SHEPHERD NEAME LIMITED
ANNUAL REPORT 2022

REGISTERED IN ENGLAND NUMBER 138256

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

SATURDAY
ABYKY2LC
A12 04/03/2023 #173
COMPANIES HOUSE

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

OUR PURPOSE

To enrich the lives of our customers and communities.

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

AT A GLANCE

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

Just as our beers span the range of classical, heritage and modern, so our pubs reflect the character and diversity of their locations.

With 300 pubs throughout London and the South East, from the historic heart of the City to the Kent coastline, there is a Shepherd Neame pub to suit all tastes.

OUR VISION

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

OUR MISSION

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

OUR PUB ESTATE

300
Pub portfolio

218
Total Retail letting rooms

OUR BEER BRANDS

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

The Company also has partnerships with Boon Rawd Brewery Company for Singha premium lager, the original Thai beer, and with Boston Beer Company for Samuel Adams Boston Lager and Angry Orchard Hard Cider.

FINANCIAL HIGHLIGHTS

REVENUE

£151.5m

2021: £86.9m

UNDERLYING PROFIT/(LOSS) BEFORE TAX[1]

£7.3m

2021: £(10.1)m

STATUTORY PROFIT/(LOSS) BEFORE TAX

£7.4m

2021: £(16.4)m

UNDERLYING BASIC EARNINGS/(LOSS) PER SHARE[2]

39.4p

2021: (55.5)p

NET ASSETS PER SHARE[3]

£11.94

2021: £11.40

DIVIDEND PER SHARE

18.50p

2021: nil

NET ASSETS PER SHARE (£)

DIVIDEND PER SHARE (P)

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

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

3 Net assets at the reporting date divided by the number of shares in issue being 14,857,500 50p shares.

All comparatives are for the 52 weeks to 26 June 2021.

An explanation of the Group's use of Alternative Performance Measures (APMs), including definitions, can be found on pages 114-115.

CHAIRMAN'S STATEMENT

RICHARD OLDFIELD
Chairman

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I AM PLEASED WE CAN REPORT A RETURN TO MORE NORMAL DEBT LEVELS AND THE RESTORATION OF A MEANINGFUL DIVIDEND.

OVERVIEW

I am pleased to report a significant growth in revenue on last year and a return to profit for the Company.

Whilst this year's result does not represent a full recovery to the levels of profitability seen in 2019 - the last year pre-pandemic - it does represent a *substantial recovery of the majority* of our cashflow and operating profit.

Performance was dominated by the impact of COVID-19 and its aftermath, and by consequences of the war in Ukraine: specifically by the ongoing restrictions on hospitality in July 2021 and December 2021, as well as unexpected and material cost impacts from importing certain essential products, and temporary industrial action from our logistics provider.

We now face more general and widespread cost inflation and much higher energy costs. Inflation provides a new dimension of complexity to management decisions, a dimension which has been absent for many years.

Forecasting at all times is hazardous. The Nobel Prize-winning economist Kenneth Arrow, employed by the US Air Force during the Second World War as a meteorologist, quickly realised that his medium-term weather forecasts were no better than randomly right and asked to be relieved of this responsibility. The response came back: "the commanding general is well aware that your forecasts are no good. However, they are essential for planning purposes." Inflation complicates forecasting because it is unstable and hard to predict, and especially when some of the present inflationary pressures result from supply shortages arising from lockdown and from the conflict in Ukraine. These may be ephemeral.

Our best estimate is that we will not see full recovery of profitability in the Company's business to pre-pandemic levels before 2024/25 as a consequence of the ongoing energy crisis. We have no doubt that there will be surprises along the way, perhaps some good surprises. In any event, management will need to be both as flexible and as steadfast as it has been in the last few years in order to extract the best result amidst many uncertainties.

The difficulties of the immediate past for a business largely dependent on congregation, the current inflationary background, and the dire forecasts for consumer spending have combined to create a good deal of gloom in the pub and brewing sector. We observe the surveys of consumer sentiment anxiously but we do not share this pessimism. People like pubs. The underpinnings of the business remain strong.

In the short term, the evidence so far in the new financial year is that many consumers remain willing to spend and enjoy the conviviality and sense of community which our pubs offer.

Throughout the pandemic, management has shown great agility and adaptability to ever-changing circumstances. I hope that shareholders will feel proud of the way we have supported our licensees, our teams and our communities and impressed by the various actions and initiatives we have taken to maintain the essence and spirit of the Company.

The Company is ready to face whatever economic or external challenges are thrown at us in the coming year.

I would like to thank all in the Shepherd Neame team for their relentless hard work and the senior team for their leadership, often under extreme pressure. I also thank our lenders and shareholders for their patience and understanding as we navigated each step of the way. I am pleased we can report a return to more normal debt levels and the restoration of a meaningful dividend.

Our efforts were recognised with the award of AQSE Company of the year at the Small Cap Awards 2022.

STRATEGY

The focus in the last year has been to restore our balance sheet and profitability sufficiently to be in a position to resume dividends and take advantage of whatever opportunities arise.

We remain convinced that our business - local, authentic, community-focused, customer-orientated, with a long-term family outlook - is essentially strong, with attributes increasingly valued by consumers. We value personal relationships highly and have a reputation for looking after our people well.

Our teams are very closely connected to local markets; pubs are at the heart of their communities. This local knowledge gives us a privileged insight into the needs of our customers as well as helping us make informed investment decisions.

Our strategy is to build on the brand reputation of Shepherd Neame, by developing a portfolio of unique and individual pubs and distinctive and characterful beers.

We aim to delight our customers with great experiences, and so create passionate advocates for our beers and pubs.

We remain firmly committed to the three different parts of our business to help us deliver our goals: retail pubs and hotels, tenanted pubs and brewing and brands. Retail pubs and hotels give us the direct relationship with consumers and are our principal engine for long-term growth; tenanted pubs are strongly linked with their communities and provides part of the asset and cashflow backbone of our business; brewing and brands is key to recruiting new customers and building our brand equity.

FINANCIAL RESULTS

Our accounts are prepared on an IFRS (International Financial Reporting Standards) basis. Revenue for the 52 weeks to 25 June 2022 was £151.5m (2021: £86.9m), an increase of +74% on the prior year which was significantly impacted by the COVID-19 pandemic.

Statutory operating profit was £10.4m (2021: statutory operating loss of £(10.5)m). Underlying operating profit was £12.9m (2021: underlying operating loss of £(4.2)m).

Statutory profit before tax was £7.4m (2021: statutory loss before tax of £(16.4)m). Underlying profit before tax was £7.3m (2021: underlying loss before tax of £(10.1)m).

Basic earnings per share was 42.5p (2021: basic loss per share of (120.5)p). Underlying basic earnings per share was 39.4p (2021: underlying basic loss per share of (55.5)p).

Net assets per share increased from £11.40 in June 2021 to £11.94.

DIVIDEND

The Board feels that the Company's recovery is sufficiently well established to resume dividend payments.

At the half year, we paid an interim dividend of 3.50p (2021: nil). This compares with the interim dividend of 6.00p that was declared and subsequently cancelled in March 2020.

We are now proposing the first final dividend to be paid since October 2019, of 15.00p. This compares with the final dividend of 2019 of 24.21p, and represents dividend cover for the full year of 2.1 times on underlying earnings per share of 39.4p.

BOARD CHANGES

Jonathon Swaine joined us on 27 June 2022 as Managing Director, Pubs. He joins us from Rank Group Plc, having spent the majority of his career in the pub industry, initially at Bass plc from 1997 to 2005, and then 14 years at Fuller, Smith and Turner plc. He is an experienced and proven operator.

At the same time, Nigel Bunting took on a new role as Commercial Director, overseeing the brewing, sales, procurement and supply chain operations.

SUMMARY

In its long history, Shepherd Neame has experienced many economic crises and downturns. It survives them because the business model is fundamentally robust, because we provide a product and service that people want even in the hard times, and because we constantly adapt to the wider industry trends and change to meet the needs of our local market. More broadly, Shepherd Neame is a business that is trusted, with a management that is trusted.

While there will be challenges ahead over the next 12 months and beyond, nothing is likely to compare with the challenge of being closed for the best part of a year in 2020.

As a long-term business, we see opportunity as well as challenge in times of turbulence - as evidenced by the acquisitions made post year end. We are positioned to take advantage of similar opportunities that may arise.

The business has recovered its momentum. The team is full of ambition, energy and new initiatives and I have no doubt this momentum will continue in the coming year.

RICHARD OLDFIELD
Chairman

RECRUIT NEW CUSTOMERS

We have continued to raise our profile at a local and national level, showcasing our brands at major sporting events and festivals around the country, and, since the year end, acquired four unique, characterful properties in Bournemouth and Southend-on-Sea.

New acquisition The Bellhouse, Leigh-on-Sea

We were chosen for a second year running as official beer supplier for The Open, held at St Andrews in Scotland.

Our Bear Island-themed Silent Disco proved a popular attraction at this year's Black Deer Festival in Tunbridge Wells.

Historic pub The Old Mill in Ashford reopened with a stylish new look in July after a three-week refurbishment.

Shepherd Neame partnered with London's iconic Boat Race as official beer supplier for the first time in April.

CHIEF EXECUTIVE'S REVIEW

JONATHAN NEAME
Chief Executive

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I AM EXTREMELY PROUD OF THE WAY THE BUSINESS HAS REBOUNDED AFTER THE CHALLENGES OF THE LAST TWO YEARS.

OVERVIEW

I am extremely proud of the way the business has rebounded after the challenges of the last two years. To have grown our revenues and recovered the majority of our operating profit - compared with 2019 - is testament to the strength of the business, and the resilience and agility of our team members in adapting to ever changing circumstances.

At almost every step of the way since pubs were allowed to re-open their gardens in April 2021, there have been fresh hurdles to cross, and new and unexpected challenges, which have either impacted trading or resulted in higher costs for the business.

We have controlled cash tightly, reduced our net debt and strengthened the balance sheet so that we are able to resume dividend payments and investment in the business.

Consumer demand so far has remained robust, in spite of having to pay higher prices for most goods and services. It is anticipated that consumer demand over the coming winter may soften, as the high energy and fuel bills squeeze disposable income. Having coped with the greater challenge of the long periods of closure during the COVID-19 pandemic, over which we had no control, we feel able to deal with these issues as they arise.

The business is now back on a firm footing. Whilst the road to full recovery may take slightly longer than originally anticipated as a result of inflationary pressures, the next few years may also present some great long-term opportunities for the business and so we look forward to the future with confidence.

MEETING THE COVID CHALLENGE

Initially, we anticipated "freedom day" would come in June 2021, but this was delayed by six weeks to end July 2021, with ongoing restrictions still in place. As demand recovered, many goods and services were in short supply, particularly food products and materials for the building trade. Finding new team members was difficult and it has proved challenging to fill certain roles, such as chefs and kitchen staff, ever since.

As these challenges started to settle, we were faced with disruption in our logistics and supply chain, with short-term industrial action from our service provider and exceptionally high costs of international freight for our beer imports.

Throughout the autumn, we experienced materially higher costs and delays for international shipments of beer and wine. The back to work momentum started to build, workers returned to offices in London, and the prospects rose for a busy Christmas trade, until the Omicron variant struck, which resulted in substantial cancellations and more waste.

As the fears about Omicron started to subside, trade through February and early March was most encouraging, before the Ukraine war brought fresh concerns.

We enjoyed excellent trade in the week leading up to Easter, and over the May bank holiday. The Platinum Jubilee celebrations gave us a small boost, but the train strike impacted the final month of the year.

