term objectives, alongside taking decisions around actions to mitigate cost pressures.

During the year, we have invested to maintain the quality of our pubs and have resumed our development programme. We will continue to target our spend in areas which result in operational improvements and enhanced pub connectivity, to improve the quality of our offer and to help attract the best people. This promotes the success of the Company and also has a positive impact on local communities.

2. New financing structure

During the year, the Board approved a new and extended financing structure giving the Company £114.3m of committed long-term facilities at fixed rates. The new financing structure was considered appropriate to give certainty of funding and an improved debt maturity profile.

3. Dividend

The Board recognises the importance of dividends to our shareholders and is committed to a progressive dividend policy. An interim dividend of 4.0p was paid to shareholders in April and, having considered the Company's cash flow requirements and debt position, the Board will recommend the payment of a final dividend of 16.00p per ordinary share for approval by shareholders at the 2023 AGM. This action is felt to balance the need of the business and its stakeholders.

4. Acquisitions, disposals and active property management

During the year we acquired four new pubs, three of which were freehold. The consideration paid is set out in note 19 to the financial statements. We also made a number of disposals during the period, as explained in the Strategic Report. We continue to make targeted disposals of land and property that does not fit our strategy, to help fund the continued improvement in the quality of our pub portfolio.

This Strategic Report was approved by the Board of Directors on 27 September 2023 and signed on its behalf by:

JONATHAN NEAME
Chief Executive

GOVERNANCE

Historic City of London pub the Jamaica Wine House has undergone renovation of its basement wine bar, along with extensive cellar improvements using state-of-the-art technology to save energy

We continue to invest in our food offer, using locally sourced seasonal produce to create fresh and exciting new dishes

Our brewery and pubs once again joined in the festivities for the annual Beer Day Britain event on 15 June, including taking part in the national Cheers to Beer toast

IN THIS SECTION

Board of Directors	48
Report of the Directors	50
Corporate Governance Report	52
Audit Committee Report	56
Remuneration Committee Report	58
Directors' Responsibilities Statement	63

BOARD OF DIRECTORS

GEORGE BARNES (69) ①
Property Director

Joined the Company in 1978. He is a Chartered Surveyor and Registered Valuer and was appointed to the Board in January 2001. He has held various roles, becoming Property 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. He will become a non-executive in January 2024. In addition to his non-executive role he will provide continuity by working on specific projects to ensure a smooth transition in his property responsibilities.

GLENDA FLANAGAN (58) ②
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.

BILL BRETT (58) ③
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.

JONATHON SWAINE (52) ④
Managing Director, Pubs

Joined the Company in June 2022. He was Managing Director, Retail at the Rank Group Plc from 2019. Prior to that, he spent the majority of his career in the pub industry, initially at Bass from 1997, before joining Fuller, Smith and Turner plc in 2005. During his 14 years at Fuller's he had various roles, latterly as Managing Director, Fuller's Inns, (the largest division of Fuller's) from 2012 to 2019, developing and growing the business significantly in that time. He is an Advisory Board Member at the UK's leading fintech charity, Pennies. Jonathon brings to the Board his considerable experience as a proven operator in the hospitality and pub sector.

JONATHAN NEAME (59) ⑤
Chief Executive

Joined the Company in 1991. Company Secretary until July 1994 and Tied Trade Director until 1999. He was appointed Managing Director in 1999 and then 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 & Pub Association from 2012 to 2015 and a Non-Executive Director of the St Austell Brewery Company Ltd from 2002 until 2018. He was appointed Vice President of the Brewers of Europe in 2022 and was Master of the Worshipful Company of Brewers until July 2023. He has been a Trustee of the Leeds Castle Foundation since 2011, is Deputy Lieutenant of Kent and was awarded an Honorary Doctorate from the University of Kent in 2016. Jonathan brings to the Board his considerable knowledge of and expertise in the industry, long experience at the Company in a variety of roles, and wide-ranging connections within our heartland.

NIGEL BUNTING (56) 6

Commercial 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 was appointed Commercial Director in June 2022 with specific responsibility for brewing, brands, procurement and other major commercial agreements. 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.

RICHARD OLDFIELD OBE (67) 7

Chairman
Chair of the Nomination Committee

Appointed to the Board in June 2016. He is former Chairman of Oldfield Partners LLP and of Keystone Investment Trust plc, and is a Trustee of the Prince's Trust. Richard brings to the Board his experience in governance as chairman and director of publicly listed companies and as a former chief executive.

KEVIN GEORGEL (53) 8

Non-Executive Director

Appointed to the Board in 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 Chairman 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.

MARK RIDER (47) 9

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. He is a Non-Executive Director and Chair of the Audit Committee of the Rugby Players Association. He has been an advisory Board member of the Zero Carbon Forum during this year. Mark brings to the Board expert finance skills together with strong retail experience gained from his previous roles.

HILARY RIVA OBE (66)

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 held roles as a Non-Executive Director of Shaftesbury Plc, London and Partners Limited, Chief Executive of the British Fashion Council, and Director of Rubicon Retail Ltd. She holds a directorship in The Alexander Centre CIC and is a board member and trustee of the Canterbury Festival. Hilary brings to the Board her significant experience in retail marketing and brand management and also in governance as a director of listed companies.

REPORT OF THE DIRECTORS

The Directors present their Annual Report and Accounts for the 52 weeks ended 24 June 2023.

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 2-46. The Strategic Report includes information on the Group's strategy and provides further details of the Group's performance for the 52 weeks ended 24 June 2023, significant events which have occurred since the end of the reporting period, and likely future developments.

DIVIDENDS

The Company paid an interim dividend of 4.00p per ordinary share (2022: 3.50p). The Board now recommends a final dividend of 16.00p per ordinary share (2022: 15.00p). This makes a total dividend for the year ended 24 June 2023 of 20.00p per ordinary share (2022: 18.50p).

DIRECTORS

The names of the Directors at 24 June 2023 are set out on pages 48 and 49. Details of all Directors' interests are set out in the Remuneration Report on pages 58-62. Nigel Bunting and Kevin Georgel retire from the Board by rotation and will be offering themselves for re-election.

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

PURCHASE OF OWN SHARES

During the year the Company purchased a total of 79,000 ordinary shares at a total cost of £610,000, representing 0.5% of the Company's issued share capital (2022: nil). These shares were acquired in connection with the Company's future obligations under the share schemes.

USE OF FINANCIAL INSTRUMENTS

A statement in relation to the use of financial instruments and financial risk management by the Group is given in notes 27 and 28 to the financial statements.

EMPLOYEE ENGAGEMENT

Employee engagement is paramount to our ongoing success across the three areas of the business: brewery, retail pubs and support office. We have always had high retention rates in the brewery and support office and we are delighted that these have not changed during or post the pandemic.

Unsurprisingly, team retention is more of a challenge in the retail pubs and is a common theme across the sector. We note that for front-of-house roles, turnover remains consistent with the sector and similarly back-of-house roles such as chefs are proving harder to fill as well as retain.

Sheps Voice (our all-team engagement survey) told us that all our team members continue to have a great sense of connection to our business and feel they have autonomy to get on with their job across the three business divisions.

Our overall Employee Promoter Score comes from the question 'I would recommend Shepherd Neame as a great place to work' and has improved by 0.5% to 65.5%.

Looking ahead and based on the results of Sheps Voice, we are focussing our attention on the following key areas: recognising our people when they do great work, making it simple to get things done, encouraging team members to come up with ideas to benefit their work environment, support the wellbeing of every team member, and ensuring our line managers have the tools to offer great support. In turn this will mean that our teams enjoy being at work, are proud to work for Shepherd Neame and feel valued with a sense of belonging. Addressing each of these key areas successfully will mean that our overall Employee Promoter Score will improve.

Our People Partners have been working with their stakeholders in the last year, focussing on understanding our talent and succession plans, supporting with recruitment and retention and building the skills of our people leaders by individually developing them as required or holding group training sessions.

In the last year we have partnered with HIT Training and are looking forward to our first three Kitchen apprentices graduating in the autumn. We have a further 38 apprentices from across the pubs/hotels, brewery and support office undertaking apprenticeships ranging from Level 2 Hospitality Team Member, Level 2 Commis Chef – Fresh Food, Level 4 Hospitality Manager and Level 7 Risk & Safety Manager to mention a few.

Communication remains a key focus, and we have shortlisted a platform to help us more easily share all our benefits to all employees and in turn to extend it to recognise great service.

It is the Group's policy to give full consideration to suitable applications for employment by disabled persons. Opportunities also exist for employees who become disabled to continue in their employment or to be trained for other positions in the Group's employment.

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

The 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 to ensure that our stakeholders also benefit.

The Company engages with suppliers, customers and licensees in a variety of ways such as meetings, conversations, and business reviews appraising any feedback. We have a very engaged shareholder base and our Annual General Meeting (AGM) is typically well attended. Engagement via social media is also increasingly important, and the Company is active on platforms including Facebook, X and Instagram.

The COVID-19 pandemic accelerated the need for digital communication, and we have invested in a new platform for our email campaigns. These are shared with our database and during the past year our campaigns have featured a variety of promotions including Stay with Us reminders, updates on new menus and seasonal dishes, sporting events, partnership offers and calendar events such as Father's Day and Mothering Sunday.

The Board places strong focus on fostering long-term business-to-business relationships. Engagement with these stakeholders reflects the regard the Directors have for the need to sustain 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 we have on the local and wider environment. Further details of our initiatives can be found in the ESG section on pages 26 to 35, together with our Streamlined Energy and Carbon Report for the financial year in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

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

A resolution to reappoint BDO LLP will be put to the forthcoming AGM.

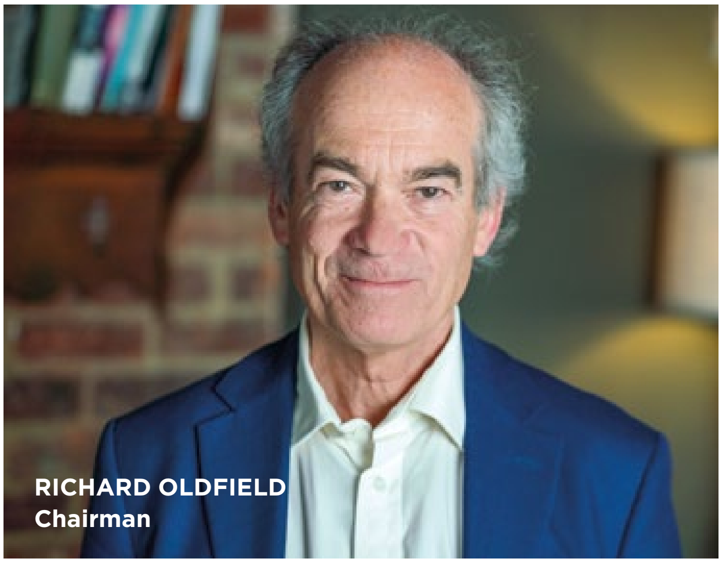
By order of the Board

GLENDA FLANAGAN
Company Secretary
17 Court Street
Faversham, Kent ME13 7AX

27 September 2023

Registered in England number 0138256

CORPORATE GOVERNANCE REPORT



RICHARD OLDFIELD
Chairman

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.

The Board is committed to ensuring high standards for the Group and has applied the principles of the Quoted Companies Alliance Corporate Governance Code (QCA code), a recognised corporate governance code which is appropriate to the nature and size of the Company.

THE BOARD AND ITS COMMITTEES

Application of the QCA code provides 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 Company is managed for the long-term benefit of all shareholders and stakeholders, with effective and efficient decision-making. The key risks and uncertainties are set out in the Company's Strategic Report: both those outside its control and those over which, as operational matters, the Company's has some degree of control and influence.

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, and maintenance of its reputation as a good partner and employer – as set out elsewhere in the Strategic Report. The Board believes that the reputation of the Company for fair and ethical behaviour continues to be 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 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; and
- 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 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. 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, 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. The Board regularly visits the Company's pubs so Directors can engage directly with managers, licensees, team members and customers.

The Remuneration Committee

The prime function of the Remuneration Committee, which is chaired by Hilary Riva, 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 58-62.

The Audit Committee

The Audit Committee, which is chaired by Bill Brett, 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 56-57.

The Nomination Committee

The Nomination Committee is chaired by Richard Oldfield and is responsible for managing Board composition and succession, by identifying and proposing prospective candidates for consideration and appointment by the Board as a whole. It also considers senior management appointments.

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 skills and capabilities required for a particular appointment. The Committee considers:

- candidates from a wide range of backgrounds, on merit and against objective criteria, taking care that appointees have enough time available to devote to the position;
- the use of external advisors or advertising to facilitate the search, if applicable; and
- 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.

The Disclosure Committee

The Disclosure Committee comprises the Chairman, the Chief Executive, the Chief Financial Officer and the Company Secretary. The Committee meets as necessary 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	Audit Committee	Remuneration Committee	Nomination Committee	Disclosure Committee
Number of meetings	10	3	5	1	2
Executive Directors					
George Barnes	9	–	–	–	–
Nigel Bunting	9	–	–	–	–
Jonathan Neame	10	*	*	*	2
Mark Rider	10	*	–	–	2
Jonathon Swaine	10				
Non-Executive Directors					
Bill Brett	10	3	5	1	*
Richard Oldfield	10	3	5	1	2
Hilary Riva	10	3	5	1	–
Kevin Georgel	7	–	4	1	–

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

Management Committees

The Executive Committee

The Executive Committee of the Board comprises the Executive Directors and the Company Secretary 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. Its principal focus is on people, Group policy and property matters.

The Operations Committee

The Operations Committee is responsible for consumer, customer, commercial and trading relationships. It comprises the Executive Committee, with the exception of the Property Director, and the Operational Directors, being the Director of Sales, the Director of Tenanted Pub Operations, the Director of IT, the Director of Brewing, the People Director, the Director of Commercial Finance and the Director of Property Services, and is chaired by the Chief Executive. The Committee meets monthly to review performance against strategic objectives.

