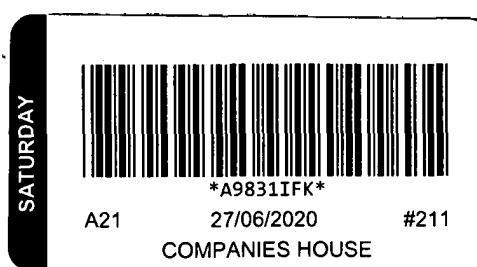


Adnams plc Annual Report
and Accounts 2019

INVESTING IN OUR FUTURE
**WITHOUT
COMPROMISE**



INVESTING IN OUR FUTURE WITHOUT COMPROMISE

Previous years of substantial investment in our brand, technology and estate have culminated in the successful roll-out of our new system. These investments enable our talented team to continue to deliver award-winning products, premium experiences and service for the long term. Without compromise.

Read more from the Chairman on page 12

OUR PURPOSE AND VALUES

Adnams is a proud maker of beer and spirits. We have been crafting products of the highest standard from our home in Southwold since 1872. Without compromising on quality, we source the very best East Anglian ingredients to make the most characterful of drinks. We are vibrant, energetic, refreshingly responsible and tell it how it is. Always focused on the customer, our hotels, pubs, tours and shops bring our products to life and tell our story in their own unique way.

Our company values are rooted in making great products, without costing the earth. Our independence enables us to work for the long term, it enables us to innovate, to build lasting relationships and it enables us to live up to our guiding principles every day.

FINANCIAL HIGHLIGHTS

TURNOVER £000

2019	74,749	£74,749
2018	78,918	
2017	74,765	-5.3%
2016	70,265	
2015	65,698	

DIVIDEND £ (per £1 share)

2019	0.78	£0.78
2018	2.28	
2017	2.28	-65.8%
2016	2.26	
2015	2.16	

EBITDA £000

2019	4,404	£4,404
2018	5,156	
2017	5,535	-14.6%
2016	6,799	
2015	6,727	

NET BANK DEBT £000

2019	17,911	£17,911
2018	18,643	
2017	17,347	-3.9%
2016	9,208	
2015	8,918	

OPERATING PROFIT £000*

2019	719	£719
2018	1,606	
2017	2,159	-55.2%
2016	3,937	
2015	4,093	

NET PENSION LIABILITY £000 (pre-tax)

2019	6,198	£6,198
2018	7,964	
2017	8,223	-22.2%
2016	9,909	
2015	3,225	

The above financial highlights comprise the Key Performance Indicators monitored by the Company.

* Operating profit is reported before highlighted items.

LOW IN ALCOHOL,
NO COMPROMISE ON
TASTE

Read more on page 2

NO COMPROMISE IN
EXPERIENCE

Read more on page 4

EXCELLENT EXPERIENCES,
NO COMPROMISE IN
PASSION

Read more on page 6

NO COMPROMISE WITH
SPIRITS

Read more on page 8

SUPPORTING OUR COMMUNITY,
NO COMPROMISE IN
ATTITUDE

Read more on page 10

CONTENTS

12	Chairman's Report
14	Strategic Report
22	Environmental reporting
24	Finance commentary

GOVERNANCE

26	Our Board
28	Report of the Directors

FINANCIAL STATEMENTS

30	Profit and loss account
30	Statement of comprehensive income
31	Balance sheet
32	Statement of changes in equity
33	Statement of cash flows
34	Notes to the financial statements
48	Corporate governance
49	Directors' responsibilities in respect of the financial statements
50	Independent auditor's report

Strategic report

Governance

Financial statements

LOW IN ALCOHOL, NO COMPROMISE ON

TASTE

Our beer volumes have risen by 2.3%,
we are excited about the future too...

CHEERS TO OUR BEERS

Our award-winning Ghost Ship 4.5% continues to be our best-selling beer. Now in its tenth year, it continues to attract new drinkers and is well established and recognised for its taste around the world. We have seen demand grow year on year and the variety of ways that our customers can sample Ghost Ship 4.5% ensures that they can enjoy their drink wherever they are. We brew more than 30 beers and make in excess of 640,000 pints a week. Our brewers continue to push the boundaries of what is possible, and the social media feedback continues to be very positive.

The combination of our permanent, seasonal and collaboration beers ensures that we appeal to our existing and new customers. So Many Different Worlds, our English Pale Ale collaboration with Cloudwater, sold out in a matter of weeks and won new customers in new parts of the UK.

In 2020, to celebrate the Ghost Ship 4.5% 10th anniversary, we will be releasing four collaborations with leading breweries.

ALL THE TASTE

Our focus on taste and our innovative approach led us to brew our award-winning Ghost Ship 0.5%, which is now our fourth best-selling beer and is critically acclaimed as a pioneer in the fast-paced and growing low and no alcohol segment. We continue to source many of our ingredients locally. This brings us high quality and sustainable sourcing, reducing our carbon footprint.

Ghost Ship 0.5% won gold in the 2019 World Beer Awards and we won six other awards for our beers demonstrating our ability to brew leading and commercially successful beers that build the Adnams brand.

WILD WAVE

Our Wild Wave cider has made inroads in the market and its popularity is growing; we are seeing strong sales in existing markets, which is encouraging. In February 2020, we launched Wild Wave 0.5%, another way we have expanded customer choice – it is vegan, naturally gluten free, only 76 calories per 330ml and supports our established responsible drinking messaging.

NO COMPROMISE IN EXPERIENCE

We have an established, proud and trusted team who are dedicated to showcasing the best of Adnams and the best of our locality.

SENSE OF OCCASION

Our properties continue to perform strongly and embrace individuality, authenticity and great locations underpinned by a commonality of our Adnams values. We have refreshed several of our branded environments in the built, printed and digital channels, which has had a positive effect on bookings and gross profit held steady or improved.

Each business has an absolute focus on the customer experience, and uses multiple feedback tools to allow us to constantly monitor and improve what and how we do things. Our established and experienced teams are empowered to make positive changes to ensure that we deliver.

Our tied and leased properties continue to perform well. We have 29 businesses in Suffolk, five in Norfolk, two in Essex and one in Cambridgeshire. Our managed properties consist of The Swan, The Crown and The Harbour Inn in Southwold, The Cross Keys in Aldeburgh, The Bell Inn in Walberswick, The Plough in Wangford, The Five Bells Inn in Wrentham and The White Horse in Blakeney.

Through a focus on raising awareness, we have seen growth in the reach and frequency of positive press coverage in mainstream and lifestyle publications, in both print and online. The Swan was named as one of the 30 best hotels for a summer break by *The Times*.

The Swan is looking rather fly with its midnight blue dining space, bunches of exposed bulbs and flashes of neon colour. It's all very pleasing for the down-from-London set who come for nostalgic fun on the kitsch pier and brewery tours at Adnams, which also owns the hotel and stocks the beer pumps. Crabbing on the beach, and a trip to Snape for the month-long August proms concerts add extra fun.

Read more at www.thetimes.co.uk/article/30-best-hotels-in-the-uk-to-book-for-summer-2019-dw5rrrj5k

EXCELLENT EXPERIENCES, NO COMPROMISE IN PASSION

Making memories is what it's all about.

SHARING OUR PASSION

We welcomed more than 22,000 visitors on our tours and experiences in 2019. This is a new high and our already excellent feedback increased again – this was recognised by a Certificate of Excellence from Tripadvisor, which are awarded to attractions that consistently earn great reviews for five years.

Our Brewery, Distillery and Make Your Own Gin experiences are led by a reinvigorated, fun and passionate team who love telling our incredible story. In 2020, we are looking to expand our offering to include team-building, whisky-blending and corporate Make Your Own Gin.

WHAT MAKES US SPECIAL

Our people – it's a fact. Individuality is important to us; we want everyone in the business to be the best they can be. We have more than 2,700 years of service in our business and we encourage and support individuals with training, development and wellbeing.

A PLACE TO THRIVE

As a business we have a thirst for learning. This is clear in our people across all areas of our business and at all levels – everyone is encouraged to develop themselves. This can be in a structured accredited way or informally – we work on individual plans. We offer our people every opportunity to improve their physical, mental

and emotional wellbeing and we have introduced a free and confidential digital GP service seven days a week, as well as digital apps that can help employees to improve their fitness, weight, sleep patterns, stress levels, finances and relationships. We have started on site relaxation and mindfulness sessions, a confidential face-to-face pastoral care service – a space where employees can talk in confidence about anything they choose. *Acknowledging that life can be tough on occasion* and ensuring that we do all we can to support people is the right thing for us to do, morally and commercially.

To help communication across the business, we use a digital communication platform called Workplace (work Facebook) that puts information into the palms of our employees 24 hours a day wherever they work. It enables us to share business updates, news, surveys, new product launches, sales successes and much more – highlighting and sharing what is going on and what people are doing is easy and simple. We continue to hold pulse communications surveys and learn from our regular employee forums.

NO COMPROMISE WITH SPIRITS

A botanical legacy.

GRAIN TO GLASS

We have now won over 100 awards in 10 years since the birth of our distillery in 2010. Our grain to glass story stands out in a crowded market, our iconic branding is building strong recognition and our growing seasonal products are winning new audiences.

Our Copper House Dry Gin continues to be our best-selling gin and we introduced small seasonal batches which have continued to develop our presence in a competitive market. The introduction of our Orange and Sea Buckthorn, Lemon and Tamarind, and Habanero and Lime gins have led to a strong following and new customers.

NEW TASTES

Our Copper House Gin and Tonic in cans has seen growth and we sold more than 300,000 cans last year. How and when our customers want to drink our products is important to us and we look to continually innovate whilst simultaneously reducing our footprint in the world.

We have also seen the trend build in cocktails, and through social media and video we have been able to create strong content on how our spirits can be used to make cocktails. Our whisky continues to be recognised in the press and the industry: our Rye Malt won Gold Outstanding at the 2019 International Wine & Spirit Competition awards and our Triple Malt and Single Malt Whisky and Copper House Pink

Gin won medals as well, whilst Whisky Advocate named our Rye Malt as one of the Top 20 Whiskies and it was featured in Jim Murray's *Whisky Bible*.

NEW AUDIENCES

We were selected to be part of the Government's high-profile and established Britain is GREAT campaign, which is in 144 countries and over 300 cities, promoting people to think and feel differently about the UK. Being included in this campaign will help to raise awareness of Adnams and our offerings – in 2019, we sold more than 250,000 bottles of our spirits.

ADNAMS AROUND THE WORLD

We are growing our international presence – recent achievements include: Adnams being stocked in Australia in 230 Dan Murphy's stores and 800 BWS stores; in South Korea Ghost Ship 4.5% will be in 4,500 7-Eleven stores; and you will also see a selection of beers, wines and spirits on Greater Anglia trains and four Fred. Olsen vessels cruising the high seas.

SUPPORTING OUR COMMUNITY, NO COMPROMISE IN ATTITUDE

It's all about the difference we can make.

"Sustainability has been in our DNA for decades and is ingrained in everything we do. As one of the most energy efficient breweries and distilleries in the UK, we enjoy learning from others and also sharing our sustainability stories to educate and inspire both ourselves and others to make changes. The trust of our customers, in what we do and how we do it, means so much. Our sustainability stories are real, worthwhile and all about doing the right thing." Andy Wood, CEO.

OUR REACH

For 29 years, Adnams has donated 1% of annual profits, mandated dividends, donations and legacies to The Adnams Community Trust, which is a registered charity (No. 1000203) and operates independently of Adnams plc. The Adnams Community Trust supported more than 50 worthwhile causes, organisations and individuals in 2019.

PENNIES

We have been working with Pennies, the digital charity box for eight years – our shop teams choose which charities we support. In 2019, more than 170,000 micro donations raised over £40,000 which has supported six charities including Macmillan Cancer Support, Young Dementia UK and Deafblind UK. "Pennies has always been about giving small change and big purpose, and few businesses have proven this more than Adnams." Alison Hutchinson, CEO, Pennies.

DOING THE RIGHT THING

Supporting our local community is in our DNA – throughout the year we have been able to help more than 300 individuals, charities and organisations in addition to our Community Trust and Pennies. Our employees play a big part in their communities, such as working as magistrates, on-call firefighters, trustees, members of the RNLI, school governors, coaches and bee-keepers, members of the Chamber of Commerce and Board members of local charities.

We have been running our successful beach cleans for over 15 years; we are developing our bee corridor which has grown to over 1.2 million bees; and we organise the famous Adnams 10k which raised £8,000 this year.

We've been recognised in the industry for our sustainability work. We took home the inaugural BBPA sustainability award and the edie Sustainability Leaders Award 2019 for Water Management.

Andy Wood was given a special achievement award at the Footprint Drinks Sustainability Awards.

Adnams has supported more than

350

causes this year alone

Chairman's Report

OUR INVESTMENTS WILL ENSURE WE SUCCEED IN THE LONG TERM, WITHOUT COMPROMISE

As I write this report the news is dominated by discussion of the possible impacts of coronavirus, or Covid-19. The situation is changing rapidly and whatever I say here will undoubtedly be out of date by the time this report is read. The advice given by the Prime Minister on 16 March 2020, a week before the signing of these accounts, that pub visits should be avoided, is hugely disruptive for our industry. Much lobbying is in train to obtain government support to mitigate the effects that this will have, and further support has been announced since. We continue to develop our detailed forecasts to help us to understand the constantly changing environment, however there is enormous uncertainty regarding the progress of Covid-19, the development of the government's response and the effect on staff, customers and suppliers. It is our belief that these accounts are properly prepared on a going concern basis, but we acknowledge that the situation is one with material uncertainties and the auditors have added a paragraph to their report acknowledging these uncertainties.

Given the current uncertainties, Adnams has decided not to pay a final dividend in relation to 2019. The board will keep payment of interim dividends under constant review and retains the flexibility to make payments at any point as 2020 progresses. Any payments and the timing thereof is reliant upon events outside the control of the business. We are cognisant of the fact that shareholders would normally have received a final dividend and want to reassure shareholders that this step has been taken in the long-term interests of the company and its shareholders.