MEETING THE INFLATION CHALLENGE

Throughout this period, there have been three major economic phases, each of which has had a cost impact on our business:

- the first was the inflationary surge in the summer of 2021, driven largely by suppressed demand during the pandemic;
- the second was the removal of the reduced rate of VAT at the end of March, and the move to the higher national insurance rate and higher national minimum wage; and
- the third was the second inflationary wave driven by energy and cereal shortages, as a consequence of the war in Ukraine.

All three of these phases have increased our cost base, and we have had no option but to pass on these costs with higher prices. Consumers have so far shown remarkable resilience to this inflation, as our strong recent trade demonstrates. The demand for socialising, particularly after the restrictions of the last two years, is encouraging, and previous experience suggests that people are more likely to prioritise spending on going out, over other discretionary or delayable expenditure.

During the last year, the Company received £2.4m in furlough, grants and business rates relief (2021: £15.0m), to compensate for periods of ongoing restrictions.

Across the business we have experienced material inflation across our cost base above the prevailing rate of RPI: in retail pubs and hotels, this is driven mainly by the higher national minimum wage, national insurance and electricity costs; in the brewery, mainly by higher CO_2 and packaging costs.

So far, we have been largely protected from an even higher inflationary impact by long-term fixed price purchasing contracts. In the brewery, we are fully fixed on gas and electricity prices through to September 2024; while in the retail pubs we are fully fixed through to March 2023, and fixed on two-thirds of our anticipated requirement through to September 2024. In both cases, our current fixed prices are substantially below the prevailing market price, albeit, in the retail pubs, we will nonetheless incur incremental costs in the coming year of £1.2m for utility procurement.

We have secured all our malt and hops requirement through to the end of calendar 2023.

In the coming year, we expect further inflation. Our known principal exposure is in energy-related products, specifically glass and CO_2, and potential further increases in national minimum wage levels above those previously announced.

Our tenanted licensees will be exposed to these same inflationary forces to varying degrees, although will be protected through the winter by the Energy Bills Relief Scheme.

Following a full market tender, we are in discussions to extend our logistics contract. This is likely to result in a materially higher price than presently, as our existing contract rebases to normal market levels, and as all logistics providers tackle the impact of driver shortages and the high cost of fuel.

Aside from the inflationary forces we remain concerned about the impacts that any industrial action may have on our business.

> **"CONSUMERS HAVE SO FAR SHOWN REMARKABLE RESILIENCE, AS OUR STRONG RECENT TRADE DEMONSTRATES... BUT... IN THE COMING YEAR, WE EXPECT FURTHER INFLATION.**

DELIGHT OUR CUSTOMERS WITH GREAT EXPERIENCES

Rockwater in Hove is among the many venues to offer Singha premium lager, the original Thai beer, brewed under licence in Faversham.

Our chefs are passionate about working with the finest local, seasonal produce wherever possible, to craft delicious dishes catering to all tastes.

Whether it is visiting one of our pubs or purchasing one of our beers from the supermarket, we want every Shepherd Neame experience to be memorable. We design our pubs and hotels to offer a unique and premium environment. We update our food offer continually to reflect changing consumer behaviours. We innovate to enhance our distinctive drinks range.

Cocktails at The Market House, Maidstone

Licensees Simon and Victoria Young introduced a popular new Mediterranean menu at the White Hart Inn in Canterbury.

15th century village pub The White Horse in Boughton-under-Blean near Faversham reopened in May as a boutique hotel, restaurant and bar.

THE MARKET

Total market beer volumes have recovered to pre-pandemic levels, despite the extraordinary disruption of the last two years. Certain trends, such as on- versus off-trade beer consumption are just starting to normalise; other trends such as city centre footfall and in-bound tourism will take slightly longer.

Certain consumer trends that were evident pre-pandemic continue to evolve, for example the trend towards premiumisation, on the one hand, and moderation - in the form of lower alcohol and less calories - and economising on the other. We continue to develop our business to adapt to these trends.

Tourism started to recover in summer 2022, with more visitors than expected from the US, but overall in-bound international tourism remains significantly below pre-pandemic levels and this is not expected to recover in full until 2024.

The inflationary challenge will drive higher prices for beer and food, and tighter margins for most retailers. Higher energy costs and higher interest rates are likely to squeeze consumers' disposable income.

OPERATIONAL OVERVIEW

Tenanted and Retail Pub Operations

As at 25 June 2022, we owned 300 pubs (2021: 310) of which 231 (2021: 235) are tenanted or leased and 63 (2021: 65) are retail pubs. Six (2021: 10) are operated as free of tie investment properties. 85% of our pubs are freehold.

During the period we have transferred two tenanted pubs to retail pubs, one retail pub to tenanted and three tenanted pubs to investment property. We have sold two freehold pubs, surrendered one leasehold pub and sold investment property and land (2021: two freehold pubs and investment property and land) for total proceeds of £9.1m. This includes two hotels, the Royal Wells, Tunbridge Wells and the Conningbrook, Ashford for £5.75m. These disposals in total have realised a profit of £1.7m. We anticipate further transfers from tenanted to retail in the coming year.

We did not invest in any major capital projects during the first half of the year and focused instead on our external signage and decoration programme. We have maintained our pubs at a high level. In the second half we resumed our capital programme with notable projects to refresh the Old Mill, Ashford and upgrade the White Horse, Boughton-under-Blean, as well as other smaller projects in gardens and outside areas.

In the coming year, we intend to resume the major development programme that was stalled during the pandemic, and have identified the Crown at Rochester, the Crown at Chislehurst and the Tom Cribb in Haymarket as priority projects. Subject to relevant permissions being granted, we hope to commence the build of our new pub site at Ebbsfleet by the end of the current financial year, but this venue is not due to open until end 2024.

We have invested in our digital infrastructure with an upgrade of the wi-fi network in our pubs. This will improve the customer experience and allow us to create stronger customer engagement. We have also enhanced our pub websites. We have an ongoing digital transformation strategy to build better awareness through data and drive stronger marketing connections with our customers and so build loyalty.

We are constantly reviewing our food and drink offer to provide our customers with a premium experience, whilst addressing the needs of increasingly more calorie and price conscious consumers. We expect to be able to mitigate cost inflation in food and drink through careful buying, price increases and menu management.

Retail Pubs and Hotels

Our retail pubs and hotels are the principal engine for growth. We are targeting 100 outlets in this division in the medium term. We have identified a number of sites within our existing estate that are suitable for management in due course. Many of these sites would benefit from major redevelopment.

We are investing to enhance our offer and the people experience, to build our digital infrastructure and to develop our customer engagement.

For the 52 weeks to 25 June 2022, the retail pubs achieved like-for-like sales of -8% vs the 2019[1] financial year, but were +130% vs 2021. We have returned to profit.

Within this performance, retail like-for-like sales were -19% vs 2019[1] in July 2021, due to the delay in lifting restrictions, and -25% vs 2019[1] in December 2021, as Omicron impacted footfall. In most other periods, we were running close to or above 2019 levels.

> "IN THE COMING YEAR, WE INTEND TO RESUME THE MAJOR DEVELOPMENT PROGRAMME THAT WAS STALLED DURING THE PANDEMIC.

Like-for-like drinks sales were -16% vs 2019[1] and +168% vs 2021; like-for-like food sales were -1% vs 2019[1] and +94% vs 2021.

Like-for-like accommodation sales were +25% vs 2019[1] and +111% vs 2021. Occupancy was 76% (2019[1]: 76%; 2021: 31%) and RevPAR was £80 (2019[1]: £67; 2021: £32).

Footfall outside of London has been near normal - except during periods of restrictions - particularly at those coastal pubs and hotels which benefit from their unique locations and great outside space. We have 25 retail pubs inside the M25. Footfall here increased steadily throughout the autumn - until Omicron -, but resumed quickly in February, and has continued to build month on month. We expect the back to office momentum to continue through Autumn 2022, though we recognise that pre-pandemic office patterns are unlikely to recover in full.

For the 52 weeks to 25 June 2022, our retail estate inside the M25 achieved like-for-like sales of -30% vs 2019[1], but were +263% vs 2021. Outside of the M25, retail like-for-like sales were +1% vs 2019[1] and +104% vs 2021.

Tenanted Pubs

Trade in our tenanted pubs has followed roughly the same pattern as in retail, with a weak July and December, when restrictions were in place, followed by good trade in the autumn, and early spring and summer. Volumes were impacted by the supply chain difficulties in September, and remain lower than pre-pandemic levels.

For the 52 weeks to 25 June 2022, like-for-like tenanted pub income was +1% vs 2019[1] and +119% vs 2021. In the restriction-free periods, income levels were generally above the equivalent month in 2019. For those periods where restrictions were in place, we provided a 10% discount on rent to our licensees, helped them secure grants and provided other advice.

Despite the economic and inflationary challenges facing the sector, the turnover of licensees has remained low thanks in part to the excellent support we have given our licensees during the pandemic. Although there is a shortage of applicants, as with other areas of the economy, we remain able to attract good-quality candidates.

We have again registered good scores in the industry Tenant Tracker benchmark survey and are one of the most respected tenanted pub operators in the sector.

Capital and Investment

We have maximised our cashflow by restricting core capital expenditure to £5.4m (2021: £3.9m), from more normal levels of £10m-£14m and by realising £9.1m in disposal of non-core assets. We plan to increase core capital expenditure in the coming year to be in line with historic levels.

Since the year end we have acquired three popular pubs in Essex - all freehold - from the East Anglia Pub Company and one leasehold site in Bournemouth. The aggregate investment in these acquisitions is £6.7m. All four pubs will be operated in the retail division.

The three in Essex are near Southend-on-Sea. They are all characterful pubs, including the very popular 16th century dining venue, the Bellhouse in Leigh-on-Sea. These acquisitions build on our presence in south Essex. Urban Reef in Bournemouth has been one of our many free-trade customers in the area and enjoys a spectacular location on the beach at Boscombe.

Brewing and Brands

The underlying trends in this division are encouraging. Volume has been good, but cost inflation has been significant.

For the 52 weeks to 25 June 2022, total beer sales were +7% vs 2019[1] and +27% vs 2021. Own beer volume was -8% vs 2019[1] and +16% vs 2021.

In 2019, we took the decision to strengthen our on-trade local Heartland team, and as business has resumed this has paid good dividends, as we are winning some excellent new business, and high profile accounts in an ever wider geography. We have built great new brand platforms with Bromley FC, Remarkable Pubs and the Pig Hotel Group in particular.

As anticipated, trade through the grocers has been lower this year, as the on-trade has re-opened. The off-trade is now c. 60% of the overall beer market.

Our more mature brands such as Spitfire and Bishops Finger still deliver substantial volumes, but our marketing increasingly supports our Whitstable Bay and Bear Island portfolios, both of which have proved very popular with customers.

That portfolio is now strengthened with the brewing of Singha beer at Faversham, as from March 2022, in partnership with the Boon Rawd Brewery. This will not only reduce import costs materially, but also gives us an exciting and super-premium world lager, to enhance our enviable and unique brand portfolio.

This portfolio will be strengthened further in the coming year as we commission our small batch brewery. This will enable us to develop taste and flavour profiles that are hard to achieve in a larger plant, and so will provide an exciting and dynamic new beer range for our customers.

1. The 2019 financial year is the 52 weeks to 29 June 2019.

BUILD A GREAT TEAM OF DEDICATED PEOPLE

Our dedicated and passionate team is vital to our success. We are committed to attracting, retaining and developing the best people. We strive to create a culture where everyone can be themselves, do their best, feel valued, and be part of the Shepherd Neame family.

Licensee Amy Glenie at Shepherd Neame Pub of the Year, The Blue Anchor, Crowborough

We launched our second apprenticeship programme for aspiring managers in April, following the success of the first scheme launched in 2019.