The Environmental, Social and Governance (ESG) Committee

The ESG Committee comprises the Operations Committee and the Property Director, and is chaired by the Chief Executive. Its overall objective is to establish a clear vision for the Group in terms of ESG on a short-, medium- and long-term basis and the steps required to achieve these targets. Meetings are held quarterly to review the progress of internal working groups to deliver key objectives.

BOARD COMPOSITION AND BALANCE

The Board comprises the Chairman, the Chief Executive, three Non-Executive Directors 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 48-49 show the broad range of experience and skills the Directors bring to the Board. The Board considers itself well balanced, with an appropriate representation of family members in accordance with the Company's Articles of Association.

Professional 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 devote 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 the business or potential conflict of interest is declared by the Director concerned and approved by the Chairman.

PERFORMANCE EVALUATION

The Board, led by the Chairman, carried out its first annual Board performance evaluation last year. A further review has been carried out post year end with the aim of establishing this process as an annual event. Each member of the Board is provided with 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 input provided the basis for subsequent discussion individually with the Chairman. The outcome of these reviews will be reported to the Board with an analysis of key themes and an action plan to address the points raised. The SID also discussed the Chairman's contribution with the Chairman.

Directors are expected to keep their skill set 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. During the year Peel Hunt LLP led a training session for the Board on current regulatory and other market developments.

RE-APPOINTMENT OF DIRECTORS AND NOTICE PERIODS

Each Director is subject to re-election at the third Annual General Meeting (AGM) 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 AGM following their appointment.

ADVICE

Peel Hunt LLP provided broking and advisory services during the year and Instinctif LLP provided public relations advice.

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 stock-takers 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 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 the Chairman, Chief Executive and Chief Financial Officer meet 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 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

OVERVIEW

The Committee comprises Bill Brett (Chair), Richard Oldfield and Hilary Riva. We held three meetings during the 52 weeks to 24 June 2023. The attendance of members at these meetings can be seen on page 54. Periodically the Group auditor, Chief Executive and 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:

Impairment of non-current assets

The Committee reviewed management's methodology and assumptions in valuing the Group's estate, and a third party was engaged to provide an independent view of the discount rate to be used in the valuations. The discount rate, growth rate and cash flow forecasts used by management were considered in order to ensure they were consistent with previous approaches and appropriate in the circumstances. The Committee is satisfied that the accounting, disclosure and sensitivities included within the Annual Report concerning impairment are appropriate.

Designation of underlying and non-underlying items
Certain items are separately disclosed to allow the better understanding of the trading performance of the Group. The Committee considered management's judgement in determining which items should be disclosed in this manner 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 is satisfied 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 is 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

BDO LLP was appointed as the Group's auditor in 2021, following a formal audit tender process. Their performance is reviewed by the Committee which considers their effectiveness, independence and partner rotation. The auditor is required to rotate the audit partner responsible for the engagement every five years. This is the third year of Mark Edwards' tenure as audit engagement partner. The Committee considers that the auditor remains independent.

The auditors presented their strategy to the Committee ahead of the audit in June 2023. Following the introduction of a new risk auditing standard, a significantly increased level of audit work was required in respect of testing the level and strength of controls. The level of testing was also impacted by the nature of our systems, number of revenue streams, numbers of market and complexity of operations. Subsequently the auditors presented their findings and conclusions from the audit to the Committee in September 2023.

In relation to 2023, BDO LLP provided audit services in respect of the Group accounts to the value of £260,000. 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.

The Committee has recommended to the Board the reappointment of BDO as auditor for the 53 weeks to 30 June 2024. A resolution to this effect will be tabled at the 2023 Annual General Meeting.

BILL BRETT
Chair of Audit Committee

"

THE PRIMARY ROLE OF THE AUDIT COMMITTEE IS TO ASSIST THE BOARD IN FULFILLING ITS OVERSIGHT RESPONSIBILITIES IN AREAS SUCH AS THE INTEGRITY OF FINANCIAL REPORTING, THE SYSTEM OF INTERNAL CONTROLS AND THE MANAGEMENT OF FINANCIAL RISKS AS WELL AS BROADER COMPLIANCE MATTERS.

REMUNERATION COMMITTEE REPORT

THE COMMITTEE AND ITS RESPONSIBILITIES

The Remuneration Committee comprises all the Non-Executive Directors – Hilary Riva (Chair), Bill Brett, Kevin Georgel and Richard Oldfield. 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 54.

The Remuneration Committee determines on behalf of the Board the remuneration policy for the Executive Directors. It is responsible for determining remuneration structures, and for approving the incentive targets and payments for the Company's Executive Directors and Operations Directors.

The Committee aims to ensure that remuneration packages for Executive Directors are competitive and comparable with those at companies of a similar size, complexity and activity, and that they are designed to attract, retain and motivate Executive Directors with appropriate skills and capabilities to deliver the strategy and add value for the shareholders while also ensuring that arrangements are appropriate in the context of the approach to remuneration for our team members.

Remuneration for Executive Directors comprises fixed remuneration (salary, car allowance and other taxable benefits), pension contributions and performance-related remuneration designed to motivate out performance over a sustained period. Performance-related remuneration is based on financial targets linked to the Company's long-term objectives, and non-financial targets which are also linked to the Company's strategic goals.

In coming to these decisions, the Remuneration Committee considers the overall performance of the business and of the individual Executive Directors, as well as the performance of our national and regional competitors when appropriate. External consultants are used periodically to help with these decisions. In 2022, Deloitte LLP provided remuneration market data to assist the Remuneration Committee in assessing the competitiveness of executive compensation and to inform on market practice. This data considered overall remuneration and the balance between fixed remuneration (i.e. salary and pension) and variable remuneration (i.e. annual cash bonus and long-term share incentives) against companies of similar size, activity and complexity.

Following this review, and as reported last year, for the financial year ending June 2023 the Committee increased the maximum annual bonus from 30% of base salary to 75% of base salary for the Chief Executive and 50% of base salary for all other Executive Directors. The Committee also increased the maximum award available under the 2015 Restricted Share Scheme for the CEO from 70% of base salary to 75% of base salary. During 2023, the Committee also reviewed the approach to pensions.

EXECUTIVE DIRECTOR REMUNERATION

Salary levels for Executive Directors are reviewed annually in line with the overall Company pay review process. Basic salaries for Executive Directors were increased by 4% for the financial year commencing July 2023. This was below the average 5.4% awarded to the wider salaried staff and also below the level of general inflation. Pay increases for our non-salaried pub teams are governed by changes to the national minimum wage which increased by 9.7%. The Company has applied additional increases to ensure that our team members are paid above the statutory minimum.

During the year the Committee reviewed the approach to pension provision and have determined to provide a simplified and consistent approach for all Executive Directors. Previously each Executive Director was entitled to a base pension contribution of 16% and an enhanced pension contribution, based on the level of personal contributions according to an aged-related matrix. The Committee determined that it is now more appropriate to consolidate the enhanced pension contribution into base salary and to have one flat-rate contribution for all directors of 16%. This change will take effect from 1 September 2023.

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

- **Annual Bonus** – A cash bonus scheme providing for annual bonuses based on achieving 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 2023, the maximum value of this bonus was up to 75% of salary for the Chief Executive and up to 50% of salary for all other Executive Directors. 65% of the award is assessed against financial targets based on budgeted underlying profit before tax, and 35% on team and individual non-financial targets. The non-financial targets were set to ensure they supported our strategic priorities and to reflect the different roles and responsibilities of each Executive Director. The financial targets are set so that a full award is only achieved for significantly outperforming the budget. In assessing the bonus achievement, the Committee considered the performance of the business against the targets set and the contribution of the individual Executive Directors. The financial target was not met and no bonus was paid in respect of this element. However, significant progress has been made against non-financial strategic targets, and the bonus has been assessed based on achievement against targets set at the start of the year.
- **Long-term incentive** – Secondary options over ordinary shares granted annually to a value of up to 75% of salary for the Chief Executive and up to 70% of salary for all other Executive Directors, 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. Executive Directors are expected not to sell the vested shares for a further two years. During the year Executive Directors were granted awards under the scheme as detailed on page 61.

  As a result of the impact the inflationary surge in the wider economy has had on our cost base and results, share options granted in October 2019, based on performance in the financial year ending June 2022, have been forfeited.

  Share options granted in December 2020, based on performance in the financial year ending June 2023, will be reviewed in October 2023.

  Share options are issued to Executive Directors under the Shepherd Neame Limited 2015 Restricted Share Scheme (the '2015 Scheme'). This 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 such that all or a proportion of unvested options may be forfeited 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.

For performance-related pay, the Remuneration Committee has considered whether the various components remain appropriate and has concluded that at present the overall framework should continue to apply as set out above. Annual bonus targets have been issued to the Directors to be measured against performance in the year to June 2024 and the Committee intends to grant an award under the Restricted Share Scheme with a reference period of 25 June 2023 to 27 June 2026 based on performance in underlying earnings per share. The primary objective will be to achieve real growth in underlying earnings per share. The secondary objective will look to achieve consistent dividend growth and will be considered in the final assessment of achievement.

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. No award was made in 2020, 2021 or 2022 as a result of the impact of the COVID-19 pandemic, and no award will be made in 2023 in light of the ongoing cost pressures facing the Company.

NON-EXECUTIVE FEES

Non-Executive Directors receive fees which are reviewed annually by the Executive Committee in line with the overall Company pay review process. The Chairman and Non-Executive Directors were awarded a fee increase of 4.0% in line with that for the Executive Directors in July 2023. They do not participate in any performance-related arrangements.

EXECUTIVE DIRECTOR REMUNERATION

The table below shows a breakdown of the Executive Director remuneration for the 52 weeks to 24 June 2023, together with comparative figures for the 52 weeks to 25 June 2022.

	George Barnes		Nigel Bunting		Jonathan Neame		Mark Rider		Jonathon Swaine	
Group and Company	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000
Salary[1]	**160**	188	**209**	200	**285**	272	**255**	245	**254**	–
Annual bonus[2]	**16**	42	**14**	30	**55**	82	**33**	56	**32**	–
Salary in lieu of pension contributions[3]	**40**	47	**48**	46	**71**	68	**48**	39	**52**	–
Taxable benefits[4]	**10**	9	**32**	32	**25**	24	**13**	9	**17**	–
Share Incentive Plan[5]	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Directors' emoluments	**226**	286	**303**	308	**436**	446	**349**	349	**355**	–
Primary and secondary share options vesting in the year[6]	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Pension contributions	**–**	–	**–**	–	**–**	–	**3**	10	**4**	–
	226	286	**303**	308	**436**	446	**352**	359	**359**	–

The number of Directors who:	**52 weeks ended 24 June 2023**	52 weeks ended 25 June 2022
Had pension benefits accruing under money purchase schemes	**5**	4
Exercised options over shares in the scheme	**1**	1
Had awards receivable in the form of shares under a long-term incentive plan	**5**	4

Details of Directors' share options are shown on page 61.

1. The average pay increase for Executive Directors for the period 1 July 2022 to 30 June 2023 was 4% (2022: 4.7%). The salary increase for the highest paid Director was 4% (2022: 2.2%).
2. The annual bonus accrued in 2023 relates to performance in the 2023 financial year and was paid in September 2023. The aggregate bonus paid to Executive Directors in the 2023 financial year relating to the 2022 financial year was £210,000 or 23% of executive salaries.
3. The highest paid Director and two other Executive Directors are not contributing members of the Company pension scheme. In addition, the pension contributions for the remaining Executive Directors 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 2023, options were exercised by one Director over 729 shares (2022: one Director over 1,787 shares). The aggregate gross gain, not included in the table above, made by this Director on the exercise of share options was £11,081 (2022: £13,581).

Options exercised by the highest paid Director are included in these numbers. He did not exercise any options in 2023. The shares exercised in 2022 were exercised by the highest paid Director.

NON-EXECUTIVE DIRECTOR REMUNERATION

The table below shows a single remuneration figure of all services for the 52 weeks to 24 June 2023, together with comparative figures for the 52 weeks to 25 June 2022.

	2023			2022		
Group and Company	**Fees £'000**	**Benefits[1] £'000**	**Total £'000**	Fees £'000	Benefits[1] £'000	Total £'000
Bill Brett	**38**	**–**	**38**	37	–	37
Kevin Georgel	**38**	**–**	**38**	37	–	37
Richard Oldfield	**78**	**1**	**79**	75	1	76
Hilary Riva	**38**	**–**	**38**	37	–	37

1. The taxable benefit is an allowance against purchases of Shepherd Neame products.

SHARE AWARDS MADE DURING THE FINANCIAL YEAR

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)
George Barnes	Secondary options	70% of salary	17,600	£109,998
Nigel Bunting	Secondary options	70% of salary	23,424	£146,398
Jonathan Neame	Secondary options	75% of salary	34,183	£213,645
Mark Rider	Secondary options	70% of salary	28,538	£178,360
Jonathon Swaine	Secondary options	70% of salary	28,000	£175,000

The table shows the maximum value and the number of shares awarded. The award was made on 28 October 2022 and the number of shares was calculated using the share price at that date of £6.75 less the option price of £0.50.

The award carries performance targets over a three-year reference period ending June 2025, and is subject to gateway criteria. Performance will be assessed in 2025 to establish the percentage of the award that will vest.

DETAILS OF THE EXECUTIVE DIRECTORS' SHARE AWARDS

Subject to performance conditions being met, options over the Company's ordinary shares held by Directors at 24 June 2023 (25 June 2022) are as follows:

	At 2022	Granted	Exercised	Forfeited	At 2023	Note	Exercise price £	Date from which exercisable	Expiry date
George Barnes	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
	15,196	–	–		**15,196**	2	0.50	09/12/24	09/12/31
	–	17,600	–	–	**17,600**	2	0.50	28/10/25	28/10/32
	55,246	17,600	–	(11,421)	**61,425**				
Nigel Bunting	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
	16,180	–	–	–	**16,180**	2	0.50	09/12/24	09/12/31
	–	23,424	–	–	**23,424**	2	0.50	28/10/25	28/10/32
	58,824	23,424	–	(12,161)	**70,087**				
Jonathan Neame	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
	22,038	–	–	–	**22,038**	2	0.50	09/12/24	09/12/31
	–	34,183	–	–	**34,183**	2	0.50	28/10/25	28/10/32
	80,119	34,183	–	(16,563)	**97,739**				
Mark Rider	1,458	–	(1,458)	–	**–**	1	0.50	13/10/20	13/10/27
	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
	19,713	–	–	–	**19,713**	2	0.50	09/12/24	09/12/31
	–	28,538	–	–	**28,538**	2	0.50	28/10/25	28/10/32
	68,553	28,538	(1,458)	(13,512)	**82,121**				
Jonathon Swaine	–	28,000	–	–	**28,000**	2	0.50	28/10/25	28/10/32
	262,742	131,745	(1,458)	(53,657)	**339,372**				

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).