Adnams has invested very heavily in recent years, notably in modern brewery and distillery equipment and in refurbishment of our premium hotel, The Swan in Southwold. In 2019, we made a further, vital investment by replacing our core computer systems, something that we had not done for almost 30 years. This absorbed a very large amount of management time and business focus and we experienced some considerable business disruption, particularly in the second and third

quarters of the year, with the result that 2019 operating profits slipped back from £1.6 million in 2018 to £0.7 million in 2019.

The investments that we have made have been about positioning Adnams for the future. We have state-of-the-art brewing and distilling equipment with the flexibility to deal with rapidly changing consumer tastes and demands. We have a unique UK facility for making market-leading dealcoholised beer. We have a well-invested estate and a premium luxury hotel in Southwold. We now have modern computer systems linking suppliers, production, sales and distribution in our drinks business.

2019 turnover of £74.7 million was down 5% on 2018 turnover of £78.9 million. Beer volumes, assisted by some contract brewing, increased by over 2%. Cash generation remained strong with EBITDA (earnings before interest, tax, depreciation and amortisation, a commonly used proxy for cash generation before capital expenditure) at £4.4 million. In 2018, we had £1.8 million of highlighted items relating to guaranteed minimum pension commitments and property impairment costs. There were no equivalent costs in 2019. The Adnams business remains highly cash generative and there was a net cash inflow of £0.7 million in 2019.

The strategy of Adnams is to be a high-quality branded drinks producer and provider of top-quality customer experience in our property estate. Our commitment to this strategy remains constant and our beers, spirits and property remain testament to this commitment.

BEER

Industry data shows a modest 1.1% increase in beer volumes sold in 2019; however, the unusual increase in on-trade volumes witnessed in 2018 was not repeated and the on-trade contracted by 0.8% whilst the off-trade grew by 2.7%. As in 2018, the most buoyant category of beer was lager, driven by a 7.5% increase in premium lager volumes. In contrast to lager, cask ale volumes were down by 4.4%, a disappointing decline for what is still the largest category of beer for Adnams. This market backdrop emphasises the importance of our recent investments in new and flexible brewing equipment.

The growth in 'low and no' alcohol beers remains an opportunity for Adnams with our industry-leading reverse osmosis technology meaning that our Ghost Ship 0.5% is regularly seen as the best low alcohol ale on the market. Our recent investments in being able to produce filtered beer, remove the alcohol and then keg the product have all contributed to our being able to lead the field in important and growing categories.

In 2019, after many years of lobbying on the matter, the Government finally undertook a review of the UK's system for granting lower duty rates to smaller brewers known as Small Breweries Relief. We understand that the government will publish the results of this review in the spring. We reported

last year that if Adnams paid the same duty rates as its smaller competitors we would save around £7 million per annum. It will be clear to shareholders that this is a very important matter for the health of breweries such as Adnams.

SPIRITS

Adnams spirits volumes sold in the UK market were up by 3.2% compared with 2018. Growth has been slowing in the last two years as the key gin market has become ever more crowded and ever more segmented into different flavoured drinks. There is some evidence that demand is starting to flatten and, with so many new suppliers, margins are under pressure; however, we believe that those with truly high-quality products will be those who survive best. We remain one of a small number of producers with a 'grain to glass' product. We produce the alcohol that we distil, we do not buy it from bulk suppliers. The quality tells.

Copper House Gin is still central to our range, although we have a strong family of gins with a rotating seasonal range that has proved very popular.

We have now been distilling for over nine years and our whiskies are gaining true quality as they mature. We have a diverse range and good prospects for future growth.

PROPERTIES

The Adnams properties performed well in 2019 increasing their operating profit by 5.5%. Adnams has a top-quality estate of pubs and hotels in premium locations, mainly in Suffolk and Norfolk. The centrepiece of the estate is The Swan, in our hometown of Southwold. Our properties aim to benefit from the Adnams brand whilst also adding value to that brand. We closely monitor customer feedback and seek to build ever stronger performance.

The Adnams estate comprises both properties that we manage ourselves and others that are tenanted or leased. This structure gives us the flexibility to move properties between tenancy, leasehold or management as circumstances require. In 2019, we moved The Ship, Levington from management to leasehold when it reopened at the end of the year following its closure for several months after a serious fire.

The managed estate gives us full control over the way in which the Adnams brand is portrayed in the pub or hotel. However, some of our pubs, especially smaller ones, are better managed by others and many of our tenants and lessees are excellent advocates of Adnams.

RETAIL

The Adnams shops have evolved over a number of years from being focused on wine and kitchenware to showcasing Adnams' own products, our range of beers and spirits and also our fast-increasing range of own-brand wines. They have raised our profile and helped us to launch new products such as the much-praised Adnams Cider, Wild Wave, and the even more recent 0.5% version of the same product.

Our shop estate did not change in the year, nor did we launch a Christmas pop-up on this occasion. Nonetheless our shops traded well, and profits were ahead of 2018. Our mail order and web businesses went through considerable change in 2019 as they reorientated their proposition and their operations. This meant that our Retail business overall was less strong than last year.

MARKETING

The Adnams marketing strategy has evolved substantially over recent years. Whilst we have always undertaken a large range of activities, there have been points of focus and these have included periods when we have invested

strongly in outdoor poster advertising and periods when we have done so in sponsorships and local events. We still undertake sponsorships and retain relationships at Newmarket racecourse; however, more recently we have focused on digital marketing and on improving our understanding of our customers. The availability of data linked to our investment in new systems will help us to fulfil customer needs even more closely. We have great products and stories behind them and our marketing is helping to ensure that our voice is heard.

SYSTEMS

Systems issues were central to Adnams in 2019. We implemented new systems across our business at the end of March. Our previous business systems were approaching 30 years old, which was a great credit to their robustness, although the long gap meant that the change was very substantial, and we experienced considerable disruption in our customer service.

Despite the challenges of making the change to the new systems we are pleased to have done so – the flexibility and transparency of the new system is much greater, and it will provide us with the infrastructure to grow and improve performance in future years.

DIRECTORS

After 16 years with the Company our Finance Director, Stephen Pugh, has decided to retire from Adnams and will step down as a director at the Annual General Meeting (AGM) on 28 April. Stephen joined us before we had shops outside Southwold and before we had a distillery. Much has changed in the last 16 years and I would like to thank Stephen for helping to steer our course over these many years. Recruitment for a new Chief Financial Officer is in train and I hope to be able to provide an update at the AGM.

Those who have been shareholders for some years will remember our former Non-Executive Director David Woodhall. I am sad to report that David passed away in February 2020.

OUTLOOK

I started my Statement with a discussion of the impact of Covid-19. This virus creates huge uncertainties for trading in 2020, however we are hopeful that we are looking at a short-term phenomenon and we will return to more normal times later this year.

We have faced other, longer-term uncertainties in recent years, notably uncertainty arising from the indecision over Brexit. That decision having been taken means some greater assurance, although much will depend on the nature of the deal that is proposed to be in place at the end of the Brexit transition period in December. The Adnams business is primarily UK orientated and the direct effects of Brexit will affect us less than more international firms; however, consumer spending and the availability of suitably skilled staff in our wider supply chain and customer base is key to us.

We have been through some difficult times since 2016 as we have invested and transformed our business. The level of disruption that we experienced in 2019 was greater than we had envisaged; however, the changes that we made were necessary and will serve the business well in the future. We have the infrastructure and we have the people to drive success and we will continue to keep our eyes on doing the right thing for the long term.

JONATHAN ADNAMS OBE

Chairman

Strategic Report

WORKING DIFFERENTLY TO GRASP NEW OPPORTUNITIES

THE ADNAMS BUSINESS MODEL

One of the key aims of our Strategic report is to lay out the Adnams business model through which we deliver our strategy of being a high-quality branded drinks producer and provider of top-quality customer experience in our property estate. Our operations are relatively complex, and it is this that made building effective systems such a difficult task in the last year.

Adnams operates through three closely interlinked business streams. Central to our operation is drinks production. Historically, this was beer, notably cask beer. More recently, we added spirits and more recently again we added the ability to produce keg beers and remove alcohol from our beers. Beyond the drinks that we produce ourselves, we also add our brand to drinks produced by others, notably selected wines and more recently, cider. Alongside drink production we are drinks distributors and we distribute *not only our own products, but the full range of drinks that pubs, hotels, restaurants and others may demand.* We operate our own vehicle fleet distributing drinks directly to pubs (our 'Direct' business). Our Direct business operates in the Anglia region out of our Reydon warehouse, and in and around London from a third-party distribution centre in Barking.

Whilst our Direct business is limited to Anglia and London, we sell throughout the UK by supplying wholesalers and other brewers and we also sell to large national pub companies (our 'National' business). This business focuses on our own products, and also products for which we are the UK distributor, notably the premium German pilsner Bitburger.

Our beers are usually served in casks or kegs in pubs, although they are also available in bottles and cans and in mini-kegs, and these are typically available through supermarkets and other shops. We do not bottle or can beers ourselves so this beer is sent in tankers to others for this to be done and bottles and cans are warehoused by our logistics partner so that the beer can be distributed to supermarkets alongside other beers. This business comprises our 'Take Home' business and as with our National business it principally involves sales of our own products, and beers from the Bitburger range.

Our Export business has grown in recent years; however, it is still a relatively small part of our production. Beer exported is generally collected from our Reydon warehouse by the overseas distributor. The Export business is exclusively sales of our own beers and spirits.

The third business is our property estate comprising Pubs & Hotels, eight of which are managed by Adnams, meaning that they are staffed and run by our own employees. The other 37 are run by independent tenants or lesssees. In these latter cases, the pubs and hotels are required to buy their drinks from Adnams. Both managed and leased/tenanted properties have their drinks distributed through our Reydon distribution centre in the same manner as customers of our Direct business.

The systems that we built in 2019 were mainly to run our drinks business; however, they also cross over into our Retail and property operations and they cater for the exacting requirements of HMRC's duty regime. Our previous systems were approaching 30 years old and lacked the flexibility and resilience needed to support future growth and a modern digital business. The relatively simple production operations of 30 years ago meant that the brewery had not been integrated with other systems; however, as the range of product has grown, this had become a pressing necessity.

Systems are never finished and we will develop ours over years to come, but we have now implemented a modern, efficient system and we can use it to build our business and take advantage of the enhancements that come with such systems.

Direct, National, Take Home and Export are the four distribution channels within the first of our businesses, our Brewing & Brands business.

The second business is our own Retail business where we operate 13 shops in East Anglia. These shops stock our full range of beers and spirits and other own-brand products including Adnams branded wines, cider and gift products. They also have a wide range of non-Adnams products, especially wines. These shops are supplied from our own distribution network out of Reydon.

13
Retail shops
in East Anglia

2019 OVERVIEW

The Adnams brand remains very strong and our products and properties remain highly regarded. We continue to win awards and enthusiastic reviews. 2019 was a year when we were highly focused on our own operations and results were less good as a result. Though operating profits of £0.7 million cover our interest costs and give us a small profit, they are not an adequate return on our investments and we are very focused on correcting that and returning to growth. Nonetheless, cash generation was good, we reduced debt in the year and, having invested heavily in our future over the last few years, we are well placed in a market that continues to change rapidly.

Strategic Report continued

BREWING & BRANDS**BEER**

We are pleased to report that our beer volumes in 2019 were 2.3% ahead of 2018, although production of our own beers was down in the year. Our investment in industry-leading brewing equipment has meant that we have become an attractive provider of contract production for craft brewers and we benefited from this in 2019 with over 6% of our production being on contracts. The disappointing decline in the cask ale market, again the weakest performer amongst beer styles, has been a challenge for brewers like Adnams, traditionally strong in this area; however, our investments have helped us here too as we have the flexibility to brew all main types of beer.

We have in previous years noted the growth of competition in the beer market as brewery numbers have risen, putting margins under pressure, especially in the cask ale market where most small breweries are focused. It is notable that the rapid influx of new entrants largely stalled in 2019 as the market has grown increasingly tough, even allowing for the benefit of the large duty reliefs available to small producers.

Adnams continued to see good growth in bottled and canned production as the off-trade business continued to outperform the on-trade. The star performer for 2019 was our Ghost Ship 0.5%. Low alcohol beers are made in one of three ways. The most common is removing alcohol by boiling and evaporation. Doing this in a partial vacuum is helpful; however, boiling beer at any temperature alters its taste and produces undesirable flavours. The second method is to restrict the fermentation process so that little alcohol is produced. We do this ourselves to make our beer Sole Star; however, beers produced this way often struggle to match the flavour characteristics of stronger beers and can seem sweet as less sugar is fermented. The third method, of which Adnams is still the only UK exponent, is filtration, or reverse osmosis.

This allows a normal full strength beer to be reduced in alcoholic strength without the invasive process of boiling. The quality difference is quite apparent to consumers and has gained Ghost Ship 0.5% its enviable reputation as a low alcohol beer that tastes just like a standard strength beer.

THE DIRECT BUSINESS

Our Direct delivery business was the business most affected by the systems changes in the year. Difficulties that we encountered in delivery and invoicing on launching the system at the end of March 2019 led to a number of important customers being lost. We have been regaining customers as the system has stabilised; however, this takes time as we need to rebuild confidence.

The Direct business provides a drinks wholesale business for our own pubs and others in Anglia and London. Given the range of drinks available in the UK all wholesalers need to decide the limits of their range and Adnams refocused its range in the year to concentrate more closely on our own beers, other premium drinks, and the range of our key wholesale partner, Heineken. This led us to delist a number of other drinks and also to cease supply to some smaller outlets. These outlets were put in contact with other wholesalers who could supply their needs, including Adnams beers. These changes allowed us to better control costs in our supply chain.

Own beer volumes in 2019 in this channel were 10% below 2018 and other brand beer volumes were 22% below. The former decline was largely a result of the system changes and the general decline of cask ale, the latter was partly a result of a conscious refocus.

Adnams has continued to develop its smartphone-based online ordering app, Rockpool. This is a real point of difference for us, encouraging customer ordering and loyalty.