After joining Shepherd Neame 14 years ago, Luiz Henrique da Costa has progressed to General Manager of The Old Doctor Butler's Head in London and offers support across our sites.

Technical brewer Danielle Whelan is among a number of new recruits to our production team, joining Shepherd Neame in October.

The Shepherd Neame Pub Awards returned after a two year absence with a ceremony at The Spitfire Ground, Canterbury.

We have again this year showcased our brands at various high profile events. In March we were the official beer of the Oxford and Cambridge University Boat Race on the Thames; in July, we were once again chosen as the supplier to the 150th Open Golf in St Andrews. In addition we have supported many local events such as the Black Deer Festival and the Pig Hotel Smoked and Uncut Festival.

Investment Property

As at 25 June 2022, the Company owns investment property valued at £6.7m (2021: £6.1m). We have sold seven investment properties during this period as part of our plan to reduce debt incurred during the pandemic.

We continue to work on promoting a number of sites in and around Faversham which we believe are suitable for residential development as part of the overall local plan. Faversham has seen substantial housing development in the last few years and more is anticipated as demand in the area increases.

FINANCING, CASHFLOW AND NET DEBT

The principal focus of the Board over the last two years has been to manage cashflow as tightly as possible, to restrict cash outflow during times of closure and to maximise cash inflow during periods of trading.

In 2020 we took an additional CLBILS loan to give us additional headroom and were granted relaxation of banking covenants by our lenders. These could have remained in place until September 2022, but through good trading and active property management, we reduced our debt position sufficiently quickly to be able to terminate these arrangements at the end of March 2022. We have returned to our previous covenant tests on other debt.

During the year we generated underlying EBITDA (earnings before interest, tax, depreciation and amortisation) of £23.4m (2021: £7.7m).

Statutory net debt, including lease liabilities, was £131.2m (2021: £149.1m), made up of £75.3m of bank and private placement debt, and £55.9m of lease liabilities.

Net debt, excluding lease liabilities, fell sharply from £90.8m in the prior year to £75.3m. At the end of the 2021 financial year, £2.4m of VAT was deferred in agreement with HMRC and was settled in full by the year end 2022.

This rapid debt reduction has given us the confidence to resume investment again. We have substantial headroom. At the year end our covenant leverage was 3.7:1. Our medium-term covenant leverage target remains at 3:1.

POST YEAR END

Since the year end, we have extended our long-term financing. We have taken an additional £20m private placement from BAE Systems Pension Fund, for a term of ten years, at a fixed rate of 5.47%. This sits alongside the 20-year private placement for £35m, that we issued with the same lender in 2018, at a rate of 3.99%.

This extends our total long-term committed facilities, at a time of economic uncertainty, and reduces our overall cost of debt. We are in the process of renewing our revolving credit facilities. These steps provide with us a sound funding platform to take advantage of any opportunities that arise in the future.

ENVIRONMENT AND OUR COMMUNITY

We have carried out extensive research in this area in the last year, established an ESG steering committee and clarified our goals as:

- to become carbon neutral (scopes 1 and 2) by 2030;
- to become carbon neutral in our supply chain (scope 3) by 2040; and
- no waste to landfill by 2025.

Our commitment to the environment and our community is set out in the more detailed report on pages 26-33. We have made good progress in a number of areas. We are founder members of the Zero Carbon Forum and have led the pilot of the Green Mark programme in a group of pubs. We have entered into a new waste contract to support our goal of zero waste to landfill.

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SINCE THE YEAR END WE HAVE ACQUIRED THREE POPULAR PUBS IN ESSEX – ALL FREEHOLD... AND ONE LEASEHOLD SITE IN BOURNEMOUTH... ALL FOUR PUBS WILL BE OPERATED IN THE RETAIL DIVISION.

We have consolidated the purchase of energy across the business and now buy 100% electricity from renewable sources. We are planning a major solar installation on one of the brewery buildings. We continue to roll out electric vehicle rapid charging points in our pubs.

We have launched a variety of initiatives to raise funds to support the great work of Kent Wildlife Trust and we supported the Platinum Jubilee Green Canopy project by planting a series of small fruit tree orchards at our pubs.

BUILDING A GREAT TEAM OF DEDICATED PEOPLE

To meet the challenges of recruiting staff, we have chosen to strengthen our People Team. We have recruited several new roles in this area under our People Director, Kate Ware, including appointing People Partners for each part of the business and an Apprenticeship Lead.

We have also installed new software to help us manage the recruitment process more effectively, and carried out an in-depth survey to identify areas where we can improve the people experience and build clearer career paths.

We are fortunate that our people are so passionate about the Company, their roles and the teams they work with. I would like to thank them for their commitment and extraordinary hard work, in such difficult circumstances, in the last year.

CURRENT TRADING

Trading over the summer has been encouraging.

July and August have been boosted by exceptionally dry, warm and sunny weather. This has driven drinks sales in particular.

Occupancy has remained high, but overall accommodation sales are slightly lower than last year as people returned to overseas holiday destinations after the staycation boom of 2021. Food is in line with recent trends, slightly lower than 2019, but strong nonetheless.

Many towns have reinstated local events and festivals, such as the Faversham Hop Festival and Broadstairs Folk Week, which provide a welcome boost to those communities. Our new acquisitions have performed well and in line with expectations. Urban Reef in particular has produced some exceptional trading weeks.

For the 13 weeks to 24 September 2022, retail like-for-like sales were level with 2020[2] and +9.4% vs the 2022[3] financial year.

For the 13 weeks to 24 September 2022, our retail estate inside the M25 achieved like-for-like sales of -11.0% vs 2020[2] and +50.6% vs 2022[3]. Outside of the M25, retail pubs achieved like-for-like sales of +4.7% vs 2020[2] and -0.4% vs 2022[3].

Like-for-like tenanted pub income for the nine weeks to 27 August 2022 was +2.9% vs 2020[2] and +12.8% vs 2022[3].

Beer volumes have remained strong throughout the summer, driven primarily by Heartland sales, and offset by declines in the off-trade and the rebalancing between on- and off-trade sales post-pandemic. Total beer volume for the 13 weeks to 24 September 2022 was +5.6% vs 2020[2] and +1.2% vs 2022[3]. Own beer volume was +4.4% vs 2020[2] and +14.4% vs 2022[3].

We continue to incur high costs in all areas of the business, which we expect to persist throughout the year.

SUMMARY AND OUTLOOK

There are many economic and political uncertainties ahead, and a recession is forecast.

In this context we warmly welcome the recent government announcement to support consumers and businesses manage their way through the utility crisis. This will provide considerable relief for those tenanted pubs who are not on fixed contracts. In other parts of the business we have fixed price contracts that are below the market rate.

In line with many in the industry, the current energy crisis will hold back full recovery. However, previous experience would suggest that the beer and hospitality sector is more resilient than most to such an environment, and that consumers will prioritise this over spend in other areas. The pandemic has shown that socialising in a pub remains core to our way of life. As such, whilst the short-term market conditions may be challenging, this may also prove to be a time of great long-term opportunity.

Furthermore, the ongoing house building and infrastructure projects continue to turn our heartland into a larger and more affluent community. Of note this year is the opening of the Elizabeth Line, with its terminus in North Kent, and the development of a new Thanet Parkway station. Both these projects will bring shorter journey times to London and so support the hybrid lifestyle that people desire. We are well positioned to capitalise on these economic and lifestyle trends in the future.

After the hard work to rebuild momentum post-pandemic, we now have the confidence to move forward, to resume investment and seek good-value opportunities when they arise.

JONATHAN NEAME
Chief Executive

2. The periods referred to for financial year 2020 are the comparative month(s) of July, August and September 2019 which are during the financial year 52 weeks to 27 June 2020.
3. The periods referred to for financial year 2022 are the comparative month(s) of July, August and September 2021 which are during the financial year 52 weeks to 25 June 2022.

CREATE PASSIONATE ADVOCATES FOR OUR BEER AND PUBS

In January, Shepherd Neame superfan Jace Dempster embarked on a unique quest to visit all our Kent pubs in one year.

The Duke of Cumberland was among pubs to take part in our first Whitstable Bay Live event, a weekend of fantastic music.

Our loyal customers are the lifeblood of our business. New pub websites showcase our unique estate, and targeted digital marketing activity engages directly with consumers to increase our online presence. We build awareness for our brands with campaigns for Whitstable Bay and Bear Island beers, through prominent activations in our pubs and at partner events.

Festival goers enjoyed Shepherd Neame brands at this summer's Smoked & Uncut live music events organised by The Pig Hotel Group.

We have invested in new websites to showcase our pub estate, with retail sites launched in September, and tenanted to follow later this year.

Whitstable Bay teamed up with local street artist, known as 'Catman' for a new campaign, Inspired by Creativity, which includes an interactive coastal art trail.

OUR PURPOSE AND BUSINESS MODEL

OUR PURPOSE

To enrich the lives of our customers and communities.

OUR MISSION

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

THE ASSETS THAT ENABLE OUR BUSINESS TO CREATE AND SUSTAIN VALUE

BRAND AND HERITAGE

Our brand has enduring appeal and is a powerful tool for attracting customers, partners and talent.

PEOPLE AND CULTURE

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

PUB ESTATE

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

PARTNERSHIPS

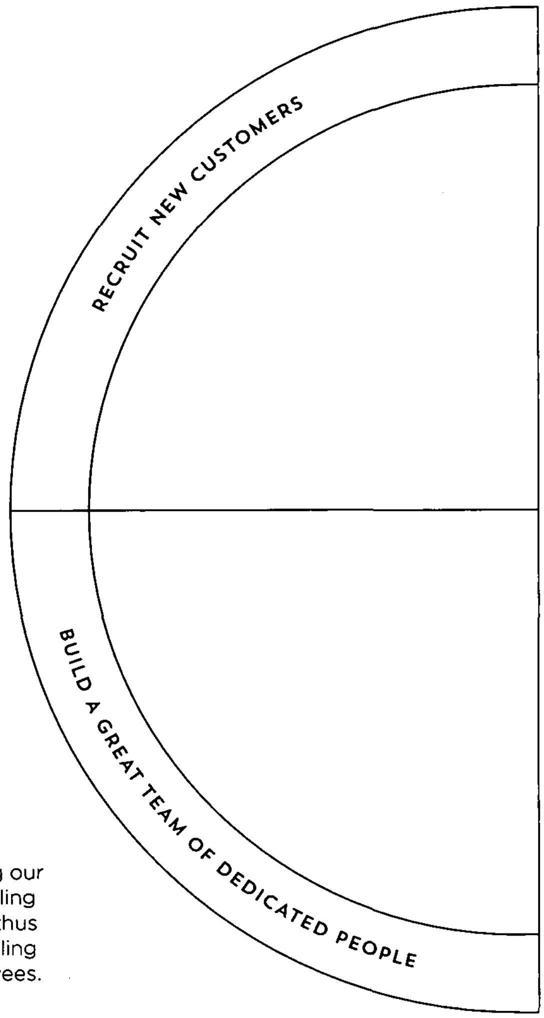
We build strong, long-term relationships with like-minded partners whose principles align with ours and through which each partner benefits.