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 24 June 2023 was £6.43 (25 June 2022: £8.05) and the range during the year was £5.95 to £8.13 (2022: £8.05 to £10.15).

DIRECTORS' INTERESTS

The interests of the current Directors in the Company's shares at 24 June 2023 (25 June 2022) are as follows:

		Beneficial	Ordinary shares as trustees	Under SIP
George Barnes	**2023**	**57,193**	**–**	**3,546**
	2022	52,133	–	3,546
Nigel Bunting	**2023**	**22,388**	**–**	**1,197**
	2022	22,388	–	1,197
Bill Brett	**2023**	**26,193**	**–**	**–**
	2022	27,510	–	–
Jonathan Neame	**2023**	**152,112**	**458,106**	**3,181**
	2022	152,112	458,106	3,181
Richard Oldfield	**2023**	**90,000**	**–**	**–**
	2022	74,500	–	–
Mark Rider	**2023**	**7,198**	**–**	**2,023**
	2022	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).

Neither Kevin Georgel nor Hilary Riva had any holdings of the Company's shares.

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 UK adopted international accounting standards. 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 UK adopted international accounting standards 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 Group and the Company will continue in business.

WEBSITE PUBLICATION

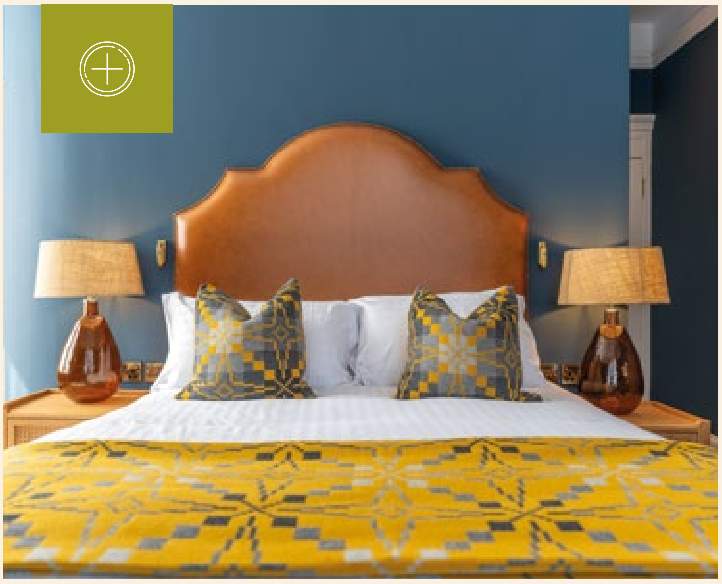
The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, 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

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Group's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

FINANCIAL STATEMENTS

The UK Government's freeze on duty for draught products in August 2023 provided a welcome boost for pubs



We continue to invest in accommodation across our estate, including refurbishing eight boutique bedrooms at the Duke of Cumberland in Whitstable

Shepherd Neame was proud to be chosen as Official Beer Supplier for The University Boat Race in London for a second year

IN THIS SECTION

Independent Auditor's Report	65
Group Income Statement	71
Group Statement of Comprehensive Income	71
Group and Parent Company Statement of Financial Position	72
Group and Parent Company Statement of Changes In Equity	73
Group and Parent Company Statement of Cash Flows	74
Notes to the Financial Statements	75

OTHER INFORMATION

Company Advisors	117
Glossary – Alternative Performance Measures	118
Five Year Financial Summary	120

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 24 June 2023 and of the Group's profit for the 52 weeks then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards 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 year ended 24 June 2023 which comprise the Group income statement, the Group statement of comprehensive income, the Group and Parent Company statement of financial position, the Group and Parent Company statement of changes in equity, the Group and Parent Company statement of cash flows 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 UK adopted international accounting standards 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 remain 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:

Understanding of the Board's assessment: We confirmed our understanding of the Parent Company's and therefore the Group's going concern assessment process and confirmed the period of time over which the assessment has taken place.

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 2024 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 has traded prior to the pandemic, since the easing of restrictions on trading as a result of the pandemic, and in the period since the Ukraine conflict and the increased inflationary environment.

Financing: We confirmed that the Group and Parent Company had long-term financing facilities in place for at least 12 months after the approval of the financial statements. We also confirmed that the forecasts supported the calculations demonstrating covenant compliance and headroom within covenant calculations and total facilities available throughout the review period.

Sensitivity analysis: We considered the reasonableness of the sensitivities applied to the forecasts to model downside scenarios including reduced revenue and increased costs based on industry expectations.

Disclosures: We assessed 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 and the 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% (2022: 100%) of Group profit before tax
- 100% (2022: 100%) of Group revenue
- 100% (2022: 100%) of Group total assets

Key audit matters

	2023	2022
Impairment of Property, plant and equipment and right of use assets	✓	✓
Valuation of investment properties	✓	✓
Going concern	✗	✓

Recognition of leases under IFRS 16 was raised in the prior year as the group was transitioning to IFRS from FRS 102 and this was the most significant area of judgement and material change as a result of the transition.

Materiality

Group financial statements as a whole

£1.6m (2022: £1.6m) based on 0.50% (2022: 0.45%) of total assets

Specific materiality for items impacting working capital and operating profit

£800,000 (2022: £800,000) being 50% (2022: 50%) of materiality

AN OVERVIEW OF THE SCOPE OF OUR 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 100% of the Group's assets and liabilities. We did not identify any significant components other than the Parent Company and the Group audit team performed an audit of the complete financial information of the Parent Company representing 100% of the Group's results for the period.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, 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
Impairment of Property, plant and equipment (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 24 June 2023 the carrying value of PPE is £280m and the carrying value of right of use assets is £42m. The continued uncertainties over the current economic environment caused by the Ukraine conflict and the broader macroeconomic environment has been identified as an indicator of impairment by management. Impairment assessments for these assets are performed on the basis of each individual cash generating unit – i.e. each individual pub site. There is a risk that, given the uncertainties over future trading caused by the macroeconomic climate 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, and then additional judgement is required in assessing the level of detail to provide in the narrative disclosures to ensure readers of the financial statements have sufficient information. Given the degree of judgement exercised by management we considered this to be a key audit matter.	Our audit procedures included: 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. • Assessed the reasonableness of management's growth assumptions with reference to post period end trading information. Assessment of the discount rate assumptions • We engaged BDO valuation experts to assist us in independently calculating the discount rate with reference to external market data for comparable companies and comparing it to the discount rate applied in the models by management. • We evaluated the independence, expertise and output of the third party expert engaged by management to assist them in assessing the discount rate calculation. 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 considered that the impairment charges have been appropriately determined. We also consider that appropriate disclosures have been included by management including sensitivities of the impact of changes in the underlying assumptions.

Key audit matter	How the scope of our audit addressed the key audit matter
Valuation of investment properties *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 £7m at 24 June 2023. 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. This, together with the related disclosures, was therefore considered to be an area of significant risk for the audit and a key audit matter.	Our audit procedures included: 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 accuracy of the investment property listing by reconciling all movements in the year and tracing these 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. • We involved our BDO valuation experts, including RICS qualified valuers, to assist the audit team in assessing the appropriateness of the valuation methodologies and assumptions applied by benchmarking these to available market data. • For properties where the valuation was outside our expectation based on our benchmarking, we corroborated the value attributed with supporting documentation. • We compared valuations to disposals made post period end to assess the differences and determine if these are reasonable. Disclosures • We assessed the disclosures provided to determine if they were compliant with the financial reporting requirements and consistent with the calculations and assumptions used by management. **Key observations** We considered the valuation of the portfolio to be within an acceptable range and the disclosures included within the financial statements to be in line with requirements.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in 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 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 a whole and performance materiality 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 0.50% value to this.

In the prior year the materiality for the Group was £1.6m, based on 0.45% of total assets.

We determined materiality for the Parent Company to be the same as for the Group in both the current and prior year as it is the only trading component of the Group. This is consistent in both the current and the prior year.

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, a year after a disrupted trading pattern, we determined a specific materiality of £800,000 (2022: £800,000) for items which are included in operating profit and related to working capital. This figure was set at 50% (2022: 50%) of materiality.

We determined the Parent Company specific materiality to be the same as the Group as the results of both the Parent Company and the Group are the same. This is consistent in both the current and the prior year.

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 75% of materiality and specific materiality as appropriate (being £1.2m and £0.6m respectively). This is an increase from 65% in the prior year where there were disrupted trading activities (being £1m and £0.5m respectively).

Performance materiality for the Parent Company was set at the same levels as Group performance materiality in the current and prior year as it is the only trading component of the Group.

Reporting threshold

We agreed with the audit committee that we would report to them all individual audit differences in excess of £80,000 (2022: £80,000). 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:

Non-compliance with laws and regulations

Based on:

- Our understanding of the Group and the industry in which it operates;
- Discussion with management and those charged with governance and Audit Committee;
- Obtaining and understanding of the Group's policies and procedures regarding compliance with laws and regulations; and
- Considered the significant laws and regulations to be the Companies Act 2006, UK adopted international accounting standards, UK tax legislation and employment legislation.

The Group is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be the health and safety legislation, food safety act etc.

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with regulatory and tax authorities for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation;
- Involvement of tax specialists in the audit; and
- Review of legal expenditure accounts to understand the nature of expenditure incurred;

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management, those charged with governance and the Audit Committee regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group's policies and procedures relating to:
  - Detecting and responding to the risks of fraud; and
  - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- Considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these.

Based on our risk assessment, we considered the areas most susceptible to fraud to be management override of controls, fraud risk in revenue recognition and acquisition accounting.

Our procedures in respect of the above included:

- Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation;
- Assessing significant estimates made by management for bias under impairment of assets and the valuation of investment properties as discussed further in the Key Audit Matter section; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- 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.
- Testing a sample of tenancy agreements and changes made during the year and validating the recording of these changes.
- Reviewing and assessing the reasonableness of the recognition of goodwill based on the requirement of IFRS.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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.

MARK RA EDWARDS
Senior Statutory Auditor
For and on behalf of BDO LLP, Statutory Auditor
London, UK

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

GROUP INCOME STATEMENT

FOR THE 52 WEEKS ENDED 24 JUNE 2023

		52 weeks ended 24 June 2023			52 weeks ended 25 June 2022		
	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	**166,267**	**–**	**166,267**	151,538	–	151,538
Other income	3, 5	**–**	**–**	**–**	383	–	383
Operating charges	5	**(152,952)**	**(5,681)**	**(158,633)**	(139,028)	(2,470)	(141,498)
Operating profit	3, 7	**13,315**	**(5,681)**	**7,634**	12,893	(2,470)	10,423
Net finance costs	3, 6, 7	**(5,741)**	**(214)**	**(5,955)**	(5,599)	(83)	(5,682)
Fair value movements on financial instruments charged to profit and loss	3, 6, 7	**–**	**195**	**195**	–	397	397
Total net finance costs		**(5,741)**	**(19)**	**(5,760)**	(5,599)	314	(5,285)
Profit on disposal of property	3, 7	**–**	**3,002**	**3,002**	–	1,709	1,709
Investment property fair value movements	3, 7	**–**	**72**	**72**	–	520	520
Profit before taxation		**7,574**	**(2,626)**	**4,948**	7,294	73	7,367
Taxation	8	**(1,508)**	**22**	**(1,486)**	(1,462)	375	(1,087)
Profit after taxation		**6,066**	**(2,604)**	**3,462**	5,832	448	6,280
Earnings per 50p ordinary share	10						
Basic				**23.5p**			42.5p
Diluted				**23.3p**			42.3p

All results are derived from continuing activities.