+2.3%

Beer volumes in 2019 were 2.3% ahead of 2018

TOP 5 BEST-SELLING BEERS

1. Ghost Ship 4.5%
2. Southwold Bitter
3. Broadside
4. Ghost Ship 0.5%
5. Mosaic Pale Ale

ADNAM'S AROUND THE WORLD

24

We now export to
24 countries around
the world

THE NATIONAL BUSINESS

As we refocused the range and the target customer base of our *Direct business* in the last few months of 2019, we looked to grow our National business as the means to distribute our own beers to smaller customers and those buying less frequently or on a rotational basis. Our customer experience hub is focused on selling to these customers and linking them with distributors of our beers.

As with the *Direct business*, our National trade experienced some disruption when our new systems went live, and one important customer temporarily suspended trade whilst problems were resolved. Volumes of own beer sold in this channel were 8% below 2018 levels, although own spirits sales performed well, being 6% up, year on year. Overall cash contribution rose in this channel in 2019 compared with 2018 as costs were well controlled.

THE TAKE HOME BUSINESS

Our Take Home business has been the main driver of growth in recent years, mirroring the relative success of the off-trade channel for beer sales generally, although also reflecting a catch-up of Adnams sales in the off-trade relative to the on-trade, as our historic cask ale focus has meant that we have been better represented in the on-trade.

Take Home volumes of own beer continued to grow in 2019, being up by 3%, with spirits volumes almost identical to a year earlier.

The Take Home trade, being focused on the supermarkets, has generally lower margins for brewers, it is also more promotionally led than other distribution channels. Growth occurred mainly through lower margin customers. This led to a dip in cash contribution from this business.

EXPORTS

Whilst Adnams' export business remains small, it has been in good growth in the last few years as we have sought to apply a consistent focus on our target markets. Exports of beer rose by a very strong 46% in 2019; however, we saw a sharp dip in spirits exports as the large successes of 2018 were not repeated. Export volumes were 5.8% of Adnams beer sales in 2019, up from 3.8% in 2018. The export rules applying at the end of the 2020 Brexit transition period are not yet known, and this may have a material impact; however, we remain optimistic that our products and focus mean that we have good future opportunities in this channel.

Exports of beer rose
by a very strong

+46%

Strategic Report continued

SPIRITS

Turnover of Adnams spirits in 2019 was 2% lower than in 2018, although still over £4 million, whilst gross profit dipped by 3%. The market fragmentation that has followed the licensing of a very large number of small distilleries and the parallel explosion of flavoured spirits drinks, has meant that supply has outpaced even the fast-growing demand for these drinks. In late 2018, Adnams lost distribution in some supermarkets as they rapidly changed their ranges. Adnams' 2019 sales levels were creditable given the reduced distribution.

Our spirits performed well in the on-trade in 2019 and in our own properties we saw a 21% increase in volumes sold. In our own Retail business, too, we saw a 6% increase.

The quality of the Adnams spirits is undoubted, and the awards that we have won for gin, vodka and whisky tell an impressive story. As a brewer, *we make a top-quality alcohol for distillation.* It remains the case that the vast majority of other gin distillers buy their alcohol from industrial producers – the quality is not the same. We believe that this will always give us an edge, even in an overcrowded market.

The Adnams spirits sales are still largely gin; however, we have been distilling for over nine years and our whiskies are showing great promise and we look forward to this being a fast-developing market for us over future years.

+21%

increase in spirits
volumes sold in
our properties

PUB & HOTEL BUSINESS

During 2019, there were few changes in the Adnams property estate. One sale was made right at the end of the year with the Cardinal's Hat in Harleston being contracted for sale in December and changing hands in January 2020. As the contract was agreed in 2019 the sale is reflected in these accounts. Having both managed and leased/tenanted properties in our estate allows us the flexibility to move properties between these types of ownership as circumstances require. During 2019, we moved The Ship at Levington from our own management to a lease. The Ship, Levington had an unlucky year, experiencing a serious fire in March. This destroyed its thatch and did considerable damage to the rest of the pub. It returned to trading in December.

We saw a much improved contribution at The Crown, Southwold. Turnover rose 3% and costs were well controlled, coming in below those of 2018. We also saw improved contribution at The Bell Inn, Walberswick and The White Horse, Blakeney. The Cross Keys, Aldeburgh, produced a very good result in its first year under management.

The very sharp increases in the National Living Wage are presenting a tough and continuing cost challenge for all pubs and hotels. This wage rose by 4.4% in April 2018, a further 4.9% in April 2019 and is about to rise by 6.2% in 2020. These are rises very substantially above inflation. The payroll costs within our managed properties were 44% of sales in 2019 and we are very focused on controlling this expense in 2020 with the assistance of payroll scheduling systems.

THE TENANTED AND LEASED ESTATE

There was a strong performance from the Adnams tenanted and leased estate in 2019 with a 3% increase in profit contribution and good cost control. This was a particularly good result as five pubs transferred from the estate in 2018, a combination of sales, lease expiry and transfer to own management, and so the prior-year result was boosted by income from these properties.

After many years of reporting a reduction in UK pub numbers, it is pleasing to say that the latest statistics showed a small increase. We hope that this will continue and represent sustained support by pub customers.

The Adnams pub estate is strong and continues to trade well. We have many first-class lessees and tenants who represent Adnams well and trade in pubs that benefit from being Adnams branded and add to that brand through their trading.

MANAGED PROPERTIES

Our premium hotel, The Swan, Southwold, enjoyed its second full year of trading since its refurbishment, with sales up by over 5%. We closely monitor customer feedback and reviews for all our managed properties and The Swan has continued to receive excellent reports, and bookings are strong.

Strategic Report continued

SHOPS & ONLINE

The Adnams shops had a steady year and improved their results with good cost and margin control. The estate did not change in the year, remaining at 13 shops, although we keep a watch for potential new outlets. The shops provide a very valuable representation of the Adnams brand and a launchpad for new products, most recently our 0.5% cider. Adnams Wild Wave cider has performed strongly in its first year, with our own Retail channel being at the forefront of sales.

The historic focus of our shops on kitchenware, from the days of their being branded Cellar & Kitchen has reduced and today's focus is on the full breadth of the Adnams branded proposition. Wine remains important, although an increasing proportion is Adnams branded wine. Adnams own spirits performed particularly strongly in 2019.

Our shops use our central system for stock control and delivery and our till systems are linked to the central system through third-party software. This meant that our shops shared the disruption that other parts of the business experienced when we changed our central system in March. A much smaller project is envisaged for later in 2020 or 2021 to upgrade the shop tills.

Our website has its own systems, and these too were changed, and new links built, following the central system change. We had a frustrating experience with our payment software provider which meant that our website was offline for several weeks at the end of March and early April. This had an impact on the financial performance of our online business. We are working hard to grow this side of our business, both because of the brand and margin advantages of selling directly to customers, and also to make best use of our new outsourced fulfilment house. They provide first-rate packing services for retail customers, something that was hard to do in our wholesale-focused warehouse.

The internet provides Adnams with a consumer sales channel, enabling us to reach both local customers and those beyond the catchment of our shops, and in addition it is a powerful communication tool. It allows us to inform customers and tell the engaging stories that underlie our premium drinks and our diverse properties.

The long established port house of Quinto do Crasto now also produces – using traditional, lagares foot-trodden port grapes like tinto roriz and touriga nacional – simply terrific wines such as the Adnams Douro Red (£9.99, adnams.co.uk) which is medium-bodied, juicy and fresh, with smooth blackberry fruits. An almost ideal, versatile, good value, everyday red wine.

WINE

Alongside new system implementation one of our key projects in 2019 was the refocusing of the Adnams range on a smaller number of key lines and focusing on efficient operations. Our wine range remains central to the Adnams proposition, but it has been changing both to expand our own branded range and to deliver in a more streamlined fashion. Having own-branded wines allows us to define exactly what we want from suppliers and create bespoke offerings using specified grape varieties. We believe that we have created some first-class offerings within our range.

Our wine club has been an important part of our sales in past years; however, it drove a lot of cost and complexity and did not sit easily with much of our ongoing retail offering. As a result, we took the decision to discontinue the club after the first quarter of 2019. This had a negative impact on sales in 2019, but savings are being realised and this process will continue. We are focusing customers on the wide range of case offers available on our website and which are being fulfilled through our new web provider.

+7%

increase in sales
in our own-label
wine range

MARKETING

Adnams marketing has always been a strength. We have great brand recognition and a loyal customer base. The way in which we analyse our market and the way in which we market ourselves changes over time as products, customers and markets change. In 2019, we made changes to outsource more of our marketing activity. *This allows us access to the technical skills of third-party agencies and it also fits with our general aim to make more of our costs variable, to improve control.*

We have made good strides in market analysis and are working with an agency that is helping us to understand customer demand and ensure that we sell the right things to the right customers.

We also continue to focus on our online presence and telling the great stories that we have in a way that is heard. In 2019, we reached over 2.2 million Facebook users, social media brought 39,000 users to our website, and we saw year-on-year increases of 233% from Facebook visitors, 277% from Tripadvisor and 106% from Instagram stories.

CAMPAIGNS

In 2019, our Ghost Ship 4.5% 'Win Beer for a Year' competition resulted in over 17,000 click-throughs to our website and engaged with 175 pubs outside of our own estate.

39,000

Social media brought
39,000 users to
our website

2.2m

In 2019, we reached
over 2.2 million
Facebook users

Strategic Report continued

ENVIRONMENTAL REPORTING

The Adnams sustainability agenda goes back many years, indeed many years before a lot of companies registered sustainability as a notable issue. Our green-roofed distribution centre, completed in 2006, was ground-breaking and we have led the way in many other innovations including light-weighting of bottles and energy recycling. We have a very large raft of awards as testament to this work.

During 2019, this continued, and our reputation as a leader in this field is secure, at a time when public interest and awareness is growing ever sharper and consumers are rightly expecting companies to behave towards the environment with much greater care and responsibility. This makes our reputation a great strength and one that will become ever more important.

We continue to work with a large range of other organisations, academic, charitable and commercial in sharing ideas and developing improvements. We also foster a wide interest in our own staff to raise awareness and produce suggestions from those closest to our activities.

CARBON AND ENERGY

Our total carbon emissions fell by 9 tonnes (0.3%) in 2019. There were countervailing influences, with our managed estate making a commendable reduction, despite growing turnover. In the brewery and distillery carbon usage grew; however, having a full year of the new processes for dealcoholisation and in-house kegging created greater activity. Our shops saw an increase in usage, and returning them to 2018 levels will be a target in 2020.

We have noted before that, as volumes and activity rise, there is a gearing effect on energy usage as fixed usage is spread across the higher volume. As volumes in many areas were lower in 2019, we saw the reverse effect; however, we have managed many compensating improvements.

WATER

Our water use and effluent volumes grew in the year and we saw an increase in the amount of water used relative to the quantity of beer produced. This was driven mainly by the growth in our low alcohol production. This type of beer requires a greater amount of water. The increase in our kegged volumes, partly arising from contract production, also contributed to higher water usage as the extra processing required for keg beer generates higher losses and equipment cleaning needs. To combat this we are investing in additional chilling capacity which allows us to recover more of the water generated by the dealcoholiser. We are also discussing the feasibility of a full water recovery system for the dealcoholiser and seeking to maximise production runs to reduce beer losses. Our closed loop water recovery system for spirits production, which saves 85% of our distillery cooling water, and cuts our overall spirits water ratio in half, was operative from March 2019.

WASTE AND BIODIVERSITY

Our carrier bag charges led to a large reduction in usage and the money raised in 2019 went towards rebuilding salt marshes in the River Blyth in Reydon. This strengthens the river wall to avoid tidal breaches during storms. It will also create half a hectare of new salt marsh, creating new habitat and carbon capture. We have built a strong relationship with Suffolk Wildlife Trust over the last four years, beyond just the donations. We gain connections and insights and have been able to reduce the need for formal consultancy and we also have opportunities to involve our staff in projects.

We continued to host beach clean events during the year and we collaborated with the Marine Conservation Society's Great British Beach Clean weekend.

Our total carbon emissions fell by

9

tonnes

CARBON DATA

Year	Total emissions Tonnes of carbon dioxide equivalent (CO ₂ e)	Normalised emissions kgCO ₂ e per £k revenue	Scope 1 emissions (tonnes): "Fuels used for combustion and owned transport"	Scope 2 emissions (tonnes): "Purchased electricity"	Production kgCO ₂ e per barrel produced	Distribution kgCO ₂ e per barrel delivered	Retail kgCO ₂ e per £k revenue	Managed properties kgCO ₂ e per £k revenue
2019	3,277 (-0.3%)	43.789 (+5.1%)	3,277 (-0.3%)	0 (no change)	13.5 (+7.1%)	6.4 (+1.6%)	2.1 (+16.7%)	57.1 (-11.1%)
2018	3,286	41.668	3,286	0	12.6	6.3	1.8	64.2
2017	2,755	36.850	2,752	3	10.7	6.4	2.0	65.9
2016	2,567	36.539	2,500	68	9.5	6.4	2.1	82.2

Note

Using location-based emission factors, total emissions were 4,047 (-2.8%) tonnes of carbon dioxide equivalent (CO₂e), normalised emissions were 54.1 (+2.5%) kgCO₂e per £k revenue, fuels used for combustion and owned transport were 3,277 (-0.3%) tonnes and purchased electricity amounted to 770 (-12.0%) tonnes.

HOLISTIC FRAMEWORK

We continue to use our established framework to ensure that we continually focus on reducing our environmental impact across our business.

CARBON**WATER****HOLISTIC IMPERATIVE**

Internal processes
and initiatives

BIODIVERSITY**WASTE****SUPPLIERS, CUSTOMERS
AND COMPETITORS****ENVIRONMENTAL EXPENDITURE**

We do not separate our environmental expenditure from other costs as we discourage it being seen as a separate cost when it is so integral to the long-term sustainability of our business.

RISK AND ADAPTATION

The Government launched four consultations on waste in 2019. Three of these could have a direct impact on Adnams from 2023. We are working with trade bodies and waste experts to understand the impacts and respond to ongoing developments where appropriate.

One of the consultations was around waste packaging obligations with the aim of giving producers complete responsibility for the packaging. Currently, we bear only about 10–15% of the costs. At Adnams the full cost could amount to £700,000 per annum, though savings by others in the supply chain may mean that some of this cost can be passed on. Further proposals are expected in 2020.