INVESTMENT

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

OUR STRATEGY FOR GROWTH

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



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

DRIVEN BY SHARED VALUES

SHEPS SPIRIT

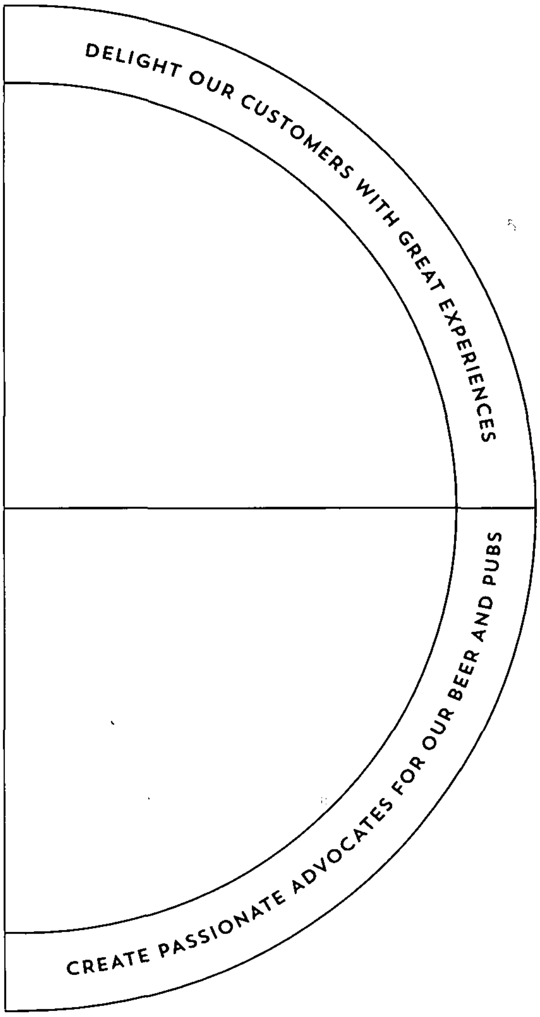
An empowered, flexible and can-do attitude.

WORKING TOGETHER

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

WHAT MAKES US DIFFERENT

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



Delighting our customers is ingrained in our purpose and mission.

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

THE VALUE THAT WE CREATE FOR OUR STAKEHOLDERS

COMMUNITIES
We are a significant and long-term contributor to the life of our communities. We employ **1,554 team members**, and indirectly support approximately **3,000 jobs** in our tenanted business.

CUSTOMERS
We invest in our pubs and brands to ensure the best possible experiences.

COLLEAGUES
We strive to create an inclusive culture, supporting our people to learn, develop and progress. We are proud to have an average length of service of **12 years** across the business.

PARTNERS
We take pride in offering strong support for our local partners, with **98%** of our malt supply sourced in the UK, and **80%** of our hops sourced locally.

INVESTORS
We deliver consistent long-term returns for our shareholders, with dividends maintained or grown for over **40 years** pre-Covid.

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

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

OUR INVESTMENT CASE: OUR KEY DRIVERS FOR LONG-TERM GROWTH

THE SHAPE OF OUR BUSINESS

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

RETAIL PUBS

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

Principal growth engine through like-for-like growth, acquisition and transformational investment.

TENANTED PUBS

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

Bedrock of cash generation that can be used for new acquisitions and transformational investments.

BREWING AND BRANDS

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

Nationwide brand presence and unique point of difference for the pub estate.

Cash generation for reinvestment.

LONG-TERM GROWTH DRIVERS

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

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

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

MAJOR INFRASTRUCTURE DEVELOPMENT PLANNED OVER THE NEXT 15 YEARS

THIS WILL DRIVE SOCIO-DEMOGRAPHIC CHANGE IN KENT HEARTLAND

Population growth of 20% expected within the next decade

Increasingly younger age profile

Growing affluence

OUTSTANDING PUB ESTATE WITH INVESTMENT POTENTIAL

GROWING DEMAND FOR PREMIUM EXPERIENCES

STRONG MARKET POSITION WITHIN INDIVIDUAL COMMUNITIES

GROWING DEMAND FOR AUTHENTIC BRANDS WITH LOCAL PROVENANCE

DO THE RIGHT THING FOR OUR COMMUNITIES

Natasha Hartfield of The Flying Horse at Smarden is among dozens of licensees and team members who have held fundraising events to help the people of Ukraine.

We planted 70 trees across our estate including at the Pepper Box in Harrietsham, pictured, as part of the Queen's Green Canopy project to celebrate Her Majesty's Platinum Jubilee.

Our pubs and brewery play an important role at the heart of their communities. We are committed to making a positive contribution to the people and communities we serve. The protection of our environment is an important part of that effort, which is why we selected Kent Wildlife Trust as our Charity of the Year for 2022. We support a number of charities and many local sporting and community events.

We signed a new four-year pouring rights partnership with National League team Bromley Football Club.

More than 100 people attended our first series of summer beach cleans, organised at four of our coastal pubs and hotels with support from our Charity of the Year Kent Wildlife Trust.

Members of Shepherd Neame Team Extreme raised more than £10,000 for our Charity of the Year Kent Wildlife Trust by taking on the Jurassic Coast Ultra Challenge in May.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

A commitment to doing the right thing for our community, our people and our environment is at the heart of our strategy.

We are encouraged by our achievements so far but recognise there is much more to be done as we work together to build our Environmental, Social and Governance (ESG) roadmap for the future.

During the past 12 months we have strengthened our efforts by implementing a more structured ESG agenda to ensure that these objectives actively influence all decisions across the business, led by a new senior management ESG sub-committee of the Executive Board.

As a founding member of Zero Carbon Forum, the biggest collaborative approach within our sector to drive action to reach net zero targets, establishing a clear carbon reduction roadmap is the critical first step on this journey.

OUR THREE MAJOR PLEDGES ARE AS FOLLOWS:

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

100%
GREEN CO_2 USED IN OUR PRODUCTION PROCESS

80%
OF OUR HOPS ARE SOURCED IN KENT

55%
OF WATER USED IS RECYCLED

112,000L
OF COOKING OIL RECYCLED AND CONVERTED TO GREEN ENERGY
61% of total oil used

100%
RECYCLABLE PACKAGING MATERIALS USED IN BREWERY

100%
ELECTRICITY FROM RENEWABLE SOURCES
Across our brewery and retail estate from October 2020

ACTIVITY HIGHLIGHTS

ENERGY

Since October 2020 our brewery electricity contract has been with Haven Power, which uses 100% renewable energy sourced from sustainably-managed wood pellets along with wind, solar and hydropower. Total Energies supplies the majority of our retail pubs with electricity from 100% renewable sources. This year we have provided extensive support for tenants when they choose their energy supplier, including offering the option for green energy where possible.

As part of our energy purchasing strategy, our partners have helped us contribute to protecting at-risk rainforest, protecting 6.98 acres in Northern Peru, ensuring the future of 1,673 trees and locking in 1,812 tonnes of CO_2.

All the CO_2 required for our production process is sourced locally from within Kent. It is 100% green CO_2, extracted from biogas produced by natural processes through anaerobic digestion.

We have made major investments in our historic brewery site during the past few years as we continue striving to make the brewery cleaner and greener for the future. Following the recent installation of a new yeast plant to reduce waste and losses, we have just applied to install 650 solar panels on the roof of our bottling hall. These will produce 250MWh energy per year with a resulting saving of 60 tonnes of carbon emissions, equivalent to planting 2,669 trees. Our property team are assessing other possible locations for solar panels to be installed around our brewery site and across our pub estate.

To improve the accuracy of our energy management, we are installing smart electric Automatic Meter Readers (AMRs) across our retail pub estate, and will also have completed the installation of gas AMRs by the end of 2022. The smart electric AMRs link to an online portal showing the consumption by site at half hour intervals, in order to enable us to identify areas for improvement and target our investment and training. The brewery is already metered and we will be installing sub-metering on energy-intensive pieces of equipment to provide further insight. Our teams avoid running equipment when not necessary and organise site operations to optimise the performance of all machines.

Electricity use is minimised with LED lighting and lighting sensors around the business where possible, and we have just completed a lighting survey to identify any areas for further implementation. We have also replaced the majority of our beer coolers and back bar fridges with more efficient equipment which runs on R290 refrigerant allowing them to use compressors around two thirds smaller, which require less energy. The new fridges also use LED lighting which again use less energy than the old fluorescent light tubes.

We have completed Energy Performance Certificate (EPC) assessments for all our retail and tenanted sites to identify energy efficiency improvements. Currently 1% of our properties are in EPC band B, with 31% in band C, 56% in band D and 12% in band E. Where practicable our aim is to ensure that all our properties are in band C or above by April 2027, and in band B by April 2030. As a starting point we have undertaken more detailed reports for ten of our tenanted houses to specify action plans to improve energy efficiency, and by the end of 2023 we expect to roll out action plans for every site.

We are also committed to ensuring all our retail pubs achieve recognised environmental sustainability certification. In addition to carrying out audits to identify opportunities for energy usage, every retail pub will be targeted and incentivised on their ability to reduce energy consumption.

As part of this we have begun to roll out the Green Mark accreditation across our pub estate to encourage behavioural change, measure progress and improve efficiencies.

WASTE

We have introduced a variety of recycling initiatives across our pub estate over the past few years and currently only send 2% of waste to landfill. All our food waste is recycled along with mixed recycling for cardboard, glass and plastics, and we have introduced recycling bins in hotel rooms. All retail pubs with Nespresso machines also recycle used coffee pods. We no longer offer stirrers, only stock paper straws, and all toiletries in our retail accommodation are SLS and paraben-free and come in biodegradable packaging.

During the past year we recycled 112,000 litres of the cooking oil used across our retail estate. It was collected by renewable company Olleco and converted to green energy. This was 61% of the total oil used, and we are looking to increase this percentage over time.

In the brewery we recycle wherever possible and use 100% recyclable packaging materials. We have reduced the amount of stretch wrap for pallets without compromising stability, and as reported previously have swapped both stretch and shrink wrap to 30% recycled material. We recycle 97% of the grain and hops used in the brewing process as animal feed on local farms. The mineral-rich organic matter resulting as a by-product from the water treatment plant is also collected by Kent farms for use on their land.

In November we are expanding our waste contract with 1st Waste Management to include not just the pubs but brewery, with planned benefits to include:

- Developing and implementing a Zero Waste to Landfill accreditation program
- Investing in and implementing a Carbon Offset scheme to create a zero balance (carbon neutrality) for the business's waste collection
- Ongoing monitoring and auditing of our sites to ensure optimum recycling services are in place
- Introducing a crisp bag recycling scheme to remove these from landfill - we will be the first national pub group to do this

WATER

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

STRATEGIC REPORT

TRAVEL

We installed our first electric vehicle rapid charging station at The Wharf, Dartford, in November 2021, followed by another at the brewery in July this year. We are planning to rollout further rapid charging stations around the brewery during the next year, and have submitted planning applications for stations at the Ship and Trades, Chatham Maritime; Spitfire, Kings Hill; Camden Arms, Pembury; and Blue Anchor, Crowborough.

Since 2020, we have more than doubled the number of hybrid or electric cars in our fleet from 26% to 59%.

	2022	2020
Hybrid	**32**	16
Electric	**3**	0
Diesel/Electric	**1**	0
Total	**36**	16

We have taken steps to remove road miles from our supply chain and are also focused on keeping packaging as lightweight and minimal as possible to reduce weight and volume during transit. Next year we plan to reduce the weight of our bottle crowns, and while we already use lightweight glass in our bottles, are currently liaising with suppliers over ways to reduce the weight by a further 5%.

We are encouraging more efficiency among team members, including using video conferencing when appropriate, and making efficient timing of meetings to avoid multiple trips. We also provide the Cycle to Work scheme for all team members.

TRAINING

We are embarking on a training programme for all our people to ensure that everyone around the business is fully aware of our environmental commitments and is motivated and supported to deliver them.

Working with Carbon Architecture, we are creating materials to engage and involve team members at the brewery and across the business, promoting best practice to conserve energy and reduce waste.