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE 52 WEEKS ENDED 24 JUNE 2023

	Note	52 weeks ended 24 June 2023 £'000	52 weeks ended 25 June 2022 £'000
Profit after taxation		**3,462**	6,280
Items that may be reclassified subsequently to profit or loss:			
Gains arising on cash flow hedges during the period	27	**2,019**	2,596
Income tax relating to these items	8	**(460)**	(561)
Other comprehensive gains		**1,559**	2,035
Total comprehensive income		**5,021**	8,315

GROUP AND PARENT COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 24 JUNE 2023

	Note	Group 24 June 2023 £'000	Group 25 June 2022 £'000	Company 24 June 2023 £'000	Company 25 June 2022 £'000
Non-current assets					
Goodwill and intangible assets	13	**597**	375	**597**	375
Property, plant and equipment	14	**279,810**	274,651	**279,810**	274,651
Investment properties	16	**7,166**	6,716	**7,166**	6,716
Other non-current assets	20	**–**	–	**1,373**	22
Finance lease receivable		**2,355**	–	**2,355**	–
Right-of-use assets	21	**41,922**	44,235	**41,922**	44,235
		331,850	325,977	**333,223**	325,999
Current assets					
Inventories	22	**8,001**	8,067	**8,001**	8,067
Trade and other receivables	23	**19,458**	17,685	**19,458**	17,685
Cash and cash equivalents		**1,444**	5,579	**1,444**	5,579
Finance lease receivable		**111**	–	**111**	–
Assets held for sale	24	**365**	1,099	**365**	1,099
		29,379	32,430	**29,379**	32,430
Current liabilities					
Trade and other payables	25	**(28,186)**	(27,222)	**(29,559)**	(27,244)
Borrowings	26	**(1,600)**	(1,600)	**(1,600)**	(1,600)
Lease liabilities	21	**(2,987)**	(2,780)	**(2,987)**	(2,780)
		(32,773)	(31,602)	**(34,146)**	(31,624)
Net current assets/(liabilities)		**(3,394)**	828	**(4,767)**	806
Total assets less current liabilities		**328,456**	326,805	**328,456**	326,805
Non-current liabilities					
Lease liabilities	21	**(52,275)**	(53,106)	**(52,275)**	(53,106)
Borrowings	26	**(80,220)**	(79,270)	**(80,220)**	(79,270)
Derivative financial instruments	27	**(82)**	(2,353)	**(82)**	(2,353)
Deferred tax liabilities	29	**(16,909)**	(14,749)	**(16,909)**	(14,749)
		(149,486)	(149,478)	**(149,486)**	(149,478)
Net assets		**178,970**	177,327	**178,970**	177,327
Capital and reserves					
Share capital	30	**7,429**	7,429	**7,429**	7,429
Share premium account	31	**1,099**	1,099	**1,099**	1,099
Revaluation reserve	31	**31**	31	**31**	31
Own shares	31	**(1,042)**	(660)	**(1,042)**	(660)
Hedging reserve	31	**70**	(1,489)	**70**	(1,489)
Retained earnings	31	**171,383**	170,917	**171,383**	170,917
Total equity		**178,970**	177,327	**178,970**	177,327

The profit for the year of the Company was £3,462,000 (2022: £6,280,000). 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 27 September 2023 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 24 JUNE 2023

	Note	Share capital £'000	Share premium account £'000	Revaluation reserve £'000	Own shares £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000
Balance at 27 June 2021		**7,429**	**1,099**	**31**	**(1,010)**	**(3,524)**	**165,322**	**169,347**
Profit for the financial year		–	–	–	–	–	6,280	6,280
Gains arising on cash flow hedges during the year	27	–	–	–	–	2,596	–	2,596
Tax relating to components of other comprehensive income	8	–	–	–	–	(561)	–	(561)
Total comprehensive income		**–**	**–**	**–**	**–**	**2,035**	**6,280**	**8,315**
Ordinary dividends paid	9	–	–	–	–	–	(520)	(520)
Accrued share-based payments	36	–	–	–	–	–	183	183
Distribution of own shares	31	–	–	–	101	–	(99)	2
Unconditionally vested share awards		–	–	–	249	–	(249)	–
Balance at 25 June 2022		**7,429**	**1,099**	**31**	**(660)**	**(1,489)**	**170,917**	**177,327**
Profit for the financial year		–	–	–	–	–	3,462	3,462
Gains arising on cash flow hedges during the year	27	–	–	–	–	2,019	–	2,019
Tax relating to components of other comprehensive income	8	–	–	–	–	(460)	–	(460)
Total comprehensive income		**–**	**–**	**–**	**–**	**1,559**	**3,462**	**5,021**
Ordinary dividends paid	9	–	–	–	–	–	(2,811)	(2,811)
Accrued share-based payments	36	–	–	–	–	–	39	39
Purchase of own shares		–	–	–	(610)	–	–	(610)
Distribution of own shares	31	–	–	–	44	–	(40)	4
Unconditionally vested share awards		–	–	–	184	–	(184)	–
Balance at 24 June 2023		**7,429**	**1,099**	**31**	**(1,042)**	**70**	**171,383**	**178,970**

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 24 June 2023.

GROUP AND PARENT COMPANY STATEMENT OF CASH FLOWS

FOR THE 52 WEEKS ENDED 24 JUNE 2023

	Note	£'000	52 weeks ended 24 June 2023 £'000	£'000	52 weeks ended 25 June 2022 £'000
Cash flows from operating activities					
Cash generated from operations		**20,818**		21,141	
Income taxes paid		**(199)**		–	
Net cash generated by operating activities	32a		**20,619**		21,141
Cash flows from investing activities					
Proceeds from disposal of property, plant and equipment		**61**		5,792	
Proceeds from disposal of investment property		**–**		1	
Proceeds from disposal of assets held for sale		**2,267**		3,292	
Purchases of property, equipment and lease premiums		**(10,465)**		(5,304)	
Purchase of intangible fixed assets		**–**		(129)	
Customer loan redemptions		**1**		–	
Acquisition of subsidiaries		**(6,271)**		–	
Cash acquired on acquisition		**766**		–	
Net cash generated by investing activities			**(13,641)**		3,652
Cash flows from financing activities					
Dividends paid	9	**(2,811)**		(520)	
Interest paid		**(4,241)**		(4,436)	
Payments of principal portion of lease liabilities	21	**(4,099)**		(4,220)	
Proceeds from/(repayment of) borrowings	32c	**1,400**		(15,600)	
Issue costs of new long term loans	32c	**(756)**		–	
Purchase of own shares		**(610)**		–	
Share option proceeds		**4**		2	
Net cash used in financing activities			**(11,113)**		(24,774)
Net movement in cash and cash equivalents			**(4,135)**		19
Cash and cash equivalents at beginning of the period			**5,579**		5,560
Cash and cash equivalents at end of the period			**1,444**		5,579

There are no differences between the Parent Company Statement of Cash Flows and the Group Statement of Cash Flows above for the 52 weeks to 24 June 2023.

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

These financial statements have been prepared in accordance with UK-adopted International Accounting Standards. The principal accounting policies adopted by the Group and by the Company are set out in the accounting policies below.

The financial statements 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 the revaluation of freehold licensed properties as at 28 June 2014.

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.

Adoption of new standards

The Group applied for the first time certain standards and amendments. Property, Plant and Equipment: Proceeds before Intended Use, and Onerous Contracts: Costs of Fulfilling a Contract are new amendments which are effective in the current period. The International Accounting Standards Board have also issued a number of minor amendments to standards as part of the Annual Improvements to IFRS. The Group has not early-adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use

The amendment prohibits companies from deducting from the cost of an item of property, plant, and equipment any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items should be recognised in profit or loss.

The Group will apply the amendments retrospectively only to items of property and equipment made available for use on or after the beginning of the current reporting period, being the period in which the Group has first applied the amendment.

The amendment had no impact on the consolidated financial statements of the Group as there were no sales of such items produced by property or equipment made available for use on or after the beginning of the current reporting period.

Amendments to IAS 37 – Onerous Contracts: Cost of Fulfilling a Contract

An onerous contract is a contract under which the unavoidable costs of meeting the obligations under the contract (i.e. the costs that the Group cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, a company needs to include costs that relate directly to a contract to provide goods or services. This includes incremental costs, in line with the previous requirements of the standard, and as a result of the amendments this also includes an allocation of costs directly related to contract activities. Administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendment had no impact on the consolidated financial statements of the Group as there were no onerous contracts identified on or after the beginning of the current reporting period.

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Other standards

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 IAS 1: Presentation of Financial Statements 'Classification of Liabilities as Current or Non-Current' and 'Disclosure of Accounting Policies', effective 1 January 2023; 'Non-current Liabilities with Covenants', effective 1 January 2024
- Amendments to IAS 8: 'Definition of Accounting Estimates', effective 1 January 2023
- Amendments to IAS 12: 'Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction', effective 1 January 2023
- Amendments to IFRS 16: 'Lease Liability in a Sale and Leaseback Transaction', effective 1 January 2024
- Amendments to IFRS 17: 'Insurance Contracts', effective 1 January 2023.

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 2-46 and include the section titled 'Principal Risks and Uncertainties' on pages 41–43. The Financial Review on pages 36-40 describes the financial position of the Group, its cash flows and liquidity position. In addition, note 28 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, its borrowing facilities, and its exposure to credit risk and liquidity risk.

Going concern

The Group has prepared the 2023 financial statements on a going concern basis. When assessing the ability of the Group to continue as a going concern, the Board has considered the Group's financing arrangements as well as other principal risks and uncertainties as disclosed on pages 41-43, namely the economic climate and its impact on consumers, and the inflationary cost pressures that the hospitality industry is currently facing.

At 24 June 2023, the Group had a strong balance sheet with 85% of the estate being freehold properties. 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 24 June 2023, the Group had existing facilities of £114.3m, with headroom on facilities, excluding cash held, of £32.9m. Based on the forecasts prepared by management, the Board is confident that there is sufficient covenant headroom for the foreseeable future that a breach in these would require a fall in EBITDA which is not considered reasonably possible.

The Company put in place a new long-term financing facility during the period. This provides certainty of funds to the Company, a reduction in exposure to interest rate rises and an improved debt maturity profile (see note 26).

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 24 June 2023 (2022: 52 weeks ended 25 June 2022). 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 passes.

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.

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

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 their 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, whether 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.

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

ii. Lease liabilities

At the commencement date of a 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 because 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).

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.

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 asset. The Group's business model for managing financial assets determines whether cash flows will result from collecting contractual cash flows, from 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 de-recognised when and only when the contractual rights to the cash flows from a 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 at 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 de-recognised 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 £19.3m 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 hedging reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs.

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

In the previous period, there was a reform to update the benchmark interest rates across both borrowings and derivatives from LIBOR to SONIA. The Group took advantage of practical expedients available for the transition period.

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

l Impairment of assets

Carrying values are reviewed for impairment if events indicate that the carrying value of an 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 of an asset 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, to the extent 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.

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 from 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

Revenues from external customers come from the manufacture, procurement and onward sale of alcoholic and non-alcoholic drinks and the collection of rents charged to licensees in occupation of the Group's licensed premises.

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; and
- recognise revenue when a performance obligation is satisfied by transferring promised goods or a 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 major sources listed below.

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 tenancies is recognised over time, in the period in which it relates to, on an accruals basis. For leased properties revenue is recognised under IFRS 16 on a straight-line basis over the term of the lease.

Financing components

The Group does not expect to have any contracts where the period between the transfer of the promised products to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

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 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.

In the prior year, the Group was eligible for a number of UK Government grant schemes which were introduced to mitigate the impact of COVID-19.

Coronavirus Job Retention Scheme (CJRS)

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

Government grant income

In the prior year, the Company received various local restriction support grants administered by local councils in response to the various restrictions placed on trading during the period. Income relating to these grants were 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/(loss) per share information that excludes certain items and the impact of any associated tax, which can vary significantly year on year, or where the exclusion of such items can help explain 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/(loss) and earnings/(loss) per share information is used by management to monitor business performance against not only shorter-term budgets and forecasts but also the Group's longer-term strategic plans, including its distribution policy. Note 7 provides a detailed list of items excluded from underlying results. 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 period based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. The 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. Fair values at each reporting date are determined by the Company's own professionally qualified staff who are Royal Institution of Chartered Surveyors (RICS)-qualified.

Investment property valuations

Investment properties are revalued to fair value at each reporting date by the Company's own professionally qualified staff who are (RICS)-qualified. The fair values for commercial property and land are based on the rental income and average yields earned on comparable properties, ascertained from publicly available information; and for residential properties are based on comparable market evidence.

Key judgements

Business combinations

When assets are acquired, management determines whether the assets form a business combination. Business combinations must involve the acquisition of a business, and generally have three elements: inputs, process and output.

A fair value assessment of both the consideration paid and the net assets acquired is performed once it is determined that a business combination has taken place. If the fair value of the consideration is in excess of the fair value of the net assets acquired, the difference is recognised as goodwill. If the opposite occurs, the difference is recognised in the income statement. The Group makes judgements in relation to the fair value of the consideration, the net assets acquired and whether the purchase represents a business combination. The consideration paid for the business combinations acquired during the period was solely cash. See notes 1(d), 13, 14 and 19.

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.

Leases

IFRS 16 defines a lease term as the non-cancellable period of a lease together with the options to extend or terminate the lease, if the lessee were reasonably certain to exercise that option. Where a lease includes the option for the Group to terminate the lease term, the Group makes a judgement as to whether it is reasonably certain that the option will be taken. This will take into account the length of time remaining before the option is exercisable, current trading, future forecasts as to the profitability of the asset, and the level and type of planned future capital investment. The Group has reviewed long leaseholds and made a judgement to classify these as right-of-use assets, on the basis that none of the leases convey a right or option to purchase at the lease end date and hence control of the leased buildings would never pass to the Group – only the right to use them.

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 frequency. 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 CODM is the Chief Executive Officer.

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 Hotels; 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 24 June 2023	Brewing and Brands £'000	Retail Pubs and Hotels £'000	Tenanted Pubs £'000	Unallocated[1] £'000	Total £'000
Revenue	**56,905**	**74,442**	**33,853**	**1,067**	**166,267**
Other income	**–**	**–**	**–**	**–**	**–**
Underlying operating profit/(loss)	957	8,322	12,599	(8,563)	13,315
Items excluded from underlying results	–	(4,514)	52	(1,219)	(5,681)
Segmental operating profit/(loss)	**957**	**3,808**	**12,651**	**(9,782)**	**7,634**
Net underlying finance costs					**(5,741)**
Finance costs excluded from underlying results					**(214)**
Fair value movements on ineffective element of cash flow hedges					**195**
Profit on disposal of property					**3,002**
Investment property fair value movements					**72**
Profit before taxation					**4,948**

52 weeks ended 24 June 2023	Brewing and Brands £'000	Retail Pubs and Hotels £'000	Tenanted Pubs £'000	Unallocated £'000	Total £'000
Other segment information					
Capital expenditure – tangible and intangible assets	1,552	9,761	2,977	1,455	**15,745**
Depreciation and amortisation pre IFRS 16	1,508	2,896	2,433	468	**7,305**
Depreciation and amortisation	1,640	4,678	3,252	603	**10,173**
Impairment of property, plant and equipment, goodwill and assets held for sale	–	870	704	–	**1,574**
Impairment of right-of-use assets	–	3,641	(756)	–	**2,885**
Underlying segmental EBITDA pre IFRS 16	2,502	9,968	14,146	(8,037)	**18,579**
Underlying segmental EBITDA	2,637	13,020	15,861	(7,957)	**23,561**
Number of pubs	–	72	217	7	**296**

1. £1,067,000 of unallocated income (2022: £910,000) includes rent receivable from investment properties and other non-core trading income. Unallocated expenses primarily represent head office support costs.