The second consultation was on a deposit return scheme in England, meaning that consumers would pay a refundable deposit for bottles and cans. This would add cost and administration for producers, although it should increase recycling rates and reduce litter levels. Proposals for such a scheme are well advanced in Scotland, and England is expected to follow.

The third consultation related to taxing plastics containing less than 30% recycled material. Although Adnams uses relatively little plastic, we have significant secondary and transit packaging. We have already acted to put ourselves in a strong position on plastic usage; however, there could be operational impacts. Further proposals are expected in late summer 2020.

UN SDGS

We continue to align our action plans to the United Nations' Sustainable Development Goals, we have focused on key goals and issues where we can make the biggest difference.

Strategic Report continued

FINANCE COMMENTARY

BUSINESS SYSTEMS AND COSTS

The interlinked nature of our different businesses means that we do not try to attribute shared costs to individual operations. On this basis central costs can appear high, as the majority of our business overhead is shown centrally. Nonetheless, we are very conscious of the need for cost control. In 2019, we made some progress with our central corporate overhead. The reduction from £5,469,000 to £5,424,000 is small but hides a substantial increase in our systems maintenance and depreciation as we replaced a fully depreciated in-house system with a new externally supported system.

Our central operations costs were higher than in 2018, as a result of our new systems implementation. We have noted already that there was considerable disruption for a period of months and costs rose to mitigate the impact of this disruption. In the latter part of the year, we reduced and streamlined our operating costs and we look forward to reaping the benefits of our investments in terms of improved working capital management, improved reporting and business understanding, and improved efficiency.

At the start of 2020, we have set up a group within Adnams that will lead the changes that will allow us to reap the benefits that the new system can deliver. There is full backing for this project and the skills and enthusiasm to deliver it.

HIGHLIGHTED ITEMS

In 2018, highlighted operating costs totalled £1.8 million. These related to two issues: a £1 million charge for the cost of adjustments to guaranteed minimum pension (GMP) requirements, and secondly, property impairment costs. There are no highlighted items in 2019. It is not possible to be adequately precise about the cost of system changes; however, these were clearly exceptional in 2019.

The £1 million GMP provision represented 2.4% of the liabilities of our closed defined benefit scheme. The way in which such provisions need to be calculated is still under much discussion in the pensions industry and it will probably be several years before this is resolved and the absolute cost is finalised. In accounting terms, the fact that the provision was new last year required it to be charged against current profits. Subsequent adjustments to this provision are made as balance sheet movements, rather than charges or credits to profit. In 2019, the provision has been kept at 2.4%; however, the amount provided has changed as the value of liabilities has changed. This adjustment to the provision has been made through the balance sheet and we expect a similar policy to be adopted in the next few years pending calculation of the precise GMP cost.

BORROWINGS

Year-end debt levels reduced from £18.6 million in 2018 to £17.9 million in 2019. The ratio of debt to EBITDA stood at 4.1 times (2018 3.6 times, excluding highlighted items) and the ratio of EBIT to interest expense stood at 1.4 times (2018 3.2 times, excluding highlighted items). Our two longer-term bank facilities (£5 million fixed and £5 million revolving credit facility) have financial covenants, the levels of which would have been breached during the year; however, the bank agreed covenant waivers. The financial covenant ratio targets in our longer-term facilities were set in a different environment and are being renegotiated as part of our current discussions to renew our facilities

with Barclays. The renegotiation process was delayed during the system changes of 2019; however, we are hopeful of concluding the new facilities shortly and we are comfortable that such debt capacity as we need will be available. The £5 million revolving credit facility, which was due to have expired in February 2020, has, pending the full renegotiation, been extended for a further year.

TAX

In 2019, we have a small pre-tax profit of £39,000, and a tax charge of £10,000. In 2018, there was a pre-tax loss of £877,000 and a tax credit of £92,000, assisted by a tax claim for research and development relief. We take a prudent approach to our tax affairs and steer away from anything close to tax avoidance; however, we do not shun tax reliefs properly given.

PENSIONS

The values attributed to the liabilities of defined benefit pension schemes can seem frustratingly diverse and variable. In company accounts, such as these, accounting standards prescribe the methodology to be followed by the actuary, most importantly that the discount rate used to convert anticipated future pension payments to a current value should be the rate payable on high-quality corporate bonds. There is no fundamental reason why high-quality corporate bonds should have been chosen; however, given that a benchmark was needed, this was the one used. On this basis, the Adnams scheme liabilities are valued each year, and in 2019 they were valued at £44.6 million and, given that the market value of scheme assets at 31 December 2019 was £38.4 million, there was a deficit of £6.2 million. This was a reduction from the 2018 deficit of £8.0 million, the largest element of the reduction being attributable to growth in asset values.

A second type of pension valuation is carried out by the scheme actuary as part of a triennial valuation. The latest valuation was at 1 April 2019 and the valuation report is being finalised at the current time. This valuation, which uses different discount assumptions and was struck nine months earlier, shows a small, £83,000, surplus. The surplus is just 0.2% of liabilities. The Company and the Trustees have agreed that monthly deficit contributions will be reduced from £40,000 to £10,000. Neither valuation is correct in any absolute sense, they are just done at different times, for different purposes, using different assumptions.

TREASURY POLICIES

We keep our treasury policies under review in the light of economic circumstances. In recent times, we have taken the view that we will accept the year-by-year impact of currency and interest rate fluctuations on the basis that over the long term we will gain in some years and lose in others; however, we will be no worse off and will not need to invest resource in managing our treasury position. We are helped in this view by the fact that, although changes in interest and foreign exchange rates affect our results, they are not important enough to imperil our operations. We have, however, agreed a fixed rate on £5 million of our debt.

We have chosen not to insure debts owed to us as we find the strictures imposed by the insurers to be too constraining. We manage credit risk with appropriate limits applied to each customer, based on payment history and credit references. Limits are reviewed regularly, and debt appropriately chased.

FINANCIAL HIGHLIGHTS

	2015	2016	2017	2018	2019	Variance ¹
EBITDA	6,727	6,799	5,535	5,156	4,404	(14.6%)
Operating profit (£000) ²	4,093	3,937	2,159	1,606	719	(55.2%)
ROCE (percentage) ³	10.5%	10.7%	4.7%	3.5%	1.6%	(54.3%)
Gearing (book value)	29.7%	33.5%	60.6%	67.6%	64.5%	(4.6%)
Net debt (£000)	8,918	9,208	17,347	18,643	17,911	(3.9%)
Interest cover ⁴	15.3	17.4	7.0	3.2	1.4	(56.3%)
Ordinary dividend (per £1 share)	2.16	2.26	2.28	2.28	0.78	(65.8%)

¹ % variance between 2018 and 2019.

² Before highlighted items, where applicable.

³ The return on capital is based on the pre-highlight operating profit line and capital employed, including debt.

⁴ Excluding highlighted items and interest on pension deficit.

Further details of financial risk are shown in note 27 to the financial statements.

DIVIDEND POLICY

We are not recommending a final dividend in relation to 2019 (2018: £1.50 per "B" share, 37.5p per "A" share). An interim dividend of 78p per "B" (19.5p per "A" share) was paid in both 2019 and 2018.

STAKEHOLDERS (STATEMENT UNDER S.172 CA2006)

Explicit reference to how decisions take account of stakeholder interests is now required of companies of our size (a 'Section 172 Statement'). This seems a strange requirement to a company like Adnams which has been making its stakeholder values explicit in its accounts for some 20 years. The final page of our 2001 annual report listed our adherence to nine values covering long-term sustainability, diversity, customer and employee fulfilment, quality, a positive environmental impact, integrity, pride, being part of the local community and commitment. These values remain central to the Adnams ethos and central to the way in which Board decisions are taken.

This Strategic report, together with the Chairman's Report on pages 12 to 13 and the Report of the Directors on pages 28 to 29, outline the significant levels of work being done by Adnams across community, environmental and social investment in line with the requirements of S.172 of the Companies Act 2006.

The Adnams Board regularly debates its dividend policy, its remuneration policy, its procurement policy, its customer service and its local, environmental and health and safety policies, both as issues in themselves and as integral to other issues. Stakeholder interests require to be balanced, and in 2019 the Board was balancing the effect of new systems on customer service needs, employee welfare needs, financial costs and wider supplier, environmental and local impacts. Such balance is the essence of long-term business planning and the long term has always been central to decision-making at Adnams.

BUSINESS RISKS AND UNCERTAINTIES

We seek to use this report, and that from our Chairman, to discuss the business in such a way that we properly explain the principal risks and uncertainties that we face and we have also sought to classify the main categories of risks and uncertainties, beyond the environmental and financial risks discussed above, as follows.

Firstly, the state of the economy, notably the level of consumer confidence and changes in alcohol consumption patterns are key to us. We try to ensure that we are sensitive to changes so that we can rapidly adapt. When changes are expected, but not yet clear, as with the post-Brexit rules, we try to ensure that we stay abreast of developments and announcements as they occur. Confidence can also be notably affected by expectation of the spread of Covid-19 and this too is monitored.

Secondly, the regulation of our industry affects the ways in which we compete. The alcohol industry is, unsurprisingly, highly regulated. We seek to ensure that we adopt a consistently responsible attitude towards alcohol consumption, that we are well informed on regulatory developments and engage with the development of these regulations.

Thirdly, we face operational risks in ensuring the continuing functioning of our brewery and distillery, computer systems and other key processes. We deal with these by attracting and retaining staff with the right abilities and by establishing wider risk management processes.

Fourthly, our brand and reputation are key to all our business activities and we seek to be constantly vigilant in ensuring that we stand by our values and live up to the name that we have built.

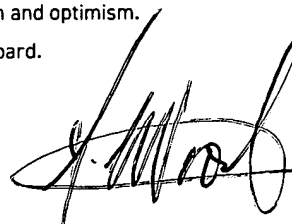
We feel that this classification remains as valid in 2019 as it was in 2018.

THE FUTURE

2019 was a difficult year for Adnams. Market conditions for brewers, distillers, retailers and pub and hotel owners were tough. Competition is fierce. The year was particularly hard for Adnams because of our new systems implementation. However, this is now behind us, and we can focus less on ourselves and more on our market. We have great assets, and great technology. We have the desire to grow and the people to make that happen. I would like to thank our staff, and all our stakeholders, for their support over a difficult period and we look forward to the future with determination and optimism.

On behalf of the Board.

ANDY WOOD OBE
Chief Executive



OUR BOARD

Favourite drink
Either a pint of
Ease Up IPA, or
an Adnams Rye
Malt Whisky

JONATHAN ADNAMS OBE CHAIRMAN

Jonathan joined Adnams on 25 November 1975, starting out in brewery engineering and working in every aspect of the company since.

He joined the Board in 1988 running pubs and property and assumed the role of Managing Director in 1997. In August 2006, Jonathan took over the role of Chairman, in which post he remains today.

Jonathan has been instrumental in driving Adnams forward in terms of innovation and sustainability. The introduction of the modern and energy-efficient brewing equipment and the world-class distillery that is Adnams today, are all thanks to Jonathan. Jonathan was awarded an OBE in 2008 for his commitment to corporate social responsibility.

In November 2015, Jonathan celebrated completing 40 years at Adnams.

Outside of work Jonathan is a keen sailor, and spent many years as part of the RNLI Lifeboat crew in Southwold.

Favourite drink
Adnams Pink Gin
& Tonic

KAREN HESTER CHIEF OPERATING OFFICER

Karen joined Adnams in 1988 as a part-time cleaner with a background in Army logistics and transport; her expertise in operational management was soon spotted. Having progressed in logistics, procurement and transport, Karen became Operations Director in 2007. In 2008, Karen won the title of East of England Business Woman of the Year and in 2013 won the CBI First Women Business of the Year title in recognition of Adnams' success in supporting women employees to reach their full potential. Karen is also a magistrate and joined the Adnams Board in 2015. In October 2015, Karen was awarded an honorary doctorate by University Campus Suffolk (UCS).

Karen also works with a number of local charity and not-for-profit organisations as a Non-Executive Director.

Favourite drink
A pint of Ghost Ship,
in either format,
4.5% or 0.5%

DR ANDY WOOD OBE DL CHIEF EXECUTIVE

Andy Wood joined Adnams in 1994. He joined the Board in 2000 as Sales and Marketing Director, becoming Managing Director in 2006 and Chief Executive in 2010.

He has a DBA from Cranfield University and honorary doctorates: in Business from Anglia Ruskin University, in Science from Cranfield University, and in Civil Law from the University of East Anglia. He was also awarded an OBE in the Queen's Birthday Honours 2013, and between 2014 and 2016 was HRH The Prince of Wales's Responsible Business Ambassador for the East of England.

In 2010, Andy founded and was Chairman of the New Anglia Local Enterprise Partnership. He is Non-Executive Chairman of SG Wealth Management, a wealth management company operating throughout East Anglia, a Non-Executive Director of The Hotel Folk and a Governor of Norwich School.

Favourite drink
A pint of Ease
Up IPA

STEPHEN PUGH FINANCE DIRECTOR

Stephen joined Adnams in 2003 as Finance Director. Alongside this role, Stephen is responsible for Adnams IT Systems, and served as the Company Secretary until May 2016.

An alumnus of Cambridge University, Stephen has previously worked for Price Waterhouse, NM Rothschild, Burberry and The Economist Group.

Stephen is a fellow of the Institute of Chartered Accountants in England and Wales, an associate of the Chartered Institute of Taxation and a fellow of the Association of Corporate Treasurers.

Stephen is also a member of the Policy and Technical Committee of the Association of Corporate Treasurers, a Corporation Member at Suffolk New College and is a trustee and treasurer of the National Eczema Society.

Stephen has decided to retire from Adnams and will step down as a director at the 2020 AGM.