SUPPLIERS

For more than a decade Shepherd Neame has been a member of Sedex, one of the world's leading ethical trade organisations, working to help businesses operate responsibly and sustainably, protect workers and source ethically. The majority of our suppliers are Sedex-registered and have an environmental accreditation where relevant. We regularly monitor our suppliers' standards to ensure they are in keeping with our own ethos and values, and work with them to improve sustainability performance. As part of this, during the coming year we will be working with our top ten suppliers across the business to understand and document their carbon reduction plans.

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

Shepherd Neame's other accreditations include BRC (British Retail Consortium) Global Standard for Food Safety and FEMAS (Feed Materials Assurance Scheme). We hold Soil Association organic accreditation for our award-winning Whitstable Bay Organic Ale, and are the only brewer in the UK to have Protected Geographical Indication (PGI) status for our beers, aimed at highlighting regional and traditional food and drink whose authenticity and origin can be guaranteed. Our beers with PGI status are Spitfire Amber Kentish Ale and Master Brew Kentish Ale, and Bishops Finger Kentish Strong Ale and 1698 Bottle Conditioned Kentish Strong Ale.

LOCAL SOURCING

We typically serve over 1.8 million meals each year, and our chefs are passionate about using the finest ingredients to offer the perfect dining experience.

We use local suppliers where possible, working with a hand-picked network of farmers, fishermen and food producers throughout Kent and the South East to make sure only the best, sustainable fresh ingredients are used in our dishes. In our Kent retail estate, approximately 75% of our seasonal vegetables and fruit comes from the county, primarily from RJ Kingsland in Maidstone which is Red Tractor and LEAF Marque certified. All milk and cream is sourced within Kent, along with all eggs under the Yes Chef quality scheme, and we use a number of Kentish artisan cheeses. Across all of our retail pubs and hotels, the majority of our fish comes from Kent supplier Chapmans, with all fresh catch fish from boats registered with the Marine Management Organisation. Almost all of our meat comes from the UK and falls under RSPCA and Red Tractor schemes, including our lamb which is sourced locally in Kent and our pork, bought from award-winning Suffolk family farm Dingly Dell.

Our focus on local produce has resulted in a reduction of food miles, complemented by the introduction of new lower carbon menu choices such as plant-based burgers to our retail pub menus.

As might be expected from a business based in the Garden of England, we are committed to ensuring that we make the most of the seasonal produce available on our doorstep on our menus wherever possible. We offer seasonal specials throughout the year at selected sites using ingredients including asparagus, crab, and cherries, and champion the produce through promotion on our website and our social media channels.

A total of 98% of our malt supply is sourced in the UK and 80% of our hops are sourced in Kent. We are currently looking at options for more local sourcing of crystal malt required to brew Samuel Adams Boston Lager.

PEOPLE

Shepherd Neame is an equal opportunities employer and a family business which aims to attract, retain and develop the best people, based solely on ability and experience and without regard to age, disability status, ethnicity, gender, religion or sexual orientation. We strive to create an inclusive culture where everyone can be themselves, do their best work and be part of the Shepherd Neame family. We remain committed to providing equal opportunities across all areas of our business, and guarantee to pay ahead of the National Minimum Wage to all team members.

Working with People Experience Hub, we launched our new bespoke Sheps Voice employee engagement survey in May to offer all team members the opportunity to share their thoughts on working for the business. We were pleased with the response rate and our People Team are now analysing the insights in order to identify any necessary actions.

Ensuring the health and safety of our team members and customers is our top priority, and earlier this year we launched a key strategic target of Zero Preventable Accidents as part of our new Brewing A Safe Culture campaign to promote a robust health and safety culture around the business.

COMMUNITY

As Britain's oldest brewer, we have been around for a long time and we intend to be around for a long time to come - which is why it is so important to us that we make an active, positive contribution to the communities that we serve. We are proud to provide local jobs and support local businesses as one of the largest employers in Kent, and we also want to help ensure that the places our people live and work grow and flourish.

The protection of our environment is an important part of that effort, which is why we chose Kent Wildlife Trust as our Charity of the Year for 2022. We have been delighted to support their vital work to protect and improve habitats in the countryside, coast and town for the benefit of the wildlife and people of Kent. We have already raised more than £17,000 through a number of activities at the brewery and across our pub estate, including the Jurassic Coast Ultra Challenge in Dorset, the Royal Brewery Bake Off as part of Platinum Jubilee celebrations and a sponsored pub walk. We also encourage customers to make donations via digital charity box Pennies at selected retail sites.

We have also worked with Kent Wildlife Trust on practical events to raise awareness including a series of beach cleans at four of our Kent coastal sites during July and August. These took place at the Minnis Bay Bar and Brasserie in Birchington, Botany Bay Hotel in Kingsgate, Marine Hotel in Tankerton and Royal Albion Hotel in Broadstairs. The Kent Wildlife Trust team were on hand at each event to offer educational advice and materials and almost 40kg of rubbish was collected.

In 2007, we provided land as a home for the National Hop Collection at Queen Court Farm in Faversham. The collection contains almost 200 historic varieties of hops, which are not only preserved but also used to breed new varieties for commercial production. As part of our commitment to this collection, we are funding its relocation to a large hop garden at Homestall Farm in Faversham. The move is due to be completed by the end of 2023, and we will be continuing our support with a significant annual contribution to its establishment and maintenance, committed for a minimum of five years.

We are proud that our pubs and our brewery hold an important place at the heart of their communities. In addition to the support offered to our Charity of the Year, licensees and team members across the business also raise large sums each year for a diverse range of good causes and local initiatives. Our Sheps Giving committee co-ordinates the donation of thousands of pounds worth of beer, brewery tours and gift cards each year to local groups and individuals in support of their fundraising activities.

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

We contribute significant sums annually to local sports sponsorship as part of our supply agreements, from grassroots to county level. We have been a long-time sponsor of Kent Cricket, with the Club's Canterbury headquarters, The Spitfire Ground, St Lawrence, named after our beer brand. We are the principal sponsor of Maidstone United FC, and in February this year agreed a new four year pouring rights partnership with National League team Bromley FC.

This year we pledged £20,000 to the Disasters Emergency Committee (DEC) Ukraine Humanitarian Appeal at the beginning of March 2022 to kickstart a fundraising appeal across our pub and hotel estate to raise awareness and encourage customer donations, which currently totals almost £25,000.

SECR REPORTING

SHEPHERD NEAME – ENERGY & CARBON REPORT 2021-22 SUMMARY

Shepherd Neame continues to be at the forefront of sustainability within the brewing and hospitality industry. As well as pioneering sustainable brewing methods, the business has always sought to reduce the impact it has on the local and wider environment.

In accordance with The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, Shepherd Neame have prepared a Streamlined Energy & Carbon Report (SECR) for the 2022 financial year. Measuring and reporting emissions data will encourage the business to target inefficiencies and improve environmental performance. The direct benefits of this process include lower energy costs, improved understanding of climate risks and allowing the business to advertise its role as a proactive sustainability leader within the industry.

Shepherd Neame consumed 35,012 MWh of energy this financial year resulting in gross carbon emissions of 6,771 tCO_2e. This represents a 20% increase in energy and a 16% increase in carbon impact when compared to the previous financial year. Normalised emissions for the retail division decreased by 25% from 0.072 to 0.054 tCO_2e/£k turnover. Normalised brewery emissions also decreased, by 8%, from 0.015 to 0.014 tCO_2e/hL.

As the hospitality sector recovers from the impacts of the COVID-19 pandemic, the business has seen a significant increase in revenue in the retail division and in volume brewed. This increase in activity has been a substantial driving force in the absolute increase of energy consumption and carbon emissions.

Shepherd Neame brewed 223,799 hL this financial year, an 11% increase on the previous year, whereas brewery energy consumption only increased by 7% due to the brewery's significant base energy load. This increase in brewed volume caused a reduction in the brewery's normalised carbon intensity. Likewise, the retail pub revenue increased by 126% from £27.1m to £61.2m, due to the easing of COVID restrictions, hence the reduction in carbon intensity despite the absolute increase in retail pub carbon emissions.

As the business exclusively purchases Renewable Energy Guarantee of Origins (REGO) backed electricity for the brewery and all retail sites, the actual net impact of electricity is reduced to 0 tCO_2e from the gross emission value of 2,727 tCO_2e. The total net carbon emissions are therefore 4,044 tCO_2e.

While no new projects and improvements were implemented in the 2022 financial year, Shepherd Neame continue to identify opportunities for energy improvement. An application is currently being processed for the installation of 650 solar panels on the bottling hall roof. This would produce an estimated 250MWh of energy per year and save approximately 60 tCO_2e of gross emissions.

STRATEGIC REPORT

SHEPHERD NEAME - 2021-22 STREAMLINED ENERGY & CARBON REPORT

SHEPHERD NEAME GHG EMISSIONS AND ENERGY USE DATA FOR PERIOD 27 JUNE 2021 TO 25 JUNE 2022

Parameter	Units	Current reporting year 27/06/21 - 25/06/22	Comparison financial year 28/06/20 - 26/06/21
Natural gas consumption - Brewery	kWh	10,519,623	9,904,613
Natural gas consumption - Retail Pubs & Hotels	kWh	10,250,289	8,010,815
Electricity consumption - Brewery	kWh	6,160,220	5,713,411
Electricity consumption - Retail Pubs & Hotels	kWh	7,283,005	5,024,589
Transport fuels consumption	kWh	798,647	480,160
Total energy consumption used to calculate emissions	**kWh**	**35,011,784**	**29,133,588**
Emissions from combustion of gas (scope 1)	tCO_2e	3,797	3,294
Emissions from transportation in vehicles owned or controlled by reporting company (scope 1)	tCO_2e	183	109
Fugitive emissions from refrigeration plant (scope 1)	tCO_2e	53	0
Emissions from purchased electricity (scope 2)	tCO_2e	2,727	2,441
Emissions from business travel in vehicles owned or operated by 3rd parties (scope 3)	tCO_2e	11	7
Total gross emissions	**tCO_2e**	**6,771**	**5,851**
Carbon reduction through green electricity tariff	tCO_2e	(2,727)	(2,441)
Total net emissions	**tCO^2e**	**4,044**	**3,410**
Intensity ratio: Total brewery gross emissions/total brewed product	**tCO_2e/hL**	**0.014**	**0.015**
Intensity ratio: Total retail gross emissions/total £k turnover	**tCO_2e/£k**	**0.054**	**0.072**
Intensity ratio: Total brewery net emissions/total brewed product	**tCO_2e/hL**	**0.009**	**0.009**
Intensity ratio: Total retail net emissions/total £k turnover	**tCO_2e/£k**	**0.033**	**0.042**

Methodology

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

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

This is the third SECR reporting year, 2020/21 has been used as the comparison year.

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

Energy efficiency action

No new projects have been completed in the previous financial year; however, the business has applied to install 650 solar panels at the brewery. This array is estimated to generate 250MWh and save 60 tonnes of carbon per year.

Shepherd Neame continues to rollout the Green Mark Environmental Management System and give environmental sustainability training to hospitality, brewery and office employees.

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

Prepared in line with guidance from: Environmental Reporting Guidelines: Including streamlined energy and carbon reporting guidance H M Government, March 2019.

External verification provided by: Carbon Architecture LTD

FINANCIAL REVIEW

MARK RIDER
Chief Financial Officer

EMERGING FROM COVID WITH STRENGTH

As we entered the 2022 financial year in July we were re-opening our pub estate and on-trade beer business with social distancing restrictions in place. It is pleasing that our performance has been strong from this point and whilst trade has not fully recovered to pre-COVID-19 levels, total revenues in the pub estate are substantially recovered.