52 weeks ended 25 June 2022	Brewing and Brands £'000	Retail Pubs and Hotels £'000	Tenanted Pubs £'000	Unallocated £'000	Total £'000
Revenue	56,615	61,240	32,773	910	151,538
Other Income	–	383	–	–	383
Underlying operating (loss)/profit	(252)	8,288	13,359	(8,502)	12,893
Items excluded from underlying results	–	(1,899)	(940)	369	(2,470)
Segmental operating (loss)/profit	(252)	6,389	12,419	(8,133)	10,423
Net underlying finance costs					(5,599)
Finance costs excluded from underlying results					(83)
Fair value movements on ineffective element of cash flow hedges					397
Profit on disposal of property					1,709
Investment property fair value movements					520
Profit before taxation					7,367

52 weeks ended 25 June 2022	Brewing and Brands £'000	Retail Pubs and Hotels £'000	Tenanted Pubs £'000	Unallocated £'000	Total £'000
Other segment information					
Capital expenditure – tangible and intangible assets	1,400	1,736	1,677	639	5,452
Depreciation and amortisation pre IFRS 16	1,592	2,840	2,601	397	7,430
Depreciation and amortisation	1,695	4,614	3,601	570	10,480
Impairment of property, plant and equipment, goodwill and assets held for sale	–	1,010	603	24	1,637
Impairment of right-of-use assets	–	889	337	–	1,226
Underlying segmental EBITDA pre IFRS 16	1,394	10,920	15,812	(8,143)	19,983
Underlying segmental EBITDA	1,508	12,882	16,967	(7,929)	23,428
Number of pubs	–	63	231	6	300

Geographical information

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

	52 weeks ended 24 June 2023 £'000	52 weeks ended 25 June 2022 £'000
Revenue		
UK	**163,896**	149,011
Rest of the World	**2,371**	2,527
	166,267	151,538

4 REVENUE

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

	52 weeks ended 24 June 2023 £'000	52 weeks ended 25 June 2022 £'000
Sale of goods and services	157,055	142,296
Rental income	9,212	9,242
Revenue	166,267	151,538

5 OTHER INCOME AND OPERATING CHARGES

a Other income

	52 weeks ended 24 June 2023 £'000	52 weeks ended 25 June 2022 £'000
Other income[1]	–	383

1. The 2022 other income balance includes support grants administered by local councils in response to the various restrictions placed on trading during the period as a result of the COVID-19 pandemic.

b Operating charges

	Before items excluded from underlying results 52 weeks ended 24 June 2023 £'000	Items excluded from underlying results 52 weeks ended 24 June 2023 £'000	Total 52 weeks ended 24 June 2023 £'000	Total 52 weeks ended 25 June 2022 £'000
Raw materials, consumables and finished goods used	68,744	–	68,744	67,846
Change in inventories of finished goods and work in progress	88	–	88	(747)
Staff costs:[1]				
Wages and salaries	33,496	–	33,496	29,855
Social security costs	3,186	–	3,186	2,559
Other pension costs	1,192	–	1,192	1,074
Amortisation of intangible assets (note 13)	44	–	44	30
Depreciation of property, plant and equipment (note 14)	7,018	–	7,018	7,290
Depreciation of right-of-use assets (note 21)	3,111	–	3,111	3,160
Impairment of intangible assets (note 15)	–	–	–	52
Impairment of property, plant and equipment (note 15)	–	1,516	1,516	1,561
Impairment of right-of-use assets (note 15)	–	2,885	2,885	1,226
Impairment of assets held for sale (note 15)	–	58	58	24
Loss on sale of plant and equipment (excluding properties)	76	–	76	53
Property repairs	3,363	–	3,363	3,195
Rental expense in relation to short-term and low-value leases	183	–	183	176
Foreign exchange loss	–	–	–	2
Net fair value losses/(gains) on financial assets at fair value through profit and loss	153	–	153	(210)
Impairment of stock recognised as an expense (note 22)	566	–	566	399
Other operating charges[2]	31,732	1,222	32,954	23,953
Total operating charges	152,952	5,681	158,633	141,498

1. Staff costs for the 52 weeks ended 25 June 2022 are presented net of income received from the Coronavirus Job Retention Scheme of £300,000.
2. Other operating charges primarily relate to pub and brewery overheads and administration costs.

The analysis of auditor's remuneration is as follows:

	52 weeks ended 24 June 2023 £'000	52 weeks ended 25 June 2022 £'000
Auditor's remuneration in respect of the audit of the Group's annual accounts	260	160
Total fees payable to auditor	260	160

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

6 NET FINANCE COSTS

	52 weeks ended 24 June 2023 Total statutory £'000	52 weeks ended 25 June 2022 Total statutory £'000
Finance income		
Interest income from financial assets	(42)	–
Finance costs		
Interest expense arising on:		
Financial liabilities at amortised cost – bank loans	4,499	4,363
Financial liabilities at amortised cost – lease liabilities	1,247	1,244
Other financial liabilities not at fair value through profit and loss	39	–
Unwinding of discounts on provisions	(2)	(8)
Finance costs expensed	5,741	5,599
Underlying net finance costs	5,741	5,599
Finance costs excluded from underlying results		
Costs relating to the agreement of covenant waivers with our lenders	–	50
Costs relating to the transition from LIBOR to SONIA for sterling debt instruments	–	33
Write-off of unamortised loan fees on restructuring	141	–
Settlement of ineffective portion of interest rate swap	73	–
Ongoing fair value movements on financial instruments charged to profit and loss	(195)	(397)
Total finance costs excluded from underlying results	19	(314)
Net finance costs	5,760	5,285

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;
- separately disclosed 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).

	52 weeks ended 24 June 2023 £'000	52 weeks ended 25 June 2022 £'000
Underlying EBITDA	**23,561**	23,428
Depreciation and amortisation	**(10,173)**	(10,480)
Free trade loan discounts	**3**	(2)
Loss on sale of assets (excluding property)	**(76)**	(53)
Underlying operating profit	**13,315**	12,893
Net underlying finance costs pre IFRS 16	**(4,494)**	(4,355)
Net underlying finance costs	**(5,741)**	(5,599)
Underlying profit before taxation	**7,574**	7,294
Profit on disposal of properties	**3,002**	1,709
Investment property fair value movements	**72**	520
Separately disclosed operating charges:		
Impairment of intangible assets, properties, right-of-use assets and assets held for sale	**(4,459)**	(2,863)
Other operating charges excluded from underlying results	**(1,222)**	393
Separately disclosed finance costs:		
Settlement of ineffective portion of interest rate swap	**(73)**	–
Write-off of unamortised loan fees on restructuring	**(141)**	–
Costs relating to the agreement of covenant waivers with our lenders	**–**	(50)
Costs relating to the transition from LIBOR to SONIA for sterling debt instruments	**–**	(33)
Fair value movements on financial instruments charged to profit and loss	**195**	397
Profit before taxation	**4,948**	7,367

Separately disclosed operating charges

During the 52 weeks ended 24 June 2023, separately disclosed operating charges comprised:

a) An impairment charge of £4,459,000 in relation to 12 freehold properties and eight right-of-use assets (see note 15).

b) Professional fees of £621,000 relating to the extension of our distribution agreement with our logistics partner.

c) Professional fees of £268,000 relating to two company acquisitions (see note 19).

d) Professional fees of £64,000 relating to the transition of the pension scheme administration to an independent master trust.

e) A charge of £269,000 in respect of restructuring fees.

During the 52 weeks ended 25 June 2022, separately disclosed operating charges comprised:

a) An impairment charge of £2,863,000 in relation to seven freehold properties and eight right-of-use assets (see note 15).

b) A recovery of £159,000 in relation to a previously disclosed fraud carried out by an employee.

c) The release of a provision to the value of £443,000 in respect of an inquiry opened by HMRC relating to the provision of uniforms and training to employees, which was closed in March 2022.

d) Professional fees of £47,000 relating to two company acquisitions which completed after the year end (see note 19).

e) Professional fees of £162,000 relating to the transition of the pension scheme administration to an independent master trust.

Separately disclosed finance costs

During the 52 weeks ended 24 June 2023, the Group settled the ineffective portion of its interest rate swap for cash consideration of £73,000, wrote off £141,000 of unamortised finance costs relating to the previous facility, and recognised a credit of £195,000 in respect of the ineffective portion of the movement in fair value interest rate swaps.

During the 52 weeks ended 25 June 2022, the Group incurred £83,000 of legal and professional fees associated with agreeing covenant waivers with our lenders, as well as fees associated with the transition of existing debt instruments from LIBOR to SONIA. These charges were offset by £397,000 credited in respect of the ineffective portion of the movement in fair value interest rate swaps.

8 TAXATION

a Tax on profit

	52 weeks ended 24 June 2023			52 weeks ended 25 June 2022		
Tax charged to the income statement	Underlying results £'000	Excluded from underlying results £'000	Total statutory £'000	Underlying results £'000	Excluded from underlying results £'000	Total statutory £'000
Current income tax						
Current tax on profit for the year	–	–	–	–	–	–
Adjustments for current tax on prior periods	–	–	–	–	–	–
Total current income tax charge	–	–	–	–	–	–
Deferred income tax						
Origination and reversal of timing differences	1,252	53	1,305	1,462	(84)	1,378
Change in corporation tax rate	256	12	268	–	(33)	(33)
Adjustments for current tax on prior periods	–	(87)	(87)	–	(258)	(258)
Total deferred tax charge	1,508	(22)	1,486	1,462	(375)	1,087
Total tax charged to the income statement	1,508	(22)	1,486	1,462	(375)	1,087

Tax charged to other comprehensive income	52 weeks ended 24 June 2023	52 weeks ended 25 June 2022
Deferred tax		
Gains arising on cash flow hedges in the period	458	493
Effect of increase in future rate of corporation tax	46	68
Adjustments for current tax on prior periods	(44)	–
Total tax charged to other comprehensive income	460	561

8 TAXATION CONTINUED

b Reconciliation of the total tax charge

	52 weeks ended 24 June 2023 £'000	52 weeks ended 25 June 2022 £'000
Profit before income tax	**4,948**	7,367
Tax on Group profit at UK standard rate of corporation tax of 20.5% (2022: 19.0%)	**1,014**	1,400
Expenses not deductible for tax purposes	**349**	151
Profit on sale of property less chargeable gains	**(159)**	(173)
Effect of a change in tax rate	**(267)**	(33)
On inception of sublease	**636**	–
Current and deferred tax over-provided in previous years	**(87)**	(258)
Total tax charged to the income statement	**1,486**	1,087

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. 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 24 June 2023 £'000	52 weeks ended 25 June 2022 £'000
Declared and paid during the year		
Final dividend for 2022: 15.00p (2021: nil) per ordinary share	**2,227**	–
Interim dividend for 2023: 4.00p (2022: 3.50p) per ordinary share	**584**	520
Dividends paid	**2,811**	520

The Directors propose a final dividend of 16.00p (2022: 15.00p) per 50p ordinary share totalling £2,358,000 (2022: £2,227,000) for the 52 weeks ended 24 June 2023. The dividend is subject to approval by shareholders at the Annual General Meeting, to be held on 27 October 2023, and has not been included as a liability in these financial statements as it has not yet been approved or paid.

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

10 EARNINGS PER SHARE

	52 weeks ended 24 June 2023 £'000	52 weeks ended 25 June 2022 £'000
Profit attributable to equity shareholders	**3,462**	6,280
Items excluded from underlying results	**2,604**	(448)
Underlying profit attributable to equity shareholders	**6,066**	5,832
	Number	Number
Weighted average number of shares in issue	**14,746**	14,784
Dilutive outstanding options	**113**	62
Diluted weighted average share capital	**14,859**	14,846
Earnings per 50p ordinary share		
Basic	**23.5p**	42.5p
Diluted	**23.3p**	42.3p
Underlying basic	**41.1p**	39.4p

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 113,000 (2022: 62,000) 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

a Executive Director Remuneration

The table below shows a breakdown of the Executive Director remuneration for the 52 weeks to 24 June 2023.

	George Barnes		Nigel Bunting		Jonathan Neame		Mark Rider		Jonathon Swaine	
Group and Company	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000
Salary[1]	**160**	188	**209**	200	**285**	272	**255**	245	**254**	–
Annual bonus[2]	**16**	42	**14**	30	**55**	82	**33**	56	**32**	–
Salary in lieu of pension contributions[3]	**40**	47	**48**	46	**71**	68	**48**	39	**52**	–
Taxable benefits[4]	**10**	9	**32**	32	**25**	24	**13**	9	**17**	–
Share Incentive Plan[5]	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Directors' emoluments	**226**	286	**303**	308	**436**	446	**349**	349	**355**	–
Primary and secondary share options vesting in the year[6]	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Pension contributions	**–**	–	**–**	–	**–**	–	**3**	10	**4**	–
	226	286	**303**	308	**436**	446	**352**	359	**359**	–

11 DIRECTORS' REMUNERATION CONTINUED

The number of Directors who:	52 weeks ended 24 June 2023	52 weeks ended 25 June 2022
Had pension benefits accruing under money purchase schemes	5	4
Exercised options over shares in the scheme	1	1
Had awards receivable in the form of shares under a long-term incentive plan	5	4

Details of Directors' share options are shown within the remuneration committee report on page 61.

1. The average pay increase for Executive Directors for the period 1 July 2022 to 30 June 2023 was 4% (2022: 4.7%). The salary increase for the highest paid Director was 4% (2022: 2.2%).
2. The annual bonus accrued in 2023 relates to performance in the 2023 financial year and was paid in September 2023. The aggregate bonus paid to Executive Directors in the 2023 financial year relating to the 2022 financial year was £210,000 or 23% of executive salaries.
3. The highest paid Director and two other Executive Directors are not contributing members of the Company pension scheme. In addition, the pension contributions for the remaining Executive Directors 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 2023, options were exercised by one Director over 729 shares (2022: one Director over 1,787 shares). The aggregate gross gain, not included in the table above, made by this Director on the exercise of share options was £11,081 (2022: £13,581).