Favourite drink
Adnams Quince Gin
& Tonic with a slice
of apple

Favourite drink
A bottle of Sole Star

NICKY DULIEU NON-EXECUTIVE DIRECTOR & CHAIR OF THE REMUNERATION COMMITTEE

Nicky is a highly experienced businesswoman who has held a number of senior positions in leading UK retailers, including Finance Director of the Food Division at Marks and Spencer and Chief Executive Officer at Hobbs. Nicky is a passionate gardener and this, combined with her retail expertise, led her to become Chairman of Notcutts, the Suffolk family-owned group of destination garden centres from 2015 until March 2020. She is also a Commercial Board Member for the Royal Horticultural Society and a Non-Executive Director and Remuneration Chairman at Huntsworth PLC, an international healthcare and communications group. Nicky joined the Board of Redrow Homes as a Non-Executive Director in November 2019, and the Board of Marshall Motor Holdings as a Non-Executive Director and Chair of the Remuneration Committee in January 2020. Nicky has been on the Adnams Board since April 2014.

GUY HEALD NON-EXECUTIVE DIRECTOR

Guy joined the Adnams Board in April 2015.

Guy has been a long-term supporter of Adnams. His family has been involved with Adnams since its very early days and is a major shareholder.

Guy has been an Adnams Community Trust trustee since 2004. He has had a successful international career in finance and has wide-ranging interests in Suffolk.

Favourite drink
A nice pint of
Blackshore Stout

Favourite drink
A mini bottle of
Adnams Prosecco

BRIDGET MCINTYRE MBE NON-EXECUTIVE DIRECTOR & CHAIR OF THE AUDIT COMMITTEE

Bridget started her business career training to be an accountant. After qualification in 1987, she worked in a variety of industries from Collins the publishers to Volvo cars. She moved to work at Aviva and held a number of senior positions across the business. In 2019, Bridget received an honorary doctorate from Aston University, and she was also awarded an MBE for her services to women. Bridget is currently a Non-Executive Director of Jarrolds. In 2010, Bridget founded her own social enterprise business, Dream On, a Suffolk-based company focused on improving the lives of women, and subsequently The Blossom Charity in 2013. Bridget became the Chairman of Notcutts in March 2020. Bridget joined the Adnams Board in May 2013.

STEVEN SHARP SENIOR NON-EXECUTIVE DIRECTOR & CHAIR OF THE NOMINATIONS COMMITTEE

A former Executive Director of Marks and Spencer, Steven was responsible for marketing, financial services, e-commerce and store development.

He is Executive Chairman of Imagineer London, an international marketing and branding agency.

Steven is a Fellow of The Chartered Institute of Marketing and a Doctor and Visiting Professor of Glasgow Caledonian University.

REPORT OF THE DIRECTORS

The Chairman's Report and the Strategic report on pages 12 to 25 include information about the company's business and financial performance during the year and indications of likely future developments and should be read in conjunction with this report.

	2019
	£000
Dividends to ordinary shareholders	
Final 150% (paid 4 June 2019)	708
Interim 78% (paid 3 October 2019)	368

FINANCIAL RISKS

The financial risk management objectives, policies and exposures of the company are set out in the Strategic report and in note 27 to the accounts.

PROPERTIES

In the opinion of the directors the market value of the properties considerably exceeds the amount included in the balance sheet. The directors are unable to quantify this excess in the absence of a professional valuation, the costs of which are not considered justifiable in view of the company's intention to retain ownership of its principal existing properties for use in its activities for the foreseeable future.

DIRECTORS

The directors who held office during the year and their interests in the share capital of the company, at the beginning and end of the financial year, and whilst a director, are shown below.

The statement of directors' responsibilities is shown on page 49.

N J Dulieu and A C Wood retire by rotation and being eligible offer themselves for re-election.

S C Pugh is retiring at the Annual General Meeting on 28 April 2020 and is not seeking re-election.

	'A' Ordinary 25p		'B' Ordinary £1	
Directors' interest in ordinary shares	2019	2018	2019	2018
J P A Adnams	193,703	189,303	10,138	10,138
N J Dulieu*	161	161	-	-
M G H Heald*	169,971	171,889	43,035	37,035
	14,467**	7250**	-	-
K Hester	2,315	2,015	-	-
B F McIntyre*	105	105	-	-
S C Pugh	5,833	5,833	-	-
S M Sharp*	304	304	-	-
A C Wood	1,745	1,745	-	-
	10,670**	10,670**	3,800**	3,800**

* Denotes non-executive director.

** Shares held as Trustee.

The company has a Share Incentive Plan (SIP) in which the executive directors are eligible to participate. Directors' interests in shares attributed under the terms of this scheme are included above.

EMPLOYEE MATTERS

ENGAGEMENT

Adnams is committed to involving employees in the performance and development of the company by encouraging them to discuss with management matters of interest and subjects affecting day-to-day operations through an employee forum, staff surveys, regular briefings from the Chief Executive, a written board report and by invitation to attend and present to the board.

Weekly business performance updates are provided by the executive directors through internal social media, and monthly financial information is distributed.

The Board regularly debates its remuneration policy and the company runs incentive schemes to improve performance and to allow employees to benefit from the company's success.

As described in the stakeholder section of the Strategic report, employee interests, along with those of other stakeholders, are central to decision-making at Adnams.

HEALTH, WELFARE AND DEVELOPMENT OF EMPLOYEES

For many years, Adnams has operated schemes for the welfare and benefit of employees. As well as pension and life assurance, we provide cover for illness and we make available to employees qualified specialists to cover medical welfare, pension advice and any counselling needs. Health and safety policies are given a high profile in all areas with wide representation throughout the company on the Health and Safety Committee.

It is our policy to train and develop the knowledge and skills of employees at every level and to provide long-term secure and fulfilling employment.

DISABLED PERSONS

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

INDEPENDENCE

Adnams continues to value and work to preserve its status as an independent company.

CHARITABLE DONATIONS

Adnams is committed to giving not less than 1% of its annual profits to charitable causes.

Donations to the Adnams Charity during the year amounted to £12,000 (2018: £18,000).

SUPPLIER PAYMENT

It is the company's policy to make every effort to agree terms of payment with suppliers in advance, to ensure that suppliers are made aware of the terms and to abide by them.

At 31 December 2019, the company had an average of 32 days (2018: 28 days) purchases outstanding in trade creditors.

DIRECTORS' QUALIFYING THIRD-PARTY INDEMNITY PROVISIONS

The company has granted an indemnity to its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third-party indemnity provision remains in force as at the date of approving the directors' report.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

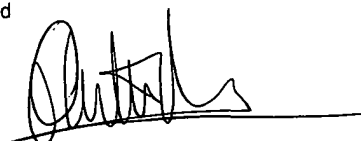
AUDITOR

Grant Thornton UK LLP offer themselves for reappointment as auditor in accordance with Section 489 of the Companies Act 2006.

By Order of the Board

E S CANTWELL
Secretary

23 March 2020



NOTICE OF MEETING

Notice is hereby given that the One Hundred and Thirtieth Annual General Meeting will be held at The Swan Hotel, Southwold on 28 April 2020 at 11 o'clock for the following purposes:

ORDINARY RESOLUTIONS

1. To consider the Accounts and Directors' report
2. To re-appoint N J Dulieu, who retires by rotation
3. To re-appoint A C Wood, who retires by rotation
4. To re-appoint Grant Thornton UK LLP as auditor
5. To authorise the directors to fix the remuneration of the auditor

A member entitled to attend and vote at the above meeting is entitled to appoint a proxy to exercise all or any of his/her rights to attend, speak and vote.

By Order of the Board

E S CANTWELL
Secretary

23 March 2020



REGISTERED OFFICE

Sole Bay Brewery, Southwold, Suffolk, IP18 6JW
Company registered number 31114

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Turnover	5	74,749	78,918
Operating expenses	6	(74,030)	(77,312)
Operating profit before highlighted items		719	1,606
Highlighted items – operating expenses		-	(1,766)
Operating profit/(loss)		719	(160)
Profit/(loss) on disposal of assets	7	62	(21)
Profit/(loss) on ordinary activities before interest and taxation		781	(181)
Interest receivable		1	1
Interest payable	10	(526)	(505)
Other finance charge on pension scheme	26	(217)	(192)
Profit/(loss) on ordinary activities before taxation		39	(877)
Tax on profit on ordinary activities	11	(10)	92
Profit/(loss) for the financial year		29	(785)

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Profit/(loss) for the financial year		29	(785)
Actuarial gain on pension scheme	26	1,503	971
Movement on deferred tax relating to actuarial gain	19	(256)	(165)
Total comprehensive income for the financial year		1,276	21

	Notes	2019	2018
Earnings per share basic and diluted	13		
'A' Shares of 25p each		1.5p	(41.6)p
'B' Shares of £1 each		6.1p	(166.4)p

The notes form an integral part of the financial statements.

BALANCE SHEET

As at 31 December 2019

	Notes	2019 £000	2018 £000
Tangible fixed assets	14	43,791	45,181
Current assets			
Stocks	15	9,185	9,496
Debtors	16	9,706	10,654
Cash at bank and in hand		24	22
		18,915	20,172
Creditors: amounts falling due within one year	17	(17,411)	(18,883)
Net current assets		1,504	1,289
Total assets less current liabilities		45,295	46,470
Creditors: amounts falling due after more than one year	18	(10,196)	(10,199)
Provision for liabilities	19	(1,114)	(720)
		(11,310)	(10,919)
Net assets excluding pension liability		33,985	35,551
Pension liability	26	(6,198)	(7,964)
Net assets including pension liability		27,787	27,587
Capital and reserves			
Called up share capital	20	472	472
Share premium	21	144	144
Profit and loss account	21	27,171	26,971
Equity shareholders' funds		27,787	27,587

The notes form an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 23 March 2020, authorised for issue and signed on its behalf by:

S C PUGH

Director

Company registration number 31114



STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Notes	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total £000
At 1 January 2018		472	144	28,026	28,642
Loss for the year		-	-	(785)	(785)
Other comprehensive income					
Actuarial gain on pension scheme	26	-	-	971	971
Movement on deferred tax relating to pension scheme		-	-	(165)	(165)
Total comprehensive income		-	-	21	21
Dividends paid	12	-	-	(1,076)	(1,076)
At 31 December 2018		472	144	26,971	27,587
Profit for the year		-	-	29	29
Other comprehensive income					
Actuarial gain on pension scheme	26	-	-	1,503	1,503
Movement on deferred tax relating to pension scheme	19	-	-	(256)	(256)
Total comprehensive income		-	-	1,276	1,276
Dividends paid	12	-	-	(1,076)	(1,076)
At 31 December 2019		472	144	27,171	27,787

The notes form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 £000	2018 £000
Cash flows from operating activities			
Profit/(loss) for the financial year		29	(785)
Adjustments for:			
Depreciation of tangible assets		3,685	3,550
Profit/(loss) on sale of fixed asset disposals		(81)	21
Interest, and other finance charges on pension scheme		742	696
Tax on profit on ordinary activities		10	(92)
Difference between pension charge and cash contributions	26	(480)	(480)
GMP adjustment for past service		-	1,000
Decrease/(increase) in stocks		311	(1,431)
Decrease/(increase) in debtors		894	(251)
(Decrease)/increase in creditors		(761)	398
Impairment	6	-	766
Cash from operations		4,349	3,392
Taxation received/(paid)		439	(109)
Net cash generated from operating activities		4,788	3,283
Cash flows from investing activities			
Payments to acquire tangible fixed assets	14	(2,514)	(4,051)
Receipts from sales of tangible fixed assets		51	1,070
Payments to acquire investments/deposits		(3)	(22)
Net cash used in investing activities		(2,466)	(3,003)
Cash flows from financing activities			
Interest paid		(514)	(500)
Dividends paid	12	(1,076)	(1,076)
Net cash used in financing activities		(1,590)	(1,576)
Net increase/(decrease) in cash and cash equivalents		732	(1,296)
Cash and cash equivalents at 1 January		(8,643)	(7,347)
Cash and cash equivalents at 31 December		(7,911)	(8,643)
Cash and cash equivalents consist of:			
Cash at bank and in hand		24	22
Bank overdraft (included in bank overdraft and loans within creditors: amounts falling due within one year)		(7,935)	(8,665)
Cash and cash equivalents		(7,911)	(8,643)
Bank loan		(10,000)	(10,000)
Net debt		(17,911)	(18,643)
Reconciliation of net cash flow to movement in net debt			
Net debt at 1 January		(18,643)	(17,347)
Increase/(decrease) in cash		732	(1,296)
Net debt at 31 December		(17,911)	(18,643)

The notes form an integral part of the financial statements.

Strategic report

Governance

Financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

1 COMPANY INFORMATION

Adnams plc is a public limited company incorporated in England. The registered office is Sole Bay Brewery, Southwold, Suffolk, IP18 6JW.

The principal activities of the company are brewing and distilling; wholesaling and retailing beer, wines, spirits and minerals; pub and hotel ownership and management.

2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' (FRS102), and with the Companies Act 2006. The financial statements have been prepared on the historical cost basis. There are no fair value adjustments other than in recognition of the net defined benefit pension deficit and in assessing the value of properties for impairment purposes.

GOING CONCERN

Adnams plc has considerable property assets and is soundly based. Banking facilities at the year end amounted to £22 million, comprising a £12 million overdraft, a £5 million fixed rate loan and a £5 million revolving credit facility. Discussions are in progress with Barclays Bank, with whom all the above facilities are held, to review the best facilities structure for the future. The directors have reasonable confidence that all required facilities will be agreed and that further facilities will be available to the business when the current facilities mature. Adnams has had a long relationship with Barclays and the bank has been consistently supportive. The directors, who commission and review appropriate business and financial forecasts, also have reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Nonetheless, the possible impacts of coronavirus, or Covid-19, at the date of this report are subject to unprecedented levels of uncertainty. Government announcements are occurring on a daily basis as we sign these accounts and one week before signing, customers were advised not to visit pubs. The situation is rapidly changing but is hugely disruptive for the industry and the full effect on staff, customers, suppliers and distribution networks cannot be known at this point. Adnams continues to monitor the situation and develop its detailed forecasts to understand and monitor the changing environment and to develop mitigation plans. Given the uncertain financial effects, these events and conditions may cast a material uncertainty over the going concern assessment.