Within the Brewing and Brands business we have seen a rebalancing of our mix of revenues with an increase in on-trade sales to bars, restaurants and sports clubs offset by a reduction in sales to grocers. Our focus on regaining these volumes has helped to offset some of the inflationary costs we have seen in the brewery, notably around malt, glass bottles, gases and packaging.

Our performance and focus on cash has meant that our net debt excluding lease liabilities has dropped significantly by £15.5m over the financial year. I am pleased that this has meant that we repaid all the debt that built up during the pandemic, which has enabled us to cancel the CLBILS loan and return to our previous covenants. Our covenant leverage was 3.7 times at the year-end and our focus is to run at levels at or around three times over the medium term.

I am grateful to all of our teams for their contributions and support in enabling the business to emerge from COVID-19, and particularly for their focus on keeping costs and cash outflows to a minimum during periods of closure. This has enabled us to reduce net debt significantly in the year, to recommence dividends to shareholders and to begin to invest in growing the business for the long term.

UNDERLYING PERFORMANCE

	2022 £'000	2021 £'000	Change %	2019[1] £'000	Change %
Revenue					
Retail Pubs & Hotels	**61,240**	27,068	+126%	68,777	-11%
Tenanted Pubs	**32,773**	16,748	+96%	35,033	-6%
Brewing and Brands	**56,615**	42,018	+35%	40,742	+39%
Unallocated	**910**	1,050	-13%	1,249	-27%
Total business	**151,538**	86,884	+74%	145,801	+4%
Underlying profit/(loss)					
Retail Pubs & Hotels	**8,288**	983	+743%		
Tenanted Pubs	**13,359**	2,343	+470%		
Brewing and Brands	**(252)**	(1,287)	+80%		
Unallocated	**(8,502)**	(6,279)	-35%		
Underlying operating profit	**12,893**	(4,240)	+404%		
Underlying net finance costs	**(5,599)**	(5,817)	+4%		
Underlying profit/(loss) before tax	**7,294**	(10,057)	+173%		

1. The profit figures for the 2019 financial year have not been presented because they were prepared on a different GAAP basis. For a five year history, see page 116.

Retail Pubs & Hotels revenues were £61.2m (2021: £27.1m), up +126% reflecting the lower level of COVID-19 restrictions in place combined with a strong trading performance. Within this, drink revenues were £33.0m (2021: £12.6m), food revenues £21.5m (2021: £11.3m) and accommodation revenues £6.3m (2021: £3.1m). Retail Pubs & Hotels underlying operating profit was £8.3m (2021: £1.0m), at an underlying operating margin of 13.5% which was broadly in line with pre-pandemic levels.

Tenanted Pub revenues were £32.8m (2021: £16.7m), up +96% on the previous year. Within this increase, property rental income was up £6.1m to £8.5m (2021: £2.4m). During the periods of closure in the previous financial year, no rent was charged to licensees. Following the lifting of Government restrictions, rent was charged at previous levels, reaching 100% of normal in August 2021. We subsequently reduced rent again in December 2021 and January 2022 during the period of Omicron. Investment in repairs and decorations was £1.6m (2021: £1.4m) as the greater trade enabled us to restore investment levels and maintain pub standards. Tenanted Pubs underlying operating profit was £13.4m (2021: £2.3m), again reflecting lower restrictions compared to the prior year.

Brewing and Brands revenues were up +35% to £56.6m (2021: £42.0m), reflecting a strong performance in the on-trade and growth in Singha beer offset by lower off-trade sales after a record prior year. As a result there has been a change in mix back to the on-trade and an increase in sales margin. This margin mix improvement has been offset by increases in energy-related products and services of £0.9m from the previous year. This has meant that despite the strong revenue performance, underlying operating loss was £0.3m, an improvement of £1.0m (2021: loss of £(1.3)m) on the prior year.

FINANCE CHARGES

	2022 £'000	2021 £'000	Change %
Underlying			
Bank and loan note interest	**4,363**	4,575	-5%
IFRS 16 interest	**1,244**	1,285	-3%
Other	**(8)**	(42)	-81%
Interest income	**-**	(1)	-100%
Total net underlying finance costs	**5,599**	5,817	-4%
Items excluded from underlying finance costs	**(314)**	356	-188%
Net finance costs	**5,285**	6,173	-14%

Within underlying finance charges, bank and loan note interest was £4.4m (2021: £4.6m) which reflected a lower level of average net debt during the year combined with a reduction in the average interest level charged. The business recovered to previous covenant levels in the last quarter of the financial year and as the interest rate on our bank loans is tied to the covenant leverage, this lowered the average interest rate for the year.

There were limited changes to our lease arrangements in the year and as a result finance charges relating to IFRS 16 lease debt were broadly level at £1.2m (2021: £1.3m).

ITEMS EXCLUDED FROM UNDERLYING RESULTS

Total items excluded from underlying profit before tax were a net credit of £0.1m (2021: net charge of £6.4m). This year's items comprised the following elements:

- In relation to property matters:
  i. The annual impairment review resulted in an impairment charge of £2.9m relating to 15 properties, of which £1.2m is attributed to leased right-of-use assets. The 2021 comparative impairment charge of £5.7m related to 31 properties, of which £1.6m was attributed to leased right-of-use assets.
  ii. Property profits of £1.7m (2021: £0.2m) were generated on the sale of two freehold pubs, one leasehold pub surrender and investment property and land. (2021: two pubs and investment property and land).
  iii. The annual revaluation to fair value of investment properties on the Statement of Financial Position resulted in an increase in value of £0.5m (2021: £0.1m).
  iv. The acquisition of four retail pubs resulted in one-off costs of £0.1m. A further £0.4m of fees is expected to be incurred on these acquisitions in the 2023 financial year.
- In relation to people matters:
  i. The business is in the process of transferring its pension administration in line with recommended best practice from being internally managed to an independent master trust. The one-off cost of this change is £0.2m.
  ii. The business completed its review with HMRC of team members paid the national minimum wage. This led to a release of £0.4m of the previously held provision.
  iii. We continue to pursue sums from the fraud carried out by an employee in previous years. In the 2022 financial year recoveries totalled £0.2m.
  iv. The COVID-19 pandemic resulted in one-off costs of £0.7m within the 2021 financial year in relation to employees who left the business as part of a restructuring programme. The majority of these leavers were voluntary redundancies.
- In relation to finance costs:
  i. There was a £0.4m gain (2021: £0.1m gain) in relation to the ineffective portion of the remaining interest rate swap.
  ii. Legal and professional fees of £0.1m were incurred as a result of the business having to transition existing banking facilities to being pegged to SONIA from the previous benchmark LIBOR.
  iii. In the previous financial year costs of £0.5m were incurred in agreeing revised covenants and agreements of waivers with our lenders as well as fees associated with putting in place the CLBILS loan.

TAXATION

The Company has recognised a total tax charge of £1.1m (2021: £1.4m), an effective rate of 14.8% (2021: -8.4%). The average statutory rate of corporation tax in the UK for the period was 19% (2021: 19%). The underlying tax rate was 20.0% (2021: 18.6%). The net tax credit on items excluded from underlying results was £0.4m (2021: charge of £3.2m).

The significant non-underlying deferred tax charge in the 2021 financial year reflected a change in the proposed corporation tax rate.

An increase in the future main rate of UK corporation tax from 19% to 25% from 1 April 2023 was announced in the Budget on 3 March 2021, and was substantively enacted on 24 May 2021 when the Finance Bill 2021 had its third reading. Therefore as at the 26 June 2021 any deferred tax assets or liabilities that are expected to reverse after 1 April 2023 were restated at 25%.

Within the 2021 financial year, the impact of the restatement of deferred tax balances due to changes in tax rates was a net increase in deferred tax liabilities of £3.9m, of which £4.0m was recognised in the Income Statement and a £0.1m credit in Other Comprehensive Income.

Deferred tax balances at 25 June 2022 remain provided for at 25%. Subsequent to the year end, it has been announced that corporation tax will remain at 19% which is expected to result in a £3.6m reduction in deferred tax balances.

EARNINGS PER SHARE AND DIVIDENDS

Underlying basic earnings per ordinary share was 39.4p (2021: loss per share (55.5)p) following the increase in profits from trading with fewer restrictions. Basic earnings per ordinary share was 42.5p (2021: loss per share (120.5)p), reflecting a lower level of impairment charges.

We are pleased to announce that dividend payments have been reinstated. A final dividend of 15.00p per share has been proposed, taking full-year dividends to 18.50p per share. This equates to 62% of the dividend paid in 2019 and represents 2.1 times underlying cover. The Board expects underlying dividend cover to be at or around two times in line with pre COVID-19 policy.

In the prior two financial years, due to the pandemic, and whilst alternative covenants were in place, no dividend was paid or proposed.

CASH FLOW

The increase in underlying operating profit means underlying EBITDA increased to £23.4m (2021: £7.7m), offset by a working capital outflow of £2.3m (2021: £5.2m outflow). Due to the loss position for tax purposes in recent years, there are £13.4m of unutilised losses still to claim at the year end and no cash tax paid.

In the previous financial year £0.7m of the items excluded from underlying results related to restructuring costs and £0.5m to the agreement of covenant changes and waivers with our lenders. Taking these movements together, there was a cash inflow from operations of £21.1m (2021: inflow of £1.8m).

Total interest paid was £4.4m (2021: £4.8m), down on the previous year following a lower average level of net debt and lower rates of interest.

Total disposal proceeds of £9.1m (2021: £4.5m) were realised from the sale of pubs and assets that no longer fit our strategy.

Cash spend on capital expenditure was reduced significantly from pre-COVID levels on the back of the lower operating cash flows and to ensure net debt could return to the pre-pandemic level. During the year, capital expenditure of £5.4m was invested (2021: £3.9m). Outside of core maintenance expenditure this sum included £0.2m on pub developments, £0.4m installation of a small batch brewery and £0.2m on website improvements.

Total net debt, excluding lease liabilities, was down £15.5m to £75.3m (2021: £90.8m). Statutory net debt decreased to £131.2m (2021: £149.1m) following the reduction in bank and loan note debt combined with a reduction of £2.4m in relation to leases.

Cash flow and net debt

Summary cash flow statement	2022 £'000	2021 £'000
Underlying EBITDA	**23,428**	7,710
Working capital and other operating cash flows	**(2,306)**	(4,803)
Tax	**-**	195
Operating charges excluded from underlying results	**19**	(1,276)
Cash flow from operations	**21,141**	1,826
Dividends paid and share option proceeds	**(518)**	5
Interest paid	**(4,436)**	(4,796)
Payments of principal portion of lease liabilities	**(4,220)**	(3,930)
Disposal proceeds	**9,085**	4,526
Internally generated free cash flow	**21,052**	(2,369)
Core capital expenditure	**(5,433)**	(3,878)
Cash flow pre acquisitions and debt repayment	**15,619**	(6,247)
Repayment of borrowings	**(15,600)**	2,000
Net cash inflow/(outflow) for the period	**19**	(4,247)
Movement in loan issue costs	**(105)**	(103)
Movement in loans	**15,600**	(2,000)
Movement in lease liabilities	**2,440**	(2,466)
Movement in net debt	**17,954**	(8,816)

STATEMENT OF FINANCIAL POSITION

There was a £12.8m decrease in non-current assets (2021: decrease of £14.3m) of which the pre-IFRS 16 decrease was £7.5m (2021: decrease of £15.3m), following the disposal of properties in the year. The decrease in net debt combined with the decrease in non-current assets means net assets increased by £8.0m (2021: decrease of £(15.9)m).