Options exercised by the highest paid Director are included in these numbers. He did not exercise any options in 2023. The shares exercised in 2022 were exercised by the highest paid Director.

b Non-Executive Director Remuneration

The table below shows a single remuneration figure of all services for the 52 weeks to 24 June 2023.

	2023			2022		
Group and Company	Fees £'000	Benefits[1] £'000	Total £'000	Fees £'000	Benefits[1] £'000	Total £'000
Bill Brett	38	–	38	37	–	37
Kevin Georgel	38	–	38	37	–	37
Richard Oldfield	78	1	79	75	1	76
Hilary Riva	38	–	38	37	–	37

1. The taxable benefit is an allowance against purchases of Shepherd Neame products.

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 24 June 2023 Number	52 weeks ended 25 June 2022 Number
Brewery, head office and visitor centre	239	229
Retail pubs	1,523	1,325
	1,762	1,554

13 GOODWILL AND INTANGIBLE ASSETS

Group and Company	Brewing and distribution rights £'000	Goodwill £'000	Total £'000
Cost			
At 26 June 2021	92	760	852
Additions	129	–	129
At 25 June 2022	221	760	981
Additions	–	266	266
At 24 June 2023	**221**	**1,026**	**1,247**
Amortisation and impairment			
At 26 June 2021	35	489	524
Amortisation charge for the period	30	–	30
Impairment charge for the period	–	52	52
At 25 June 2022	65	541	606
Amortisation charge for the period	44	–	44
Impairment charge for the period	–	–	–
At 24 June 2023	**109**	**541**	**650**
Net book value			
At 24 June 2023	**112**	**485**	**597**
At 25 June 2022	156	219	375
At 26 June 2021	57	271	328

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

The opening Group goodwill of £219,000 arose on the acquisition of Ultimate Entertainment Services Limited and Village Green Restaurants Limited. The goodwill in the year arose on the acquisition of Urban Reef Restaurant Limited. None of the goodwill recognised is expected to be deductible for income tax purposes. All goodwill relates to the Retail and Tenanted segments and is apportioned as shown.

Goodwill is allocated to cash-generating units as follows:

	52 weeks ended 24 June 2023 £'000	52 weeks ended 25 June 2022 £'000
Ultimate Entertainment Services Limited	**125**	125
Village Green Restaurants Limited	**94**	94
Urban Reef Restaurant Limited	**266**	–
Total goodwill	**485**	219

No impairment loss was recognised during the year. During the 52 weeks ended 25 June 2022, the Group recognised an impairment loss of £52,000 in respect of the Horse and Groom (Dartford) Limited. The impairment losses in the 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 26 June 2021	254,563	2,088	37,106	95,319	230	389,306
Additions	45	119	454	4,098	513	5,229
Disposals	(6,051)	(39)	(45)	(5,021)	(12)	(11,168)
Transfers within property, plant and equipment	–	–	20	34	(54)	–
Transfers to investment property	(326)	–	–	(198)	–	(524)
Transfers from investment property	20	–	–	–	–	20
Transfers to assets held for sale	(1,272)	–	–	(375)	–	(1,647)
At 25 June 2022	246,979	2,168	37,535	93,857	677	381,216
Additions	3,239	184	669	5,456	3,903	13,451
Revaluation	1,900	–	–	–	–	1,900
Disposals	(15)	(62)	(1)	(1,329)	–	(1,407)
Transfers within property, plant and equipment	69	–	95	169	(333)	–
Transfers to investment property	(356)	–	–	(61)	–	(417)
Transfers from investment property	–	–	–	–	–	–
Transfers to assets held for sale	(1,082)	–	–	(445)	–	(1,527)
At 24 June 2023	**250,734**	**2,290**	**38,298**	**97,647**	**4,247**	**393,216**
Accumulated depreciation and impairment						
At 26 June 2021	13,269	978	31,035	58,914	47	104,243
Charge for year	564	128	1,011	5,587	–	7,290
Impairment	1,141	13	–	407	–	1,561
Disposals	(1,695)	(39)	(44)	(3,998)	(1)	(5,777)
Transfers to investment property	(74)	–	–	(130)	–	(204)
Transfers to assets held for sale	(263)	–	–	(285)	–	(548)
At 25 June 2022	12,942	1,080	32,002	60,495	46	106,565
Charge for year	569	196	986	5,267	–	7,018
Impairment	1,304	15	–	197	–	1,516
Revaluation	–	–	–	–	–	–
Disposals	(10)	(9)	–	(1,228)	–	(1,247)
Transfers within property, plant and equipment	–	–	–	–	–	–
Transfers to investment property	(73)	–	–	(44)	–	(117)
Transfers from investment property	–	–	–	–	–	–
Transfers to assets held for sale	(21)	–	–	(308)	–	(329)
At 24 June 2023	**14,711**	**1,282**	**32,988**	**64,379**	**46**	**113,406**
Net book value						
At 24 June 2023	**236,023**	**1,008**	**5,310**	**33,268**	**4,201**	**279,810**
At 25 June 2022	234,037	1,088	5,533	33,362	631	274,651
At 26 June 2021	241,294	1,110	6,071	36,405	183	285,063

Included in additions is £99,000 (2022: £92,000) of own labour capitalised.

Disposals includes an amount of £1,240,856 (2022: £2,853,000) 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 £25,577,000 (2022: £23,152,000), the related accumulated depreciation charges amounted to £1,852,000 (2022: £580,000), and the aggregate rentals receivable amounted to £1,333,000 (2022: £1,245,000).

15 IMPAIRMENT

During the year, impairment losses of £5,986,000 (2022: £2,863,000) and impairment reversals of £1,527,000 (2022: nil) were recognised within items excluded from underlying results:

Group and Company	2023 £'000	2022 £'000
Intangible assets	–	52
Property, plant and equipment	1,516	1,561
Right-of-use assets	2,885	1,226
Assets held for sale	58	24
Impairment losses net of reversals	4,459	2,863

The impairment losses were attributable to the following reportable segments:

Group and Company	2023 £'000	2022 £'000
Retail Pubs & Hotels	4,511	1,899
Tenanted Pubs	(52)	940
Unallocated	–	24
Total impairment charge	4,459	2,863

Impairment is assessed at the cash-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 is impaired or not is 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 is 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, which in the year under review were 2.0% (2022: 2.0%) for retail pubs and 2.0% (2022: 2.0%) for tenanted pubs, and a pre-tax discount rate of 14.39% (2022: 9.83%). These key assumptions are based on management knowledge and historical information.

Where the value in use is higher than the carrying amount of the cash-generating unit, no further assessment is required. For cash-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 also recognised where the property valuation is lower than the cash-generating unit's carrying value, for those assets determined to be at risk of impairment. The impairment 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 potential 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	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000	2023 £'000	2022 £'000
Property, plant and equipment	63	853	22	485	22	364
Right-of-use assets	718	1,264	230	426	224	279
	781	2,117	252	911	246	643

FINANCIAL STATEMENTS

16 INVESTMENT PROPERTIES

Investment properties, which are all freehold, are revalued to fair value through the profit and loss account 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 perpetuity, discounted to present value at a rate of between 5% and 11% (2022: 5% to 10%); average yields earned on comparable properties from publicly available information; and the fair values for residential properties on comparable market evidence. 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 (2022: Level 3) in the fair value hierarchy. There has been no change to the valuation technique during the year.

Group and Company	2023 £'000	2022 £'000
Valuation:		
Carrying value at start of period	6,716	6,068
Additions	128	94
Disposals	–	(1)
Transfers to assets held for sale	(50)	(265)
Transfers from property, plant and equipment	300	320
Transfers to property, plant and equipment	–	(20)
Fair value movement	72	520
Carrying value at end of period	**7,166**	6,716

Investment property income

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

Group and Company	2023 £'000	2022 £'000
Rental income	102	156
Direct operating expenses	(296)	(164)
Fair value movement	72	520

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 24 June 2023 at a historical cost of £2,898,000 (2022: £2,776,000).

17 RECOGNISED FAIR VALUE MEASUREMENTS

Fair value hierarchy

Group and Company at 24 June 2023	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment properties (see note 16)	–	–	7,166	7,166
Assets held for sale (see note 24)	–	–	365	365
Total non-financial assets	**–**	**–**	**7,531**	**7,531**

Group and Company at 25 June 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment properties (see note 16)	–	–	6,716	6,716
Assets held for sale (see note 24)	–	–	1,099	1,099
Total non-financial assets	–	–	7,815	7,815

The financial instruments that are recognised and measured at fair value in the financial statements are classified into three levels as 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.

18 OTHER NON-CURRENT ASSETS

Loans to customers due after one year

Group and Company	2023 £'000	2022 £'000
Carrying value at start of period	–	5
Redemptions	–	(2)
Loan discounts awarded	–	(2)
Reclassification of non-current loans	–	(1)
Carrying value at end of period	**–**	–

In the prior year, loans receivable constituted financing transactions and were measured at the present value of the future cash flows, discounted at a market rate of interest. The level of discounts awarded and the interest and fees charged was dependent on the trading performance of each customer against individual targets. At 24 June 2023, there were no longer any such loans to customers. At 25 June 2022, the loans were receivable within one year and consequently reclassified to other receivables.

19 ACQUISITION OF SUBSIDIARY UNDERTAKINGS

On 28 July 2022, the Company acquired 100% of the issued share capital East Anglia Pub Corporation Limited (EAPC), a company which owns and operates one pub in Leigh-on Sea, Essex. In addition, at the same date, as part of this transaction, the Company also agreed to buy two related pub properties. The total consideration for these related transactions was £4,653,000 which was all satisfied by cash. The fair value of the assets acquired at that date was £4,852,000 which was more than the fair value of the consideration.

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

	Book value of EAPC £'000	Revaluation £'000	Book value of pub purchases £'000	Revaluation £'000	Fair value to group £'000
Non-current assets					
Property, plant and equipment	862	1,138	1,000	1,900	4,900
Current assets					
Inventories	12	–	–	–	12
Trade and other receivables	–	–	–	–	–
Cash and cash equivalents	576	–	–	–	576
Total assets	**1,450**	**1,138**	**1,000**	**1,900**	**5,488**
Trade and other payables	(422)	–	–	–	(422)
Deferred tax liabilities	(30)	(184)	–	–	(214)
Total liabilities	**(452)**	**(184)**	**–**	**–**	**(636)**
Net assets	**998**	**954**	**1,000**	**1,900**	**4,852**
Balance arising on acquisition taken to non underlying items					**(199)**
					4,653
Satisfied by:					
Cash					**4,653**

The business of East Anglia Pub Corporation Limited was hived up to Shepherd Neame Limited at the date of acquisition, and results since this date have been recognised in this company.

On 19 July 2022, the Company acquired 100% of the issued share capital of Urban Reef Restaurant Limited, a company which owns and operates one pub in Boscombe, Bournemouth, for cash consideration of £1,618,000. The fair value of the assets acquired at that date was £1,352,000, which was less than the fair value of the consideration by £266,000, which has been treated as goodwill.

	Book value £'000	Revaluation £'000	Fair value to Group £'000
Non-current assets			
Property, plant and equipment	**390**	1,110	**1,500**
Current assets			
Inventories	**10**	–	**10**
Trade and other receivables	**107**	–	**107**
Cash and cash equivalents	**190**	–	**190**
Total assets	**697**	1,110	**1,807**
Trade and other payables	**(455)**	–	**(455)**
Deferred tax liabilities	**(27)**	27	**–**
Total liabilities	**(482)**	27	**(455)**
Net assets	**215**	1,137	**1,352**
Goodwill arising on acquisition			**266**
			1,618
Satisfied by:			
Cash			**1,618**

The business of Urban Reef Restaurant Limited was hived up to Shepherd Neame Limited at the date of acquisition, and results since this date have been recognised in this Company.

20 INVESTMENTS IN SUBSIDIARIES

Company	2023 £'000	2022 £'000
Cost		
At beginning of period	**22**	22
Additions	**1,351**	–
Carrying value at end of period	**1,373**	22

As at 24 June 2023, 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%
East Anglia Pub Corporation Limited[2,3]	£1 ordinary shares	100%
Urban Reef Restaurant Limited[2]	£1 ordinary shares	100%

1. These companies were dormant throughout the period.
2. These companies were non-trading subsidiaries at the period end.
3. East Anglia Pub Corporation Limited was struck off after the reporting period.

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

21 LEASES

This note provides information for leases where the Group is lessee. For leases where the Group is a lessor, see note 34.

a Amounts recognised in the statement of financial position

Group and Company	2023 £'000	2022 £'000
Right-of-use assets		
Properties	**41,358**	43,631
Vehicles	**509**	516
Equipment	**55**	88
	41,922	44,235
Lease liabilities		
Current	**2,987**	2,780
Non-current	**52,275**	53,106
	55,262	55,886

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 25 June 2022	43,631	516	88	**44,235**
Additions	3,124	259	–	**3,383**
Lease amendments[1] – other	312	(19)	7	**300**
Depreciation	(2,824)	(247)	(40)	**(3,111)**
Impairment	(2,885)	–	–	**(2,885)**
Net carrying value as at 24 June 2023	**41,358**	**509**	**55**	**41,922**

Group and Company	Property £'000	Vehicles £'000	Equipment £'000	Total £'000
Net carrying value as at 26 June 2021	46,717	548	46	47,311
Additions	15	245	79	339
Disposals	–	(15)	–	(15)
Lease amendments – rent concessions	(48)	–	–	(48)
Lease amendments[1] – other	1,034	–	–	1,034
Depreciation	(2,861)	(262)	(37)	(3,160)
Impairment	(1,226)	–	–	(1,226)
Net carrying value as at 25 June 2022	43,631	516	88	44,235

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

A maturity analysis of gross lease liability payments is included within note 28.

b Amounts recognised in the Income Statement

Group and Company	2023 £'000	2022 £'000
Depreciation charge on right-of-use assets		
Properties	**2,824**	2,861
Vehicles	**247**	262
Equipment	**40**	37
	3,111	3,160
Interest expense (included in net finance costs)	**1,247**	1,244
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in operating charges)	**183**	176
Impairment of right-of-use assets	**2,885**	1,226

The Group's total cash outflow in relation to leases in 2023 is £4,099,000 (2022: £4,220,000).