3 SIGNIFICANT JUDGEMENTS AND ESTIMATES

One notable area of judgement is the assessment of possible impairment of the fixed assets, especially properties, employed by Adnams. We use a threshold rate of return for these assets when assessing whether an impairment charge could be required. In recent years we have used a pre-tax rate of 7.5%. Whilst interest rates vary year by year there is a case for constantly adjusting this rate, but we feel that there is merit in using a consistent rate and we have chosen this course and feel that 7.5% remains a sensible threshold.

The cost of our closed defined benefit pension plan is determined using actuarial valuations. These valuations involve making assumptions, notably about discount rates and mortality rates. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of the plan, such estimates are subject to significant uncertainty.

Our overall view is that, whilst judgements and estimates need to be made in assessing provisions and asset values, had we made other assumptions within the range of likely outcomes, this would not have produced a materially different result.

4 PRINCIPAL ACCOUNTING POLICIES

TANGIBLE ASSETS

Tangible fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on all tangible fixed assets other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its estimated useful life, as follows:

Freehold buildings	2% pa
Leasehold property	
– long lease	2% pa
– short lease	period of lease
Plant and equipment	3% to 10% pa
Fixtures and fittings	15% pa
Motor vehicles	15% pa
Enterprise Resource Planning (ERP) System	10% pa
Computer equipment	25% pa

Fixed assets in the course of construction are not depreciated until they are brought into use.

During 2018, a review of useful economic lives of fixed assets was undertaken, resulting in changes to a small number of assets, principally around the alignment of all freehold buildings to a 50-year life, renewed estimates of long life assets held within the brewery and our new ERP system. The impact of these changes within the 2018 accounts was to reduce the depreciation charge by £0.3 million.

4 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT REVIEWS

Asset values are reviewed for impairment should it appear that their value might not be recoverable. In assessing the potential impairment of assets or income-generating units (those assets affected by the same economic factors), the book value of properties is compared with the higher of the realisable value and the value in use. The value in use is determined by discounting the cash flows from the assets at a pre-tax rate of 7.5%. Any shortfall is recognised as an impairment loss. In recent years, our policy has been to view each of our properties as being sufficiently distinctive to represent a separate income-generating unit.

INVESTMENTS

Where Adnams makes an investment for trading purposes then these are held at cost within trade debtors and written off to the profit and loss over the life of the investment.

STOCKS

In the 2018 balance sheet stocks were valued at the lower of cost or net realisable value on a first-in, first-out basis. Following the change of system in 2019 stocks are held at standard cost, or net realisable value if lower. Cost of beer and spirits stocks includes relevant production costs and associated overheads. Net realisable value is based on estimated selling price less any further costs expected.

DEBTORS

Short-term debtors are measured at transaction price, less any impairment.

CREDITORS

Short-term creditors are measured at transaction price.

BANK LOANS

Bank loans are measured at amortised cost.

LEASES

Total rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the lease term. Lease incentives are recognised as a reduction to the expense over the lease term on a straight-line basis.

FINANCIAL INSTRUMENTS

The company holds basic financial assets, including trade and other receivables and cash and bank balances, and basic financial liabilities including trade and other payables, bank loans and preference shares that are classified as debt. Both basic financial assets and basic financial liabilities are recognised at transaction price.

Financial assets are reviewed for impairment and if the recoverable amount is deemed to be less than the book value, the impairment loss is recognised in the profit and loss account.

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 entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability, then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity when paid.

TAXATION

Current tax is charged on the basis of the amount of tax payable or recoverable in respect of the taxable profit or loss for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

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

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits, and are recognised within debtors.

The deferred tax assets and liabilities all relate to the same legal entity and being due to or from the same tax authority are offset on the balance sheet.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax is provided on capital gains which have been rolled over into the acquisition of new fixed assets.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4 PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

TURNOVER

Turnover is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on despatch or delivery of the goods; or on provision of services. In the Brewing & Brands business, turnover is recognised on confirmation of delivery of beer or other physical goods. In the Retail business, stores and web and mail order turnover is recognised on despatch of goods, or physical shop transaction. In the Property business, managed properties recognise income following provision of accommodation services or provision of food or drinks. Rental income received from the tied estate properties is recognised in the period to which it relates. Turnover is measured at the fair value of the consideration receivable.

EMPLOYEE BENEFITS

PENSION COSTS – DEFINED BENEFIT SCHEME

For the Adnams defined benefit scheme, assets are measured at fair value. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at appropriate high-quality corporate bond rates. The net surplus or deficit is presented separately from other net assets on the balance sheet. A net surplus is recognised only to the extent that it is recoverable by the company through reduced contributions or through refunds from the plan. As the scheme is closed to all accrual there are no current service costs. Costs from settlements and curtailments are charged against operating surplus. Past service costs are recognised in the current reporting period. Interest is calculated on the net defined benefit liability. Remeasurements are reported in other comprehensive income. Additional information is included in note 26.

PENSION COSTS – DEFINED CONTRIBUTION SCHEMES

In respect of the defined contribution pension schemes, the amounts charged to the profit and loss account are the contributions payable in the year.

FOREIGN CURRENCY TRANSLATION

Transactions expressed in foreign currencies are translated into Sterling and recorded at rates of exchange ruling at the date of transaction.

Monetary assets and liabilities are translated at rates ruling at the balance sheet date. All differences are taken to the profit and loss account.

DIVIDENDS

Dividends payable on ordinary shares are shown as a movement in reserves when paid. Dividends payable on preference shares are shown as an interest cost in accordance with the payment date attaching to those shares.

5 TURNOVER

Turnover represents sales invoiced (excluding VAT and net of discounts), rents, commissions and royalties. Turnover outside the United Kingdom during the year was £1,103,000 (2018: £1,174,000).

6 OPERATING EXPENSES

	2019 £000	As restated 2018 £000
Raw materials, consumables and duty	45,065	50,347
Change in stock of finished goods and work in progress	566	(1,253)
Staff costs (note 9)	13,341	12,941
Depreciation (note 14)	3,685	3,550
Profit/(loss) on disposal of plant and vehicles	(19)	5
Auditor's remuneration – Audit of the company's annual accounts	55	35
– Audit-related assurance services	3	2
– Tax compliance services	6	5
– Tax advisory (including R&D)	17	41
Operating lease rentals	763	750
Foreign exchange gain	(235)	(343)
Other operating costs	10,783	11,232
	74,030	77,312

The £1,766,000 of highlighted items in 2018 represent the cost of property impairment of £766,000 and the estimated cost of adjustments to guaranteed minimum pension of £1,000,000.

The 2018 operating expense analysis has been restated to show an additional £1,253,000 of costs as raw materials, consumables and duty. These were included in other operating costs in the prior year accounts.

7 PROFIT ON DISPOSAL OF ASSETS

The loss on disposal of assets in 2018 and the profit in 2019 resulted from the sale of properties.

8 SEGMENTAL ANALYSIS

	Brewing & Brands 2019 £000	Pubs & Hotels 2019 £000	Retail 2019 £000	Central Operations 2019 £000	Central Management 2019 £000	Total 2019 £000
Total sales	45,469	16,794	11,783	692	11	74,749
Operating profit/(loss)	6,651	3,278	1,242	(5,028)	(5,424)	719
Profit on disposal of assets	-	62	-	-	-	62
Interest receivable	-	-	-	-	1	1
Interest payable	-	-	-	-	(526)	(526)
Other finance charge on pension scheme	-	-	-	-	(217)	(217)
Profit/(loss) on ordinary activities before taxation	6,651	3,340	1,242	(5,028)	(6,166)	39
Depreciation	456	936	181	1,697	415	3,685

	Brewing & Brands 2018 £000	Pubs & Hotels 2018 £000	Retail 2018 £000	Central Operations 2018 £000	Central Management 2018 £000	Total 2018 £000
Total sales	49,961	16,129	12,702	121	5	78,918
Operating profit/(loss) before highlighted items	7,464	3,107	1,441	(4,937)	(5,469)	1,606
Highlighted items – operating expenses	-	(755)	(11)	-	(1,000)	(1,766)
Operating profit/(loss)	7,464	2,352	1,430	(4,937)	(6,469)	(160)
Loss on disposal of assets	-	(21)	-	-	-	(21)
Interest receivable	-	-	-	-	1	1
Interest payable	-	-	-	-	(505)	(505)
Other finance charge on pension scheme	-	-	-	-	(192)	(192)
Profit/(loss) on ordinary activities before taxation	7,464	2,331	1,430	(4,937)	(7,165)	(877)
Depreciation	456	956	190	1,658	290	3,550

The company's business segments are Adnams Brewing & Brands (Drinks), which comprises brewing and distribution of beer, spirits and other products, Adnams Pubs & Hotel Properties, which comprises tenanted pubs and managed inns, and Adnams Retail, which comprises shops together with the mail order and web businesses. Each of these operating segments is monitored and managed separately in accordance with the products and services provided and strategic decisions are made on the basis of segment operating results.

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

The measurement policies the company uses for segment reporting under IFRS8 are the same as those used in its financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9 DIRECTORS AND EMPLOYEES

	2019 £000	2018 £000
Staff costs during the year were as follows:		
Wages and salaries	11,873	11,500
Social security costs	1,011	1,017
Other pension costs	457	424
	13,341	12,941

	2019 Number	2018 Number
The average monthly number of persons employed by the company, including executive directors, was as follows:		
Trading	16	19
Customer services	104	111
Production	34	36
Shops	101	107
Managed properties	231	238
Corporate services	70	67
	556	578
Total number of part-time workers included above:	205	203

	2019 £000	2018 £000
Directors' remuneration:		
Fees	128	128
Basic salaries	740	740
Benefits	7	7
Car and pension allowances	131	130
	1,006	1,005

	Salaries and fees £000	Benefits £000	Car and pension allowances £000	2019 £000	2018 £000
J P A Adnams	203	1	34	238	238
N J Dulieu	31	-	-	31	31
M G H Heald	31	-	3	34	33
K Hester	137	2	27	166	166
B F McIntyre	35	-	-	35	35
S C Pugh	152	2	29	183	183
S M Sharp	31	-	-	31	31
A C Wood	248	2	38	288	288
	868	7	131	1,006	1,005

9 DIRECTORS AND EMPLOYEES (CONTINUED)

As a result of regulations governing pension contributions, the company's contributions for J P A Adnams stopped in 2012 and those for A C Wood and S C Pugh in 2014 and an equivalent amount has been paid as a pension allowance which has been included within car and pension allowances above.

J P A Adnams, A C Wood and K Hester are members of the company's defined benefit pension scheme which closed to future accrual on 30 June 2005. The following disclosures are made in respect of that scheme:

	2019 £000	2018 £000
Accumulated total accrued pension:		
J P A Adnams	98	96
A C Wood	29	28
K Hester	12	12

Accumulated total accrued pension normally represents scheme service to retirement, but for 31 December 2018 and 2019 this figure reflects the scheme closure in June 2005.

The transfer value of the highest paid director's accrued benefits in the defined benefit pension scheme amounted to £719,208 (2018: £614,503).

Contributions were paid to the Adnams defined contribution pension scheme in respect of K Hester, £14,000 (2018: £13,000) and M G H Heald, £3,000 (2018: £2,498).

The company has an approved Share Incentive Plan in which the executive directors participate; the scheme was suspended in 2018, and reinstated in 2019, though no share allocation has been made in respect of that year.

There were no share option arrangements in place.

10 INTEREST PAYABLE AND SIMILAR CHARGES

	2019 £000	2018 £000
Bank loans and overdraft	519	503
Other	5	-
Preference share dividends paid: 3.85% cumulative £10 shares	1	1
Preference share dividends paid: 4.9% non-cumulative £5 shares	1	1
	526	505

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2019 £000	2018 £000
The charge based on the profit for the year comprises:		
UK corporation tax @ 19.00% (2018: 19.00%)	(160)	93
Tax under/(over) provided in prior years	33	(302)
Total current tax	(127)	(209)
Deferred taxation (note 19)		
Origination and reversal of timing differences	156	148
Pension cost relief in excess of pension cost charge including effect of rate changes	45	(121)
Adjustment in respect of prior years	(64)	90
Total deferred tax	137	117
Tax on profit on ordinary activities	10	(92)

The tax assessed for the year is higher (2018: higher) than the average rate of corporation tax in the UK of 19% (2018: 19%). The differences are reconciled below:

Profit on ordinary activities before tax	39	(877)
Profit on ordinary activities multiplied by average rate of corporation tax in the UK of 19.00% (2018: 19.00%)	7	(167)
Disallowed expenses	71	326
Non-taxable income	(12)	(32)
Adjustment relating to prior years and rate change	(56)	(219)
Tax on profit on ordinary activities	10	(92)

The aggregate current and deferred tax charge relating to items that are recognised as items of other comprehensive income is £255,000 (2018: £165,000).

During 2019, the UK corporation tax rate was 19%. Following the Budget 2016 announcements, there will be a further planned reduction in the main rate of corporation tax to 17% from 1 April 2020. We have used 17% in our deferred tax calculations, which is the tax rate that is expected to apply in the periods in which the timing differences are expected to reverse. The government has announced that corporation tax rates will not be reduced from their current 19%, but as this was not enacted or substantively enacted at the balance sheet date it has not been reflected in these accounts. If 19%, rather than 17%, was used to calculate the deferred tax the impact would be to increase the charge by £131,000.

12 DIVIDENDS

	2019 £000	2018 £000
Equity dividends on ordinary shares		
Interim paid 3 October 2019 78% (2018: 1 October 78%)	368	368
Final paid 4 June 2019 150% (2018: 1 June 150%)	708	708
	1,076	1,076

13 EARNINGS PER SHARE

	2019	2018
Including property disposals:		
'A' Ordinary shares	1.5p	(41.6)p
'B' Ordinary shares	6.1p	(166.4)p

Basic and diluted earnings per share for 'A' Ordinary shares are calculated by dividing the earnings available for 'A' Ordinary shareholders of £11,000 (2018: £(309,000)) by the number of issued 25p 'A' Ordinary shares (note 20): 744,000 (2018: 744,000).

Basic and diluted earnings per share for 'B' Ordinary shares are calculated by dividing the earnings available for 'B' Ordinary shareholders of £18,000 (2018: £(476,000)) by the number of issued £1 'B' Ordinary shares (note 20): 285,842 (2018: 285,842).