Taking these elements together, shareholders' funds at 25 June 2022 were £177.3m (2021: £169.3m) meaning net assets per share showed an increase of 4.7% to £11.94 (2021: £11.40). Net assets per share pre IFRS 16 were £12.55, up 5.4% (2021: £11.91).

Total balance sheet gearing at the year end, pre IFRS 16, was 40.4% (2021: 51.2%) and including lease liabilities was 74.0% (2021: 88.1%).

FINANCING AND LOAN FACILITIES

The position around net debt and the Company's financing facilities is included in the Chief Executive's Review on page 16.

OUTLOOK FOR THE 2023 FINANCIAL YEAR

Last year I wrote that the 2022 financial year saw a significant increase in the cost environment for our business.

Like many companies we have seen steep increases in energy costs although we have been active in the energy market and as a result have forward purchased a high level of our energy requirements in the brewery and in our retail pubs and hotels.

Despite this active management of our utility bills, we would expect energy costs in our retail pubs to increase by £1.2m in the 2023 financial year.

We expect that our costs of distribution will move up to market levels and increase by around £2m as we exit a long-term 10-year deal.

Within the brewery, glass prices, CO_2 gases and packaging recycling notes have all increased significantly due to the energy-intensive nature of their production and we are expecting a further increase of £2.5m in the 2023 financial year.

The Board is committed to mitigating these inflationary impacts wherever possible, whilst focusing on reducing net debt and placing the business in the strongest position for the future. We would expect capital expenditure to normalise to pre-pandemic levels. Since the year-end we have invested £6.7m in the acquisition of four Retail pubs with EBITDA from these sites broadly offsetting that lost from disposals over the last two years.

GOING CONCERN

I am proud of the efforts of all our teams to ensure that the business has overcome the obstacles arising from the pandemic.

Looking forward we have demonstrated that the business can trade well and generate cash. Our challenge, as for many other operators in the sector is to ensure that we continue to give our customers an enjoyable and distinctive experience that provides value for money, whilst disposable income is under pressure and whilst we face high levels of cost inflation.

Any prolonged downturn in demand will have an impact on earnings but we have a number of levers to pull during any economic downturn - such as reducing discretionary and capital expenditure for a period as we did during the COVID-19 pandemic. Our balance sheet remains strong and our well-invested pubs are resilient businesses. Please see page 76 for further details on going concern.

MARK RIDER
Chief Financial Officer

PRINCIPAL RISKS AND UNCERTAINTIES

RISK MANAGEMENT OVERVIEW

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

Further information on financial risk management is detailed in note 27 to the financial statements.

Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk trend
ECONOMIC AND POLITICAL			
Inflation, the economy and consumer confidence	UK economic recovery post the COVID-19 pandemic has been impacted by the war in Ukraine and general inflationary pressures. These have resulted in significant increases in energy and other input costs and are resulting in lower consumer disposable income. A recession is anticipated. This, together with changes in consumer choices, could lead to customers drinking and eating at our pubs and hotels less frequently, which in turn could lead to lower profitability. Our main inflation challenge in the coming year is on logistics, glass and other energy-related products.	The Board continually monitors market news and legislation in order to respond effectively to changes in consumer trends. We aim to mitigate inflation through price increases, menu changes and good procurement. We welcome the recent government announcement on the Energy Bills Relief Scheme. We have a consumer-focussed offer and invest in our brands and pubs and through active property management. We aim to deliver a high-quality offer aimed at encouraging a variety of customers to use our products and pubs and hotels.	Risk increasing
Disruption in global supply chains	The ongoing war in Ukraine has resulted in significant supply chain uncertainty resulting in shortages and increased inflationary pressure. Brexit will continue to be an issue especially if there are sustained delays at Dover to implement border checks. Supply issues could disrupt production and distribution. Cost pressures could make some suppliers unable to supply and some areas of business no longer viable.	We are reviewing our procurement processes. We monitor inventory levels carefully and carry adequate buffer supplies of key materials to protect against periods of supply delay. We are working with our suppliers to find solutions, but are likely to incur higher costs of production or in delivery for the foreseeable future.	Risk increasing

Risk increasing Risk unchanged Risk decreasing

Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk trend
ECONOMIC AND POLITICAL			
Pandemic or major external event	A major external event could have far-reaching consequences for the business. The hospitality industry has adapted significantly post COVID-19, only to be faced with further challenges, particularly around supply and inflation, resulting from the current geopolitical uncertainty. These pressures result in financial challenge to margins and debt.	The pandemic has shown how flexible the Company can be in responding to pressures leading to a sustained period of pub closures. Our strategy is focussed on investing in Retail pubs to drive bigger and better outlets more able to absorb inflation and provide a better experience for the customer. Operational support and continued bespoke rental support is provided to licensees as appropriate.	↔
FINANCIAL			
Banking covenant failure	The Company's financial structure includes borrowings subject to covenant tests. Sustained disruption to trading resulting in reduced profitability could result in a breach of those covenants.	The Board has a flexible planning model and models a number of scenarios with the objective of managing the business to meet all covenants. The Board maintains good communication and relationships with its lenders to ensure these stakeholders have full visibility of performance. If there are future shocks to business performance a number of options would be available to the Board to raise cash and reduce debt.	↓
REGULATORY			
Health and safety	Operating a large number of pubs and a brewery manufacturing site results in complexity of operations and processes. We are required to comply with ever-increasing health and safety obligations. Any non-compliance with legislation could have serious consequences for our customers, employees and licensees. Significant penalties can be applicable for breaches, which could impact Company profitability.	The Company has a Health and Safety team who are developing a safety management system to improve understanding and compliance across the business. This process has been assisted by the establishment of a safety leadership team comprising the senior management team. A compliance package is available to support our licensees in the tenanted estate.	↔

↑ Risk increasing ↔ Risk unchanged ↓ Risk decreasing

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk trend
OPERATIONAL			
People and skills shortage	The recruitment and retention of high-quality people and licensees is essential in order to provide our customers with a great experience. There has been a change in lifestyle and reduction in the hospitality workforce post COVID-19 and post Brexit that is making recruitment more difficult. All sectors are experiencing similar challenges, with these people shortages leading to wage inflation, potential trading disruption and a reduction in profitability.	We want to be an employer of choice. As such we have invested in our People Team who have developed initiatives targeting the best ways of recruiting and retaining team members. Our reward packages are competitive and we have placed more emphasis on training and career development through the employee work cycle. We have recruited an Apprenticeship Lead with the aim of further developing the programme we already have in place, to deliver our own pool of skilled team members for the future.	
Site dependency	The Company's operations are managed from its sole brewery site in Faversham. A serious incident could result in loss of life or major injury, resulting in reputational damage and potential regulatory penalties. Loss of the brewery site would cause production to cease for a period which would impact Company profitability.	Regular safety reviews are carried out with a review of risk assessments and upgrade of standard operating procedures underway. Training is provided in key risk areas. We have a disaster recovery plan and a crisis management manual, as well as an agreement with other breweries to use their facilities if possible. For shorter periods of disruption, stock can be held off site as a buffer.	

Risk increasing Risk unchanged Risk decreasing

Principal Risks	Potential Impact	Mitigation and Monitoring	Change since last year/Risk trend
OPERATIONAL			
Logistics dependency	Prolonged disruption to our supply chain could affect the availability of our product and cause financial and reputational damage. The Company relies on GXO as its principal warehousing and distribution partner. The current logistics contract ends in September 2023. GXO has also been faced with the threat of strike action which would impact its ability to service our needs. They are also faced with the current shortage of vehicles and drivers.	We have carried out a tender process. As a result of this tender we are in discussion to amend and extend the existing contract. We are in regular dialogue about potential responses to business continuity risk.	Risk increasing
Information technology failure	All areas of the business - production, customer facing and support are significantly reliant on IT systems. Prolonged disruption caused by a significant failure, destruction of hardware or facilities, or the growing threat of cyber attack could cause prolonged disruption, affecting the Company's ability to trade and its profitability.	We have back-up systems, virus protection, a cyber protection strategy, a business continuity plan and a disaster recovery plan. Protection against cyber attacks has been improved through outsourcing key security services to a specialist third-party supplier. Where operations use third-party hosted systems, we work closely with those suppliers to ensure business continuity and security are maintained at the highest levels. We have rolled out cyber training to all Company network users.	Risk unchanged

Risk increasing Risk unchanged Risk decreasing

SECTION 172 STATEMENT

STAKEHOLDER ENGAGEMENT

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

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

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

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

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

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

We engage with our team through regular employee surveys, briefings, and weekly internal newsletters. We are keen to promote health and wellbeing, development opportunities, fair pay and benefits and understanding among employees of the Company's values, strategy and financial performance.

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

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

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

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

We have responded to suppliers' interests by:

- using local producers as far as possible to support the local community;
- reviewing drink listings in our pubs to improve the range of offerings; and
- inviting suppliers to our ShepsWay trade fairs and other events.

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

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

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

We have responded to shareholder interests by:

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

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

We have responded to lenders' interests by:

- increasing their understanding of our strategy and our operating and financial performance so that they can more accurately assess the opportunities to finance our business.

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

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

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

We have responded to our pub licensees' interests by:

- providing rental support during the COVID-19 pandemic during enforced pub closures and difficult trading conditions;
- providing regular advice and guidance via specific newsletters to share information regarding COVID-19 requirements;
- providing training workshops;
- improving the drink portfolios available; and
- contributing to refurbishment projects.

PRINCIPAL DECISIONS

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

1. Consequences of the COVID-19 pandemic

The Group experienced continued disruption in the year as a result of ongoing restrictions, as set out in the Strategic Report. The Company made decisions with regards to managing costs, supporting employees, providing rental support and advising on grants and other matters to our licensees during periods of restrictions. We also took decisions on how best to use our available resources to drive recovery post disruption.

2. Approval of annual budget and five-year plan

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

The Company has considered the significant cost inflation that has followed COVID-19 and the war in Ukraine and also the cost pressures resulting from the end of our logistics contract and has made decisions around actions to mitigate those which do not impact future investment in the business.

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

3. Dividend

The Board recognises the importance of dividends to our shareholders. The Board, having considered the strength of the Company's recovery and the reduction in debt, decided it was appropriate to restore the payment of an interim and final dividend for the year. This action was felt to balance the need of the Company and its stakeholders.

4. People

We have restructured our teams to address the challenges of recruitment and to provide greater focus on learning and development going forward. We have also carried out a comprehensive engagement review.

5. Acquisitions, disposals and active property management

There were no acquisitions in the year but we made a significant number of disposals during the period as explained in the Strategic Report. We continue to make targeted disposals of land and property that does not fit our strategy to help fund the continued improvement in the quality of our pub portfolio.

This Strategic Report was approved by the Board of Directors on 27 September 2022 and signed on its behalf by:

JONATHAN NEAME
Chief Executive

GOVERNANCE

IN THIS SECTION

INVESTING IN OUR PEOPLE

As a proud Royal Warrant holder for more than two decades, Shepherd Neame has a long association with the Royal Family, and we celebrated the Queen's Platinum Jubilee in June with events at the Brewery and across our pub estate. We also brewed a limited edition Celebration Ale to mark the special occasion.

INVESTING IN OUR BREWERY

Work is progressing well on our new small batch brewery. Since the project began in November 2021, eight fermenting vessels have been installed along with a 25-hectolitre brewhouse. The equipment will allow us to brew approximately 4,000 pints per batch, offering the opportunity for enhanced taste and flavour, as well as product innovation.

INVESTING IN OUR PUBS

As part of ongoing efforts to create a distinctive customer experience at our pubs and hotels, we are continuing to roll out our external decoration and signage programme. Around 80% of our pubs now have the new signage scheme.