In the previous period, the Group applied the practical expedient regarding COVID-19-related rent concessions to all rent concessions that were 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, was £116,000.

The Group tests right-of-use assets for impairment when there are indicators that the assets may have been impaired. There will be an impairment if the recoverable amount is lower than the carrying value. The recoverable amount is value in use. The same assumptions to calculate value in use are used for both goodwill and 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. See note 15.

22 INVENTORIES

Group and Company	2023 £'000	2022 £'000
Raw materials and consumables	**2,313**	2,509
Work in progress	**414**	411
Finished goods including goods for resale	**5,274**	5,147
	8,001	8,067

Inventories recognised as an expense during the year ended 24 June 2023 totalled £68,744,000 (2022: £67,846,000). These were included in operating charges.

Write-downs of inventories to net realisable value amounted to £566,000 (2022: £399,000). These were recognised as an expense during the year ended 24 June 2023 and are included in operating charges in the Income Statement.

23 TRADE AND OTHER RECEIVABLES

Group and Company	2023 £'000	2022 £'000
Trade receivables	14,180	13,505
Other receivables	366	295
Derivative financial instruments (see note 27)	66	219
Prepayments	4,423	3,223
Accrued income	423	443
	19,458	17,685

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 previous reporting period. The historical rates are adjusted to reflect current and forward-looking macroeconomic factors affecting customers' ability to settle the amount outstanding.

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

Group and Company	2023 £'000	2022 £'000
Opening balance	415	680
Increase/(decrease) in loss allowance recognised in the Income Statement	176	(265)
Closing balance	591	415

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

Group and Company	2023 £'000	2022 £'000
Current	7,178	11,278
Overdue up to 30 days	5,667	1,766
Overdue between 30 and 60 days	935	305
Overdue more than 60 days	991	571
Trade receivables before loss allowance	14,771	13,920
Loss allowance	(591)	(415)
Trade receivables net of loss allowance	14,180	13,505

Included in other receivables are loans to customers of nil (2022: £19,000) due within one year and nil (2022: £38,000) due in more than one year, net of a provision of nil (2022: £2,000).

24 ASSETS CLASSIFIED AS HELD FOR SALE

Group and Company	2023 £'000	2022 £'000
Property held for sale	**365**	1,099

At 24 June 2023, two properties were classified as held for sale (2022: three properties). One was reclassified from investment properties in the year and sits within the Unallocated operating segment (2022: two) and four were reclassified from property, plant and equipment in the year and sat within the Tenanted Pubs operating segment (2022: one property); all have been identified for sale based on their fit with the remaining estate. Sales are expected within 12 months from the reporting date. No impairment charge was recognised (2022: £289,000) on the transfer of properties to held for sale (2022: two).

25 TRADE AND OTHER PAYABLES

	Group 2023 £'000	Group 2022 £'000	Company 2023 £'000	Company 2022 £'000
Trade payables	**11,318**	8,884	**11,318**	8,884
Amounts due to subsidiary undertakings	**–**	–	**1,373**	22
Other tax and social security	**6,424**	6,649	**6,424**	6,649
Accruals	**6,973**	8,515	**6,973**	8,515
Deferred income	**235**	168	**235**	168
Trade deposits	**2,134**	2,191	**2,134**	2,191
Other payables	**1,102**	815	**1,102**	815
	28,186	27,222	**29,559**	27,244

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 £1,373,000 (2022: £22,000) have no fixed repayment date or interest payable. Company amounts due to subsidiary undertakings are unsecured.

26 BORROWINGS

Group and Company	2023 £'000	2022 £'000
Bank loans	**27,800**	46,400
Other loans	**55,000**	35,000
Less: capitalised loan arrangement fees	**(980)**	(530)
Total borrowings	**81,820**	80,870
Analysed as:		
Borrowings within current liabilities	**1,600**	1,600
Borrowings within non-current liabilities	**80,220**	79,270
	81,820	80,870

Borrowings at the end of the reporting period comprise a 20-year term loan of £35,000,000 arranged in October 2018, a 10-year term loan of £20,000,000 arranged in October 2022, a 20-year term loan of £19,300,000 arranged in April 2007 and drawings of £8,500,000 on the revolving credit facility.

26 BORROWINGS CONTINUED

The £35,000,000 and £20,000,000 loans represent a private placement of loan notes with BAE Systems Pension Funds Investment Management Ltd and are repayable on 30 October 2038 and 26 October 2032 respectively. The interest rates are fixed at 3.99% and 5.47% respectively, and both are payable six-monthly. Due to a technical breach of covenants during the COVID-19 pandemic, the interest rate on the £35,000,000 loan was temporarily increased to 4.49% until the Company's leverage ratio returned to an accepted level for four consecutive quarters. The interest rate reverted to 3.99% on 1 January 2023. The £19,300,000 term loan was provided by Lloyds Bank plc and is repayable in three instalments of £1.6m payable in December every year, with the outstanding balance repayable on 31 December 2026. The interest rate payable is three-month SONIA 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 27.

The four-year revolving credit facility with Lloyds Bank plc and HSBC Bank plc matures on 31 December 2026. This is a committed facility which permits drawings of different amounts and for different periods. These drawings carry interest at a margin above SONIA with a commitment payment on the undrawn portions. Interest is payable at each loan renewal date.

The Group has a £5,000,000 overdraft facility within the revolving credit facility with interest linked to the Bank of England base rate.

At the end of the reporting period, £8,500,000 (2022: £19,500,000) of the total £35,000,000 (2022: £45,000,000) committed revolving credit bank facility was available and undrawn, as well as the £5,000,000 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:

Group and Company 2023	Term or expiry date	Period rate fixed (years)	Weighted average interest rate	Book value £'000	Fair value £'000	Fair value level
£19.3m loan swapped into fixed rate	Dec 2026	3.5	6.01	19,300	19,300	3
£35.0m private placement at fixed rate	Oct 2038	15.3	4.22	35,000	35,000	3
£20.0m private placement at fixed rate	Oct 2032	9.3	5.47	20,000	20,000	3
£35.0m revolving credit facility	Dec 2026	3.5	4.70	8,500	8,500	3
Total borrowings				**82,800**	**82,800**	

Group and Company 2022	Term or expiry date	Period rate fixed (years)	Weighted average interest rate	Book value £'000	Fair value £'000	Fair value level
£20.9m loan swapped into fixed rate	Dec 2026	4.5	6.68	20,900	20,900	3
£35.0m private placement at fixed rate	Oct 2038	16.3	4.49	35,000	35,000	3
£45.0m revolving credit facility	Oct 2023	–	2.77	25,500	25,500	3
Total borrowings				81,400	81,400	

Non-current borrowings are classified as Level 3 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.

27 FINANCIAL INSTRUMENTS

a Capital management

The capital structure of the Group consists of loans (see note 26), 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 2023	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					
Finance lease receivable	–	–	2,466	–	2,466
Trade and other receivables (note 23)	–	–	14,969	–	14,969
Cash and cash equivalents	–	–	1,444	–	1,444
Derivative financial instruments not designated as hedging instruments	66	–	–	–	66
Total assets	66	–	18,879	–	18,945
Liabilities					
Borrowings (note 26)	–	–	–	81,820	81,820
Trade and other payables (note 25)	–	–	–	21,527	21,527
Derivative financial instruments designated as hedging instruments	–	82	–	–	82
Lease liabilities (note 21)	–	–	–	55,262	55,262
Total liabilities	–	82	–	158,609	158,691

Group and Company 2022	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					
Trade and other receivables (note 23)	–	–	14,243	–	14,243
Cash and cash equivalents	–	–	5,579	–	5,579
Derivative financial instruments not designated as hedging instruments	219	–	–	–	219
Total assets	219	–	19,822	–	20,041
Liabilities					
Borrowings (note 26)	–	–	–	80,870	80,870
Trade and other payables (note 25)	–	–	–	20,405	20,405
Derivative financial instruments designated as hedging instruments	–	2,353	–	–	2,353
Lease liabilities (note 21)	–	–	–	55,886	55,886
Total liabilities	–	2,353	–	157,161	159,514

27 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 24 June 2023 the Group held one (2022: one) interest rate swap contract for a nominal value of £19,300,000 (2022: £24,000,000). 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 SONIA. 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, £19,300,000 of the Group's borrowings (2022: £20,900,000) were hedged by the interest rate swap at a fixed rate of 5.2% (2022: 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 £2,019,000 (2022: £2,596,000) was recognised in other comprehensive income in respect of the swap in cash flow hedges. During the year the Group settled the ineffective portion of the interest rate swap for cash consideration of £73,000. Due to the nominal value of the derivative exceeding the related loan prior to this settlement, the ineffective portion of fair value movements of hedging instruments was recognised within finance costs, being a credit of £195,000 (2022: £397,000).

Interest rate caps

At the end of the reporting period, £5,000,000 (2022: £20,000,000) of the Group and Company's borrowings were hedged by an interest cap at a rate of 2.0% (2022: 2.0%), which expires in October 2023. The fair value movement recognised in operating charges was a loss of £153,000 (2022: gain of £210,000).

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, as prescribed under the accounting standards. See page 97 for an explanation of each level.

Group and Company at 24 June 2023	**Total £'000**	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Financial assets at fair value through profit or loss				
Interest rate cap	**66**	**–**	**66**	**–**
Financial liabilities at fair value through other comprehensive income				
Interest rate swaps	**(82)**	**–**	**(82)**	**–**
	(16)	**–**	**(16)**	**–**

Group and Company at 25 June 2022	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets at fair value through profit or loss				
Interest rate cap	219	–	219	–
Financial liabilities at fair value through other comprehensive income				
Interest rate swaps	(2,353)	–	(2,353)	–
	(2,134)	–	(2,134)	–

28 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 the Group's 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 benefit from a reduction in borrowing costs in markets where rates are falling. Debt is represented by loan notes, a term loan, a four-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 £55,000,000 loan notes bear interest at a variable rate based on SONIA 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 £19,300,000 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 SONIA and on the term loan is fixed by means of an interest rate swap contract which runs for the same period as the loan, as disclosed in notes 26 and 27.

Interest on the £35,000,000 20-year term loan note and the £20,000,000 10-year term loan note is fixed at 3.99% and 5.47% respectively. Interest on drawings on the revolving credit facility and short-term overdraft facility is not fixed but £5,000,000 of the risk is capped at 2.0% until October 2023. 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, 90% (2022: 42%) of the Group's loans were at fixed rates and 96% (2022: 58%) were at fixed or capped rates.

Sensitivity

The Group borrows in sterling at market rates. The three-month SONIA rate during the 52 weeks ended 24 June 2023 ranged between 1.19% and 4.93%. The Directors consider a range of 1.0%-2.0% to be a reasonable possible increase 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 be as follows:

Group and Company	**2023 £'000**	2022 £'000
Increase interest rate by 1.0%	**(85)**	(255)
Increase interest rate by 2.0%	**(170)**	(510)

FINANCIAL STATEMENTS

28 FINANCIAL RISK MANAGEMENT CONTINUED

Liquidity and cashflow 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 to 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. The Board is vigilant in managing the business, assessing and monitoring acquisitions and investments, and forecasting the Group's profit and cash flows. The funding position of the Group is continuously reviewed against headroom in the Group's borrowing facilities.

It is currently the Group's policy to finance the majority of its business needs by means of long-term loans, which amounted to £82,800,000 fully drawn at the year end (2022: £81,400,000). 66% (2022: 43%) of the Group's borrowings are repayable after more than five years, 32% (2022: 55%) within the first to fifth years and 2% (2022: 2%) within one year.

The balance of requirements at the end of the reporting period was provided by: a four-year revolving credit loan facility of £35,000,000, which is due to mature in December 2026; and a committed overdraft facility of £5,000,000, which matures in December 2026. The size of the facilities is regularly reviewed and the overdraft facility is renewed annually. At the year end £8,500,000 (2022: £25,500,000) of the revolving credit loan facility and nil (2022: 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 24 June 2023	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	5,665	5,580	32,795	73,964	118,004
Derivative financial instruments	142	130	267	–	539
Lease liabilities	3,224	4,086	11,495	51,980	70,785
Trade and other payables	21,527	–	–	–	21,527
	30,558	9,796	44,557	125,944	210,855

Group and Company at 25 June 2022	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	4,446	29,188	22,422	52,810	108,866
Derivative financial instruments	993	951	1,352	–	3,296
Lease liabilities	3,945	3,914	11,203	52,872	71,934
Trade and other payables	20,405	–	–	–	20,405
	29,789	34,053	34,977	105,682	204,501

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 able 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 and no risk is considered.

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.

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 potential 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.

Price risk

The Group does not hold any financial assets or liabilities which are materially subject to price risk.

29 DEFERRED TAX

Group and Company	Asset 2023 £'000	Liability 2023 £'000	Net 2023 £'000	Asset 2022 £'000	Liability 2022 £'000	Net 2022 £'000
As at start of period	**4,178**	**(18,927)**	**(14,749)**	5,028	(18,129)	(13,101)
Charged to the Income Statement	**(545)**	**(941)**	**(1,486)**	(289)	(798)	(1,087)
Charged to other comprehensive income	**(460)**	**–**	**(460)**	(561)	–	(561)
Acquired in the year – in equity	**–**	**(214)**	**(214)**			
As at end of period	**3,173**	**(20,082)**	**(16,909)**	4,178	(18,927)	(14,749)

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

	Asset 2023 £'000	Liability 2023 £'000	Net 2023 £'000	Asset 2022 £'000	Liability 2022 £'000	Net 2022 £'000
Derivative financial instruments	**–**	**(23)**	**(23)**	437	–	437
Corporate interest restriction carried forward	**568**	**–**	**568**	570	–	570
Accelerated capital allowances	**–**	**(3,495)**	**(3,495)**	–	(3,297)	(3,297)
Revaluation of freehold pubs	**–**	**(9,200)**	**(9,200)**	–	(9,354)	(9,354)
Rolled-over capital gains	**–**	**(6,012)**	**(6,012)**	–	(5,859)	(5,859)
Tax losses carried forward	**102**	**–**	**102**	748	–	748
IFRS 16 transitional adjustment	**1,933**	**–**	**1,933**	2,040	–	2,040
Capital losses carried forward	**504**	**–**	**504**	371	–	371
Finance lease receivable	**–**	**(636)**	**(636)**			
On acquisition of subsidiary	**–**	**(214)**	**(214)**			
Others	**66**	**(502)**	**(436)**	12	(417)	(405)
As at end of period	**3,173**	**(20,082)**	**(16,909)**	4,178	(18,927)	(14,749)

30 SHARE CAPITAL

	2023 £'000	2022 £'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 would 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. At 24 June 2023, 117,784 ordinary shares were held with a market value of £757,000 (2022: 59,844 and £482,000). During the year, the Group purchased 79,000 shares at an average cost of £7.72 per share (2022: nil).