Excluding property disposals:		
'A' Ordinary shares	(1.1)p	(42.5)p
'B' Ordinary shares	(4.5)p	(169.9)p

14 TANGIBLE FIXED ASSETS

	Freehold and leasehold land and buildings £000	Plant, equipment, fixtures & fittings and motor vehicles £000	Total £000
Cost			
At 1 January 2019	32,533	44,823	77,356
Additions	237	2,277	2,514
Disposals	(242)	(342)	(584)
At 31 December 2019	32,528	46,758	79,286
Depreciation and impairment			
At 1 January 2019	9,414	22,761	32,175
Provided in the year	441	3,244	3,685
Disposals	(37)	(328)	(365)
At 31 December 2019	9,818	25,677	35,495
Net book value at 31 December 2019	22,710	21,081	43,791
Net book value at 31 December 2018	23,119	22,062	45,181

At 31 December 2019 £102,000 (2018: £1,464,000) of assets were in the course of construction.

	2019 £000	2018 £000
The cost of land and buildings comprises:		
Freehold land	1,973	2,005
Freehold buildings	29,746	29,761
Long leasehold	705	663
Short leasehold	104	104
	32,528	32,533

The company carried out an annual impairment review of its pub and shop assets, as explained in the accounting policy disclosed on page 35. Adnams properties are assessed every year to establish that their value is not overstated in our books of account. Each property is looked at individually. We assess the value in use and the estimated realisable value. If either of these exceed the book value, then no impairment is made. We look to achieve a 7.5% return to justify a property as having an adequate value in use. If the cash generated by the property runs at less than 7.5% of the book value then an impairment is potentially due, depending upon the estimated market value and on whether there are reasons why the value in use may have been temporarily reduced. Using this methodology no impairment charge was due in 2019 (2018: £766,000).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED**15 STOCKS**

	2019 £000	2018 £000
Raw materials	1,923	1,669
Work in progress	1,968	1,719
Finished goods and goods for resale	5,294	6,108
	9,185	9,496

A charge for slow-moving and obsolete stock of £30,000 (2018: £nil) was recognised in profit and loss during the year.

The difference between purchase price or production cost of stocks and their replacement cost is not material.

16 DEBTORS

	2019 £000	2018 £000
Trade debtors	8,300	8,958
Prepayments	1,205	1,184
Corporation tax asset	201	512
	9,706	10,654

Trade debtors includes amounts due after more than one year of £22,000 (2018: £39,000).

A provision for specific trade debts which are not considered recoverable of £48,000 (2018: £45,000) was recognised in profit and loss during the year.

17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019 £000	2018 £000
Bank overdraft and loans	7,935	8,665
Trade creditors	5,710	5,694
Taxation and social security	1,870	1,879
Accruals	1,896	2,645
	17,411	18,883

The bank overdraft and loans are secured by a debenture to Barclays Bank plc over the assets of the company.

See note 27 for further details of the bank overdraft and loans.

18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2019 £000	2018 £000
Tenants' deposits	150	153
Bank loans (repayable in less than 5 years)	10,000	10,000
3.85% cumulative preference shares of £10 each (3,100 shares)	31	31
4.9% non-cumulative preference shares of £5 each (3,100 shares)	15	15
	10,196	10,199

The bank loans are secured by a debenture to Barclays Bank plc over the assets of the company and are repayable on 31 January 2021.

See note 20 for full details of the preference shares.

See note 27 for further details of the bank loans.

19 DEFERRED TAXATION

	2019 £000	2018 £000
Accelerated capital allowances	1,035	878
Other timing differences	187	222
Chargeable gains	945	974
Deferred tax excluding that relating to pension liability	2,167	2,074
Deferred tax on pension scheme deficit (note 26)	(1,053)	(1,354)
Total deferred tax liability	1,114	720
Movement in the provision		
At 1 January 2019	2,074	
Deferred tax charged to the profit and loss account (current year movement at 17%)	156	
Adjustment in respect of prior years	(63)	
At 31 December 2019	2,167	
Deferred tax asset relating to pension deficit		
At 1 January 2019	(1,354)	
Deferred tax credited in the profit and loss account (current year movement at 17%)	45	
Deferred tax charged in the statement of comprehensive income	256	
At 31 December 2019	(1,053)	

The amount of the net reversal of deferred tax expected to occur next year is £100,000 (2018: £72,000), relating to the reversal of existing timing differences on fixed assets offset by tax deductions from payments to utilise provisions. In addition, it includes cash contribution to the pension fund offset by anticipated finance charges relating to the scheme.

20 CALLED UP SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	2019 £000	2018 £000	2019 £000	2018 £000
Ordinary shares				
'A' of 25p each (744,000 shares)	186	186	186	186
'B' of £1 each (285,842 shares)	288	288	286	286
	474	474	472	472

Profits distributed by the company are applied first to the 3.85% cumulative preference shares, then to the 4.9% non-cumulative preference shares before distribution on the ordinary shares. The preference shares carry no votes at meetings, the ordinary shares have a single vote for each 'A' or 'B' share. On a winding up of the company, the surplus assets will be applied first to repay capital on the 3.85% cumulative preference shares, then capital plus any dividend arrears on the 4.9% non-cumulative preference shares; the remaining surplus is applied to the 'A' and 'B' ordinary shares in proportion to the amounts paid up. Preference shares are classed as financial liabilities and held within creditors falling due after more than one year, see note 18.

21 RESERVES

Called up share capital – represents the nominal value of shares that have been issued.

Share premium account – includes any premiums received on issue of share capital.

Profit and loss account – includes all current and prior period retained profits and losses.

22 CAPITAL COMMITMENTS

	2019 £000	2018 £000
Contracted for	7	149

The amount for 2018 and 2019 reflects capital commitments for the dealcoholisation plant within the brewery.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23 OPERATING LEASE COMMITMENTS

	2019 £000	2018 £000
Future minimum lease payments:		
Within 1 year	763	686
In 1-5 years	2,247	2,351
In over 5 years	2,281	2,660
	5,291	5,697

24 CONTINGENT LIABILITIES

At the year end, Barclays Bank held a bond guarantee on behalf of Adnams plc with HMRC for £30,000 (2018: £30,000).

25 TRANSACTIONS WITH RELATED PARTIES

	2019 £000	2018 £000
Dividends paid to directors	348	335

The key management of Adnams plc are considered to be the executive directors, the compensation for whom was £988,000 for the year (2018: £988,000), including employer's national insurance and pension contributions.

The directors are granted a discount of 25% on purchases from the company, in line with the discount given to all other employees.

During the year, the company made sales of £244,000 (2018: £270,000), and held a year-end balance of £28,000 (2018: £12,000), to The Hotel Folk Ltd, of which Mr A C Wood is a director.

Mr M G H Heald is a director of or connected with five companies that are customers of Adnams plc. The names of these companies, together with the sales/purchases made and the debtor/creditor balances outstanding at 31 December 2019 and 2018, are listed below. Transactions in each case were on arm's length terms and outstanding balances were not overdue.

1. The Hotel Folk Ltd: sales of £244,000 (2018: £270,000) and balance of £28,000 (2018: £12,000).
2. The Soho Theatre Bar Ltd: sales of £211,000 (2018: £204,000) and a balance of £10,000 (2018: £10,000). Adnams has a three-year sponsorship agreement with The Soho Theatre with effect from 1 September 2017 at a rate of £35,000 and an additional sponsorship of £15,000 was agreed in 2019 for one year.
3. Zakari Wines Ltd: sales of £nil (2018: £1,000) and a balance of £nil (2018: £nil).
4. Sagittarius Royaume-Uni Ltd: sales of £35 (2018: £659) and a balance of £nil (2018: £1,000) and paid for purchases of £nil (2018: £3,000).
5. Fishers Gin Ltd: sales of £68,000 (2018: £80,000) and a balance of £42,000 (2018: £13,000) and paid for purchases of £4,000 (2018: £nil) and a balance of £2,000 (2018: £nil).

Aside from being a director, Mr Heald is also the majority shareholder in the above companies, with the exception of Fishers Gin Ltd and The Soho Theatre Bar Ltd.

During the year the company made sales of £10,000 (2018: £9,000), £3,000 (2018: £4,000) of which was outstanding at the year end, to Jarrold & Sons Ltd, of which Ms B F McIntyre is also a director.

During 2018, the company made sales of £3,000, £342 of which was outstanding at the year end, and paid for purchases of £2,000 from Collen & Clare Ltd of which Mr S M Sharp ceased to be a director and shareholder in 2019.

During 2018, the company paid for purchases of £1,000 from FramTrade Ltd of which Mrs K Hester is a director.

The Employee Benefit Trust (EBT) held 8,827 Adnams plc 'A' shares at 31 December 2019 (2018: 8,827 'A' shares).

During 2019, the EBT received dividends of £5,000 on its Adnams shares (2018: £5,000).

There is no overall controlling party of Adnams plc.

26 PENSION SCHEME

DEFINED BENEFIT PENSION SCHEME

The assets of the defined benefit pension scheme are held separately from those of the company, being invested with a fund manager. The contributions are determined by a qualified actuary on the basis of triennial valuations using the defined accrued benefit method. The most recent triennial valuation was at 1 April 2019. The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on investments.

It was assumed in 2019 that the investment returns both pre and post-retirement would be 3.5% per annum.

The most recent actuarial valuation showed that the market value of the scheme's assets was £36,509,000 and that the actuarial value of these assets was sufficient to cover 100% of the benefits that had accrued to members.

Some obligations to pay pensions due from the scheme have been met by the purchase of annuities. The value of these annuities, which match exactly the pension obligation, are included in the accounts of the pension scheme. The value at 31 March 2019 was £1,881,000 (2018: £2,039,000). No annuity value has been included in the asset and liability valuations shown in the note below.

The contributions of the company and employees have been at least equal to the rates recommended by the actuary.

Valuation of the scheme has been updated to 31 December 2019 by a qualified actuary.

Financial assumptions	2019	2018
Pensionable salary growth	N/A	N/A
Pension escalation in payment:		
Benefits accrued prior to 6 April 1997	4.0% pa	4.0% pa
Benefits accrued after 6 April 1997 to 1 October 1999	4.1% pa	4.1% pa
Benefits accrued after 1 October 1999 to 5 April 2005	2.9% pa	3.4% pa
Benefits accrued after 5 April 2005	2.3% pa	2.5% pa
Discount rate for liabilities	1.9% pa	2.8% pa
Inflation assumption	3.0% pa	3.4% pa
Pension revaluation in deferment	2.0% pa	2.6% pa
DEMOGRAPHIC ASSUMPTIONS		
Assumed life expectancy in years, on retirement at 65	2019	2018
Retiring today:		
Males	21.7	22.5
Females	23.4	24.8
Retiring in 20 years:		
Males	23.0	23.9
Females	24.9	26.2
Assets as a percentage of total plan assets		
UK equities	17.2%	17.3%
Overseas equities	27.9%	30.2%
Corporate bonds	12.8%	10.6%
Government bonds	26.5%	25.3%
Property	7.6%	8.7%
Cash	8.0%	7.9%
Total assets	100.0%	100.0%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26 PENSION SCHEME (CONTINUED)
DEFINED BENEFIT PENSION SCHEME (CONTINUED)

	Value at 31 December 2019 £000	Value at 31 December 2018 £000
The assets and liabilities in the scheme		
Total market value of assets	38,388	34,419
Present value of scheme liabilities	(44,586)	(42,383)
Deficit in the scheme	(6,198)	(7,964)
Related deferred tax asset	1,053	1,354
Net pension liability	(5,145)	(6,610)
Actual return/(loss) on plan assets	4,558	(1,589)
	2019 £000	
Changes in the present value of the defined benefit obligation are as follows		
Opening defined benefit obligation	42,383	
Interest cost	1,172	
Actuarial losses – change of basis	2,610	
Actuarial gains – experience	(510)	
Benefits paid	(1,069)	
Closing defined benefit obligation	44,586	
	2019 £000	
Changes in the fair value of plan assets are as follows		
Opening fair value of plan assets	34,419	
Interest income	955	
Actuarial gains	3,603	
Contributions by employer	480	
Benefits paid	(1,069)	
Closing fair value of plan assets	38,388	
The company expects to contribute £180,000 to the Adnams Pension Fund in the next accounting year. Contributions reduced from £40,000 per month to £10,000 per month from March 2020 following the results of the triennial valuation as at 1 April 2019.		
	2019 £000	2018 £000
Analysis of other finance charge recognised in the profit and loss		
Interest income	955	869
Interest cost	(1,172)	(1,061)
Net interest cost	(217)	(192)

26 PENSION SCHEME (CONTINUED)**DEFINED BENEFIT PENSION SCHEME (CONTINUED)**

	2019 £000	2018 £000
Analysis of the amount recognised in other comprehensive income		
Return on plan assets (excluding amounts included in net interest cost)	3,603	(2,495)
Experience gains/(losses) arising on the scheme liabilities	510	(72)
Changes in assumptions underlying the present value of the scheme liabilities	(2,610)	3,538
Actuarial gain recognised in other comprehensive income	1,503	971

DEFINED CONTRIBUTION PENSION SCHEMES

The company also operates defined contribution pension schemes. The assets of these schemes are held separately from those of the company in independently administered funds. During the year, the company contributed £457,000 (2018: £424,000) to the schemes (note 9).

There was £67,000 of outstanding contributions payable at the year end (2018: £61,000).

27 FINANCIAL INSTRUMENTS

The company's principal financial instruments comprise a bank loan, cash and bank overdraft. The purpose of the financial instruments is to raise finance for the company's operations. The company has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations, which are valued at transaction price less any related provision.

	2019 £000	2018 £000
Financial assets measured at amortised cost	8,300	8,958
Financial liabilities measured at amortised cost	25,738	27,203

Financial assets includes trade debtors.

Included in financial liabilities are bank loan and overdraft, trade creditors, accruals, tenants' deposits and preference shares.

BORROWING FACILITIES

At the year end, borrowing facilities comprise a fixed rate five-year loan of £5 million, a revolving credit facility of £5 million and an overdraft of £12 million. £4.1 million of these facilities were undrawn at 31 December 2019 (2018: £3.3 million). Finance is also provided through preference shares, details of which are included in note 20.

INTEREST RATE PROFILE

At 31 December 2019, a bank loan of £5,000,000 (2018: £5,000,000) bears interest at 2.574% (2018: 2.574%) and a further bank loan of £5,000,000 bears interest at 2.260% (2018: 2.280%).

At 31 December 2019, bank overdrafts of £7,935,000 (2018: £8,665,000) bear interest at 1.750% (2018: 1.750%) above Barclays Bank base rate which was 0.75% (2018: 0.75%).

CREDIT RISK

The company may offer credit terms to trade customers; whilst it has chosen not to insure its debts, it seeks to manage credit risk by setting appropriate customer limits based on payment history and credit references. It reviews limits regularly and actively chases outstanding debts.

CURRENCY RISK

The main currency risks of the company relate to the import of wines, the largest value of which is denominated in Euros. Annual purchases of Euros amount to about £3.3 million.

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

There is no difference between book value and fair value in respect of the cash, bank loan and bank overdraft.

28 SHARE INCENTIVE PLAN AND EMPLOYEE BENEFIT TRUST

The company uses a tax-approved Share Incentive Plan (SIP) to allocate shares to employees, contingent upon company performance. The company does not issue shares for such schemes so arranges the purchase of shares through an Employee Benefit Trust. The Employee Benefit Trust buys shares as required during the year and passes them annually to the Share Incentive Plan, at a valuation approved by the tax authorities. The shares held by the Share Incentive Plan are not consolidated in the company's accounts as they are already allocated to employees. Shares held by the Employee Benefit Trust are not yet allocated.

The unallocated shares are small in number and accordingly the company does not consolidate the Employee Benefit Trust on grounds of materiality. 8,827 shares, all of which were Adnams plc 'A' shares, were held by the Employee Benefit Trust at 31 December 2019 (2018: 8,827 shares).

The scheme was suspended during 2018.

CORPORATE GOVERNANCE

STANDARDS

The company is committed to high standards of corporate governance incorporating best practice.

THE WORKINGS OF THE BOARD AND ITS COMMITTEES

The Board comprises four Executive Directors and four Non-Executive Directors. The Board is responsible to shareholders for the proper management of the company. It meets monthly, setting and monitoring strategy, reviewing trading performance, ensuring adequate funding, examining acquisition possibilities, formulating policy on key issues and reporting to shareholders.

The Board has two standing subcommittees covering Audit and Remuneration. A Nominations Committee is convened as required.

The Audit Committee, chaired by B F McIntyre, meets not less than twice annually. The Committee provides a forum for the company's external auditors. The Finance Director attends meetings at the invitation of the Committee. The Committee is responsible for reviewing a wide range of financial matters, including the annual figures and reports, and monitoring the controls which are in force in the company to ensure the integrity of the financial information reported to shareholders.

The Remuneration Committee is chaired by N J Dulieu and meets twice annually. The Head of Human Resources attends at the invitation of the Committee.

Membership of the Audit and Remuneration committees comprises the four Non-Executive Directors: N J Dulieu, M G H Heald, B F McIntyre and S M Sharp (Senior Independent Director).

Membership of the Nominations Committee is agreed according to the circumstances of the nomination.

INTERNAL FINANCIAL CONTROL

The Board acknowledges its responsibility for maintaining a system of internal control which can provide reasonable, albeit not absolute, assurance against mis-statement or loss.

To meet this responsibility, the Board relies upon:

- an organisation structure with clearly defined lines of authority and responsibility, limits for authorisation of transactions and segregation of duties;
- the production and review of regular monthly management information to agreed timescales;
- the identification of key performance indicators with explanations of variances;
- a formalised process for reviewing all company activities during the year;
- detailed annual operating budgets for all businesses; and
- formal authorisation procedures for all investment and capital expenditure.

The Audit Committee considers the system of internal financial control operated effectively during the year.

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws, including Financial reporting Standard 102 'The Financial reporting Standard applicable in the UK and Republic of Ireland'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors confirm that:

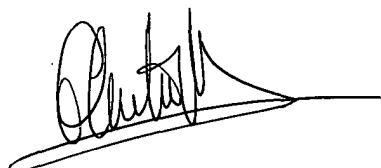
- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By Order of the Board

E S CANTWELL
Secretary

23 March 2020



INDEPENDENT AUDITOR'S REPORT

to the members of Adnams plc

OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of Adnams PLC (the 'company') for the year ended 31 December 2019, which comprise the Profit and Loss account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the 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 United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements 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 are independent of the 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

THE IMPACT OF UNCERTAINTIES ARISING FROM THE UK EXITING THE EUROPEAN UNION ON OUR AUDIT

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with a course of action such as Brexit.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2 in the financial statements, which outlines the present trading uncertainties surrounding the company as a result of the Covid-19 pandemic. As stated in note 2, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

KEY AUDIT MATTERS

In addition to the matter described in the "Material uncertainty related to going concern" section, we have determined the matter described below to be the key audit matter to be communicated in our report.

OVERVIEW OF OUR AUDIT APPROACH

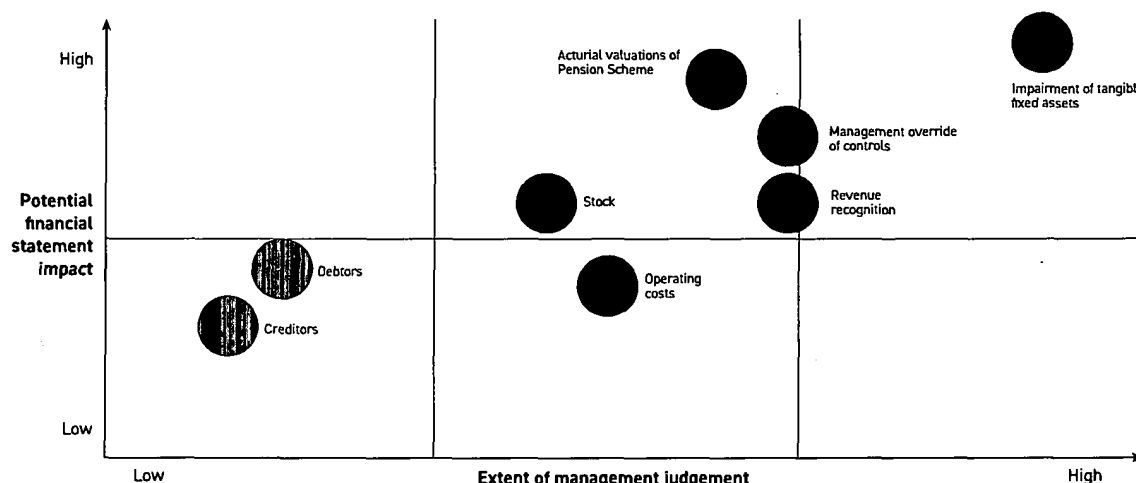
- Overall materiality: £747,000, which represents 1% of the company's revenue;
- The key audit matter identified is impairment of tangible fixed assets;
- Our audit approach was a risk based substantive audit incorporating control testing.

KEY AUDIT MATTERS

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most

significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that 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

IMPAIRMENT OF TANGIBLE FIXED ASSET

At 31 December 2019 the company had £19.2m of property in respect of its managed inns and tied estate and £1.2m of property in respect of retail outlets. During the year the company recognised no impairment loss in respect of these properties.

Financial Report Standard (FRS) 102 requires management to test assets for impairment where potential indicators for impairment have been identified.

The assessment of impairment of the company's tangible fixed assets includes key assumptions that are subject to significant estimation uncertainty, such as forecast trading performance by property and the discount rate applied. Any impairment losses recognised are estimated by the company with reference to valuations provided by management's external expert.

We therefore identified impairment of tangible fixed assets as a significant risk, which was one of the most significant assessed risks of material misstatement.

HOW THE MATTER WAS ADDRESSED IN THE AUDIT

Our audit work included, but was not restricted to:

- Assessing the appropriateness of the accounting policy for impairment and evidencing its accurate implementation by management;
- Assessing the methodology applied with respect to the requirements of the applicable financial reporting framework;
- Evaluating the competence, capabilities and objectivity of management's expert;
- Testing the calculations prepared by management by:
 - Confirming the arithmetic accuracy of the calculations;
 - Comparing historical data used where relevant to source data;
 - Challenging assumptions included in management's forecasts by assessing the consistency of these with other relevant information; and
 - Assessing the reasonableness of the discount rates applied by reference to the company's weighted average cost of capital.

The company's accounting policy on the impairment of tangible fixed assets is shown in note 4 to the financial statements and related disclosures are included in note 14.

KEY OBSERVATIONS

Based on our audit work, we have concluded that the methodology applied by management for impairment testing to be in accordance with the applicable financial reporting framework, and the underlying assumptions to be reasonable. We consider that the company's disclosures in notes 4 and 14 to be appropriate. We found no errors in the calculations.

INDEPENDENT AUDITOR'S REPORT CONTINUED

OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our work and in evaluating the results of that work.

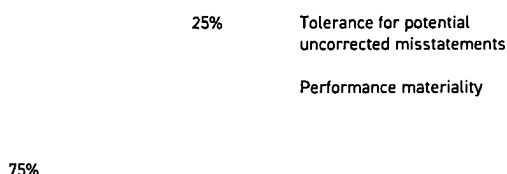
We determined materiality for the audit of the financial statements as a whole to be £747,000, which is 1% of the company's revenue. This benchmark is considered the most appropriate due to the significant level of user focus on these figures in assessing the company's future prospects and in assessing the controllable aspect of the company's performance during the year.

Materiality for the current year is higher than the level that we determined for the year ended 31 December 2018. In 2018, we determined a specific amount based on the appropriateness of this amount on the financial statements and in relation to the operating profit. In the current year, we considered revenue as the most appropriate benchmark as we consider that it more accurately reflects the scale of the business and the focus of users of the financial statements.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

OVERALL MATERIALITY



We also determine a lower level of specific materiality for certain areas such as Directors' Remuneration and Related Party Transactions.

We determined the threshold at which we will communicate misstatements to the audit committee to be £37,350. In addition, we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our audit approach was a risk-based approach founded on a thorough understanding of the company's business, its environment, risk profile, any changes in the business and other factors when determining the level of work to be performed. We performed a full scope audit based on the materiality assessed above. The audit work completed focused on the risk areas identified. The only change with regards to our audit approach from the prior year was the exclusion of testing of operating effectiveness of controls over revenue recognition for significant revenue streams.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

OUR OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 IS UNMODIFIED

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.

MATTER ON WHICH WE ARE REQUIRED TO REPORT UNDER THE COMPANIES ACT 2006

In the light of the knowledge and understanding of the 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 FOR THE FINANCIAL STATEMENTS

As explained more fully in the directors' responsibilities statement set out on page 49, 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 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 company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

A further description of our responsibilities for the audit of the financial statements is located on the 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 company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

TIMOTHY TAYLOR FCA
Senior Statutory Auditor

Grant Thornton UK LLP

for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Norwich

23 March 2020

CONTACT INFORMATION

ADNAMS PLC

SOLE BAY BREWERY

Southwold
Suffolk
IP18 6JW
T: 01502 727200
W: adnams.co.uk

HOTELS AND MANAGED INNS

THE SWAN

Market Place
Southwold
Suffolk
IP18 6EG
T: 01502 722186

THE CROWN

High Street
Southwold
Suffolk
IP18 6DP
T: 01502 722275

THE WHITE HORSE

4 High Street
Blakeney
Norfolk
NR25 7AL
T: 01263 740574

THE HARBOUR INN

Black Shore
Southwold
Suffolk
IP18 6TA
T: 01502 722381

THE BELL INN

Ferry Road
Walberswick
Suffolk
IP18 6TN
T: 01502 723109

THE PLOUGH

London Road
Wangford
Suffolk
NR34 8AZ
T: 01502 578239

THE FIVE BELLS INN

Southwold Road
South Cove
Wrentham
Suffolk
NR34 7JD
T: 01502 675249

THE CROSS KEYS

Crabbe Street
Aldeburgh
Suffolk
IP15 5BN
T: 01728 452637

ADNAMS STORES

SOUTHWOLD

4 Drayman Square
Southwold
Suffolk
IP18 6GB
T: 01502 725612

THE WINE SHOP

Pinkney's Lane
Southwold
Suffolk
IP18 6EW
T: 01502 722138

WOODBIDGE

Quay Point
Station Road
Woodbridge
Suffolk
IP12 4AU
T: 01394 386594

ALDEBURGH

179b High Street
Aldeburgh
Suffolk
IP15 5AN
T: 01728 454520

HADLEIGH

73/75 High Street
Hadleigh
Suffolk
IP7 5DY
T: 01473 827796

NORWICH

109 Unthank Road
Norwich
Norfolk
NR2 2PE
T: 01603 613243

NORWICH

11-13 Westlegate
Norwich
Norfolk
NR1 3LT
T: 01603 666759

HOLT

8 White Lion Street
Holt
Norfolk
NR25 6BA
T: 01263 715558

HOLKHAM

The Old School House
Park Road
Holkham
Wells-next-the-Sea
Norfolk
NR23 1RG
T: 01328 711714

HARLESTON

23 The Thoroughfare
Harleston
Norfolk
IP20 9AS
T: 01379 854788

STAMFORD

Bath Row Warehouse
St Mary's Passage
Stamford
Lincolnshire
PE9 2HG
T: 01780 753127

SAFFRON WALDEN

Old Auction Rooms
1 Market Street
Saffron Walden
Essex
CB10 1HZ
T: 01799 527281

BURY ST EDMUNDS

43A Cornhill
Bury St Edmunds
Suffolk
IP33 1DX
T: 01284 705746

COMPANY REGISTRARS

Link Asset Services
34 Beckenham Road
Beckenham
BR3 4TU
T: 0871 664 0300

Designed and produced by Friend.
www.friendstudio.com
Print: Pureprint Group

This report has been printed on Edixion Challenger Offset which is FSC® certified and made from 100% Elemental Chlorine Free (ECF) pulp. The mill and the printer are both certified to ISO 14001 environmental management system. The report was printed using vegetable-based inks by a CarbonNeutral® printer.