Of the own shares held, none are allocated to employees under the Share Incentive Plan that have not yet vested. A further 90,800, previously held by the Company, have vested unconditionally and as such are no longer treated as own shares held (2022: 17,940 and 87,353 respectively). Of these shares 60,597 can be distributed to employees free of tax (2022: 59,013).

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, and the transfer of historic revaluation reserves on adoption of new accounting standards. Therefore, not all of the retained earnings reserve is considered distributable or available for future distribution as dividends.

32 NOTES TO THE STATEMENT OF CASH FLOWS

a Reconciliation of operating profit to cash generated by operations

	52 weeks ended 24 June 2023			52 weeks ended 25 June 2022		
	Underlying results £'000	Excluded from underlying results £'000	Total £'000	Underlying results £'000	Excluded from underlying results £'000	Total £'000
Operating profit	13,315	(5,681)	7,634	12,893	(2,470)	10,423
Adjustment for:						
Depreciation and amortisation	10,173	–	10,173	10,480	–	10,480
Impairment of property, plant and equipment (note 15)	–	1,516	1,516	–	1,561	1,561
Impairment of intangible assets (note 15)	–	–	–	–	52	52
Impairment of right-of-use assets (note 15)	–	2,885	2,885	–	1,226	1,226
Impairment of assets held for sale (note 15)	–	58	58	–	24	24
Share-based payments expense	39	–	39	183	–	183
Decrease/(increase) in inventories (note 22)	88	–	88	(747)	–	(747)
Increase in debtors and prepayments	(1,958)	–	(1,958)	(2,242)	–	(2,242)
Increase/(decrease) in creditors and accruals	472	(318)	154	712	(374)	338
Loss on sale of assets (excluding property)	76	–	76	53	–	53
Income tax paid	(199)	–	(199)	–	–	–
Fair value movements on financial assets	153	–	153	(210)	–	(210)
Net cash inflow from operating activities	**22,159**	**(1,540)**	**20,619**	21,122	19	21,141

b Reconciliation of movement in cash to movement in net debt

Group and Company	52 weeks ended 24 June 2023 £'000	52 weeks ended 25 June 2022 £'000
Opening cash and overdraft	5,579	5,560
Closing cash and overdraft	1,444	5,579
Movement in cash in the period	(4,135)	19
Cash from increase in bank loans	(1,400)	–
Cash used to repay bank loans	–	15,600
Movement in loan issue costs	450	(105)
Movement in net debt resulting from cash flows	(5,085)	15,514
Net debt at beginning of the period	(75,291)	(90,805)
Net debt	**(80,376)**	(75,291)
Current lease liability	(2,987)	(2,780)
Non-current lease liability	(52,275)	(53,106)
Statutory net debt	**(135,638)**	(131,177)

32 NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED

c Analysis of net debt

Group and Company 2023	June 2022 £'000	Cash flow £'000	Reclassification of long-term loans £'000	Proceeds from borrowings £'000	Issue costs of new loans £'000	Non-cash £'000	**June 2023 £'000**
Cash and cash equivalents	5,579	(4,135)	–	–	–	–	**1,444**
Debt due in less than one year	(1,600)	–	(1,600)	1,600	–	–	**(1,600)**
Debt due after more than one year	(79,270)	–	1,600	(3,000)	756	(306)	**(80,220)**
Net debt	(75,291)	(4,135)	–	(1,400)	756	(306)	**(80,376)**
Lease liabilities (note 21)	(55,886)	4,099	–	–	–	(3,475)	**(55,262)**
Statutory net debt	(131,177)	(36)	–	(1,400)	756	(3,781)	**(135,638)**

Group and Company 2022	June 2021 £'000	Cash flow £'000	Reclassification of long-term loans £'000	New loans £'000	Non-cash £'000	June 2022 £'000
Cash and cash equivalents	5,560	19	–	–	–	5,579
Debt due in less than one year	(1,600)	–	(1,600)	1,600	–	(1,600)
Debt due after more than one year	(94,765)	–	1,600	14,000	(105)	(79,270)
Net debt	(90,805)	19	–	15,600	(105)	(75,291)
Lease liabilities (note 21)	(58,326)	4,220	–	–	(1,780)	(55,886)
Statutory net debt	(149,131)	4,239	–	15,600	(1,885)	(131,177)

Non-cash movements in lease liabilities comprise lease additions and modifications of £2,228,000 (2022: £699,000) and interest of £1,247,000 (2022: £1,245,000), less waivers of nil (2022: £164,000).

33 CAPITAL COMMITMENTS – GROUP AND COMPANY

Contracts for capital expenditure not provided for in the financial statements amounted to £2,451,000 (2022: £605,000).

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 are as follows:

Group and Company	**Investment properties 2023 £'000**	**Other property, plant and equipment 2023 £'000**	Investment properties 2022 £'000	Other property, plant and equipment 2022 £'000
Within one year	**331**	**1,190**	171	752
Between one and five years	**883**	**3,074**	452	1,297
After five years	**2,471**	**–**	–	–
	3,685	**4,264**	623	2,049

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 24 June 2023 and 25 June 2022 are included in the tables and footnotes on pages 60-62.

36 SHARE-BASED PAYMENTS

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 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 a 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, 2021, 2022 or 2023. 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 2023 or 2022.

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

	2023 Number	2022 Number
Outstanding shares at start of year	**105,293**	117,623
Forfeited during the year	**(504)**	(1,750)
Distributed during the year	**(13,989)**	(10,580)
Outstanding shares at end of year	**90,800**	105,293
Distributable at end of year	**90,800**	87,353

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 £7.07 (2022: £8.56).

The expense recognised for share-based payments made under the SIP in respect of employee services during the year to 24 June 2023 was £1,000 (2022: £85,000).

36 SHARE-BASED PAYMENTS CONTINUED

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 targets, 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 10 years and the options outstanding at 24 June 2023 had a remaining contractual life of 1.3 years.

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

	2023 Number	**2023 Weighted average exercise price**	2022 Number	2022 Weighted average exercise price
Outstanding at start of year	**714**	**£0.50**	2,141	£0.83
Exercised	**–**	**–**	(1,427)	£1.00
Outstanding options at end of year	**714**	**£0.50**	714	£0.50
Exercisable at end of year	**714**	**£0.50**	714	£0.50

The exercise price for all options outstanding at the end of the year was £0.50.

The fair value of the equity-settled share options granted under the scheme was estimated at the date of grant using the Black-Scholes option pricing model, which was 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 24 June 2023 (2022: nil).

c The Shepherd Neame 2015 Restricted Share Scheme

This is a restricted share scheme for Senior Managers and Executive Directors, including the highest paid Director and four other Directors. This scheme replaced the 2005 Restricted Share Scheme following the cessation of that scheme 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 Executive Directors and Operations 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 grantee remains in the Company's employment.

During the year the Company purchased 79,000 shares at an average cost of £7.72 (2022: nil).

The contractual life of each option granted is 10 years and the options outstanding at 24 June 2023 had a remaining contractual life of 8.4 years.

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

	2023 Number	2023 Weighted average exercise price	2022 Number	2022 Weighted average exercise price
Outstanding at start of year	**362,635**	**£0.50**	329,620	£0.50
Granted during the year	**202,688**	**£0.50**	104,135	£0.50
Exercised	**(3,716)**	**£0.50**	(7,603)	£0.50
Forfeited during the year	**(75,889)**	**£0.50**	(63,517)	£0.50
Outstanding options at end of year	**485,718**	**£0.50**	362,635	£0.50
Exercisable at end of year	**8,313**	**£0.50**	12,029	£0.50

The weighted average fair value of the options granted during the year was £5.02 (2022: £7.84). 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 methods 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 24 June 2023 and 25 June 2022:

	2023	2022
Expected share price volatility	**32.13%**	32.64%
Risk-free interest rate	**3.25%**	0.49%
Dividend yield	**2.74%**	0%
Expected life of option (years)	**3**	3
Weighted average share price	**£6.75**	£9.20

A charge of £38,000 was recognised for share-based payments made under the Shepherd Neame 2015 Restricted Share Scheme in respect of employee service during the year to 24 June 2023 (2022: £98,000).

37 PENSION COMMITMENTS

The Group has two defined contribution schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The total expense charged to profit or loss in the period for pension costs in respect of the schemes amounts to £1,192,000 (2022: £1,074,000). Contributions of £227,000 (2022: £172,000) were payable to the schemes at the year end. Two of the Executive Directors (2022: one) are contributing members to 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 £1,869,000 for the year (2022: £1,586,000), being remuneration of £1,869,000 (2022: £1,586,000) and share-based payment expenses of £nil (2022: nil) as disclosed in the Remuneration Committee Report on pages 58-62. 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's family, is a partner at Barnes Solicitors LLP. During the year to 24 June 2023, Barnes Solicitors LLP provided legal services at a cost of £19,000, including VAT and disbursements to third parties (2022: £2,000). A balance of £3,000 was owed to Barnes Solicitors LLP by Shepherd Neame Limited at the end of the reporting period (2022: nil).

Nigel Bunting, an Executive Director of Shepherd Neame Limited, is also a Director of Davy & Company Limited. During the year, the Group made sales to the value of £345,000 (2022: £119,000) to Davy & Company Limited and its associated companies. At the end of the reporting period, £38,000 was owed to the Group by the Davy Group of companies (2022: £26,000).

Hilary Riva, a Non-Executive Director of Shepherd Neame Limited, is also a Director of the Alexander Centre CIC. During the year, the Group made sales to the value of £9,000 (2022: £5,000) to the Alexander Centre CIC, and purchased services to the value of £1,000 (2022: £1,000) from the Alexander Centre CIC. At the end of the reporting period, no balance was owed to the Group by the Alexander Centre CIC (2022: nil) and no balance was owed by the Group to the Alexander Centre CIC (2022: nil).

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

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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 but 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 either the underlying performance or 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 for pubs that were in the estate in the same period within both years.	
Like-for-like (LFL) tenanted pub income	Tenanted income calculated to exclude from both years those pubs which have not been in the estate 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 for pubs that were trading in both 52-week periods.	
Depreciation pre IFRS 16	Depreciation excluding right-of-use asset depreciation.	Note 3
Net debt	Net debt comprises cash, bank overdrafts and bank and other loans less unamortised loan fees.	Note 32
Gearing pre IFRS 16	Calculated by dividing net debt by net assets excluding IFRS 16 lease adjustments.	
Covenant leverage	Net debt plus cash due via electronic transfer as settlement for a financial asset divided by underlying EBITDA pre IFRS adjustments.	

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.
Total beer volume	Shepherd Neame branded, licensed, third party, customer own-label and contract beer and cider sales volumes.
Own beer volumes	Shepherd Neame branded, licensed, customer own-label and contract beer and cider sales volumes.

FIVE-YEAR FINANCIAL SUMMARY

	IFRS 52 weeks Group 2023 £'000	IFRS 52 weeks Group 2022 £'000	IFRS Restated 52 weeks Group 2021 £'000	FRS 102 52 weeks Group 2020 £'000	FRS 102 53 weeks Group 2019 £'000
Income statement					
Revenue	**166,267**	151,538	86,884	118,207	145,801
Other income	**–**	383	2,839	450	–
Underlying operating profit/(loss)	**13,315**	12,893	(4,240)	1,515	15,258
Operating items excluded from underlying results	**(5,681)**	(2,470)	(6,307)	(17,515)	(168)
Net underlying finance costs	**(5,741)**	(5,599)	(5,817)	(5,155)	(3,901)
Net non-underlying finance costs	**(19)**	314	(356)	(150)	(10,772)
Profit on disposal of property	**3,002**	1,709	221	274	2,848
Investment property fair value movements	**72**	520	87	50	206
Profit/(loss) on ordinary activities before taxation	**4,948**	7,367	(16,412)	(20,981)	3,471
Taxation	**(1,486)**	(1,087)	(1,379)	1,590	(882)
Earnings/(loss) available to shareholders	**3,462**	6,280	(17,791)	(19,391)	2,589
Assets employed					
Non-current assets	**331,850**	325,977	338,775	353,049	315,498
Current assets	**29,379**	32,430	30,659	29,216	21,230
Current liabilities	**(32,773)**	(31,602)	(33,083)	(127,468)	(24,029)
Non-current liabilities	**(149,486)**	(149,478)	(167,004)	(69,561)	(104,602)
Net assets	**178,970**	177,327	169,347	185,236	208,097

Per 50p ordinary share	**2023**	2022	2021	2020	2019
Basic earnings/(loss)	**23.5p**	42.5p	(120.5)p	(131.6)p	17.6p
Underlying earnings available to shareholders	**41.1p**	39.4p	(55.5)p	(21.7)p	60.9p
Dividends (interim and proposed final)	**20.00p**	18.50p	–	–	30.08p
Net assets	**£12.05**	£11.94	£11.40	£12.47	£14.01
Dividend cover	**1.2**	2.3	–	–	0.6
Underlying dividend cover	**2.1**	2.1	–	–	2.0


The Crown at Chislehurst

SINCE 1698

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