The Smarden Bell, Smarden

BOARD OF DIRECTORS

1. **BILL BRETT**
Non-Executive Director

2. **RICHARD OLDFIELD**
Chairman

3. **KEVIN GEORGEL**
Non-Executive Director

4. **HILARY RIVA**
Senior Independent Director

5. **JONATHON SWAINE**
Managing Director, Pubs

6. **JONATHAN NEAME**
Chief Executive

7. **GLENDA FLANAGAN**
Company Secretary

8. **NIGEL BUNTING**
Commercial Director

9. **GEORGE BARNES**
Property Director

10. **MARK RIDER**
Chief Financial Officer

GEORGE BARNES (68)

Property Director

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

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

BILL BRETT (57)

Non-Executive Director
Chair of the Audit Committee

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

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

NIGEL BUNTING (55)

Commercial Director

Joined the Company in 1993. He has held various senior management positions including Head of Retail and Tenanted Pub Operations. He was appointed to the Board as Retail Director in August 2005 and became Retail and Tenanted Pub Operations Director with effect from July 2014. He has been a Non-Executive Director of Davy and Co Ltd since 2008 and was a Director of Visit Kent from 2006 to 2015. Nigel was appointed Commercial Director in June 2022.

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

KEVIN GEORGEL (52)

Non-Executive Director

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

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

JONATHAN NEAME (58)

Chief Executive

Joined the Company in 1991. Company Secretary until July 1994 and Tied Trade Director until 1999. He was appointed Managing Director in 1999 and then Chief Executive in 2003. He is a barrister-at-law and was a management consultant with the COBA Group from 1987 to 1991. He was Chairman of the British Beer & Pub Association from 2012 to 2015 and a Non-Executive Director of the St Austell Brewery Company Ltd from 2002 until 2018. He was appointed Vice President of the Brewers of Europe and Master of the Worshipful Company of Brewers in 2022. He has been a Trustee of the Leeds Castle Foundation since 2011, is Deputy Lieutenant of Kent and was awarded an Honorary Doctorate from the University of Kent in 2016.

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

RICHARD OLDFIELD OBE (66)

Chairman
Chair of the Nomination Committee

Appointed to the Board in June 2016. He is former Chairman of Oldfield Partners LLP and of Keystone Investment Trust plc and is a Trustee of the Prince's Trust.

Richard brings to the Board his experience in governance as chairman and director of publicly listed companies and as a former chief executive.

MARK RIDER (46)

Chief Financial Officer

Appointed to the Board in February 2012. He joined the Company from J Sainsbury plc, where he held a number of senior finance roles. Prior to joining Sainsbury's he qualified as a chartered accountant at PricewaterhouseCoopers. He is a Fellow of the Institute of Chartered Accountants. He is a Non-Executive Director of the Rugby Players Association and has been an advisory Board member of the Zero Carbon Forum during this year.

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

HILARY RIVA OBE (65)

Senior Independent Director
Chair of the Remuneration Committee

Appointed to the Board in April 2016. She was most recently a Non-Executive Director of ASOS Plc until April 2020 and previously held roles as a Non-Executive Director of Shaftesbury Plc, London and Partners Limited, Chief Executive of the British Fashion Council, and Director of Rubicon Retail Ltd. She holds a directorship in The Alexander Centre CIC and is a board member and trustee of the Canterbury Festival.

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

JONATHON SWAINE (51)

Managing Director, Pubs

From June 2022

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

Jonathon brings to the Board his considerable experience as a proven operator in the hospitality and pub sector.

GLENDA FLANAGAN (57)

Company Secretary

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

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

REPORT OF THE DIRECTORS

The Directors present their Annual Report and Accounts for the 52 weeks ended 25 June 2022.

ACTIVITIES AND REVIEW OF BUSINESS

The principal activities of the Group, being Shepherd Neame and its subsidiary companies, are the brewing and packaging of beer; the wholesaling and retailing of beer, cider, wines, spirits and minerals; property ownership; and public house and hotel management. This report should be read in conjunction with the Strategic Report which comprises the statements and reviews on pages 2-46. The Strategic Report includes information on the Group's strategy and provides further details of the Group's performance for the 52 weeks ended 25 June 2022, significant events which have occurred since the end of the reporting period and likely future developments.

DIVIDENDS

The Company paid an interim dividend of 3.50p per ordinary share (2021: nil). The Board now recommends a final dividend of 15.00p (2021: nil). This makes a total dividend for the year ended 25 June 2022 of 18.50p per ordinary share (2021: nil).

DIRECTORS

The names of the Directors at 25 June 2022 are set out on pages 48 and 49. Details of all Directors' interests are set out in the Remuneration Report on pages 58-62. Jonathon Swaine was appointed as a Director by the Board with effect from 28 June 2022. Jonathan Neame, George Barnes, Hilary Riva and Richard Oldfield retire from the Board by rotation and will be offering themselves for re-election.

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

PURCHASE OF OWN SHARES

The Company did not purchase any shares in either the year ended 25 June 2022 or the year ended 26 June 2021.

USE OF FINANCIAL INSTRUMENTS

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

EMPLOYEE ENGAGEMENT

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

Unsurprisingly, team retention is more of a challenge in the retail pubs and is a common theme across the sector. We note that for front-of-house roles, turnover remains consistent with rates before the pandemic but back-of-house roles such as chefs are proving harder to fill as well as retain. Some of this is down to Brexit as well as team members (current and potential) assessing work-life balance after taking a break when furloughed during COVID-19.

Our recent Engagement Survey, Sheps Voice, told us that all our team members have a great sense of connection to our business with over 93% saying they care about the teams they work with and that 90% say they feel great when our customers share a great experience. We are incredibly proud of these results and our team members' commitment to their colleagues and our customers.

The survey also highlighted that our teams feel they have autonomy to get on with their job across the three business divisions.

Looking ahead and based on the results of Sheps Voice, we are focussing our attention on the following three areas: organisational effectiveness, communication and career progression. Over the remainder of this year, we will hold workshops in each of these areas to establish the gaps in our experience and identify ways to improve.

As part of our plans for improvement, we have reviewed the structure of our People Team and added new People Partners who are working closely with their key stakeholders to identify talent, look at revised ways of working and identify development opportunities. In addition, we are delighted to have appointed an Apprenticeship Lead who will work closely with our existing training team to find apprentice opportunities in all areas of the business, particularly within the pubs.

Communication remains a key focus and we are looking to find easier ways to recognise great service or performance and promote benefits and rewards for all. In addition, we are currently looking at our benefits across the business and hope that as part of our reward and recognition review we will implement a platform that maximises the effectiveness and reach to all employees.

It is our intention to have an employee promoter score to measure our engagement levels within the business. We will survey our team members annually via a full survey and periodically carry out pulse surveys when working on other projects.

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

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

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

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

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

We are also currently building new, improved pub websites. We have just launched our new retail sites and will be launching tenanted sites later this year. To improve customer engagement, selected retail pubs now utilise an 'order and pay' app, and offer online booking. All retail sites have interactive online menus allowing customers to display and filter the menu based on food allergies/intolerances.

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

GREENHOUSE GAS EMISSIONS, ENERGY CONSUMPTION AND ENERGY EFFICIENCY ACTION

Environmental sustainability continues to be a key priority for the business. We have a history of pioneering sustainable brewing methods while always endeavouring to reduce the impact it has on the local and wider environment. Further details of our initiatives can be found in the ESG section on pages 26 to 31, together with our Streamlined Energy and Carbon Report for the financial year in accordance with The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

THIRD-PARTY INDEMNITY PROVISIONS

The Company has in place a Directors' and Officers' liability insurance policy which indemnifies the Directors and Officers from any claim or claims on them in the course of their business activities to the extent that they do not relate to acts of fraud or dishonesty.

POLITICAL CONTRIBUTIONS

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

AUDITOR

A resolution to re-appoint BDO LLP will be put to the forthcoming Annual General Meeting.

By order of the Board

GLENDA FLANAGAN
Company Secretary
17 Court Street
Faversham, Kent

27 September 2022

Registered in England number 0138256

GOVERNANCE

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By order of the Board

GLENDA FLANAGAN
Company Secretary
17 Court Street
Faversham, Kent

27 September 2022

Registered in England number 0138256

CORPORATE GOVERNANCE REPORT

RICHARD OLDFIELD
Chairman

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

The Board is committed to ensuring high standards for the Group and has applied the principles of the 2018 Quoted Companies Alliance Corporate Governance Code (QCA code), a recognised corporate governance code which is appropriate to the nature and size of the Company.

THE BOARD AND ITS COMMITTEES

Application of the QCA code provides a framework for the Board, led by the Chairman, to make robust decisions and to manage risk, in order to meet its responsibility to ensure that the Group is managed for the long-term benefit of all shareholders and stakeholders, with effective and efficient decision-making. The key risks and uncertainties are set out in the Company's strategic report, both those outside its control and those over which, as operational matters, the Company's has some degree of control and influence.

The Board aims to ensure that the Company's strategy and objectives are consistent with its culture, and fosters and maintains this culture. Elements of the Company's culture include: its emphasis on serving its communities and on preserving a long-term outlook; encouragement of originality; and maintenance of its reputation as a good partner and employer, as set out elsewhere in the Strategic Report. The Board believes that the reputation of the Company for fair and ethical behaviour continues to be sustained.

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

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

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

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

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

The Board meets regularly throughout the year. In addition an annual Board strategy day takes place each year where the Board receives reports in relation to progress against the Company's strategic objectives. The Board regularly visits the Company's pubs so Directors can engage directly with managers, licensees, team members and customers.

The Remuneration Committee

The prime function of the Remuneration Committee, which is chaired by Hilary Riva, is to lead the process for executive remuneration, and to make recommendations to the Board in order that there is a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors. The activities of the Remuneration Committee are explained fully in the Remuneration Committee Report on pages 58-62.

The Audit Committee

The Audit Committee, which is chaired by Bill Brett, is responsible for reviewing the financial reporting process, the system of internal control and management of financial risks, the audit process and the Company's process for monitoring compliance with laws and regulations and its own code of business conduct. Further details of the Committee's activities can be found in the Audit Committee Report on pages 56-57.

The Nomination Committee

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

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

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

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

This year the Committee considered the creation of the role of Commercial Director. Having considered the skill set required for this role, the Committee concluded that Nigel Bunting, the Retail and Tenanted Pub Operations Director, was appropriate for this role. The MBS Group Limited was appointed to work with the Committee in identifying and recruiting a Managing Director, Pubs. Following a detailed interview process involving all members of the Board, the Board appointed Jonathon Swaine in February 2022. Jonathon joined the Company in June and was appointed as an Executive Director on 28 June 2022. Other matters considered during the year included the re-election of Directors.

The Disclosure Committee

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

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

	Board	Audit Committee	Remuneration Committee	Nomination Committee	Disclosure Committee
Number of meetings	9	4	4	5	2
Executive Directors					
George Barnes	9	-	-	-	-
Nigel Bunting	8	-	-	-	-
Jonathan Neame	9	•	•	•	2
Mark Rider	9	•	-	-	2
Non-Executive Directors					
Bill Brett	9	4	4	5	•
Richard Oldfield	9	4	4	5	2
Hilary Riva	8	4	4	4	-
Kevin Georgel	9	-	4	2	-

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

Management Committees

The Executive Committee

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

The Operations Committee

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

The Environmental, Social and Governance (ESG) Committee

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

BOARD COMPOSITION AND BALANCE

The Board comprises the Chairman, the Chief Executive, three Non-Executive and three Executive Directors. Richard Oldfield is the Chairman, and is a Non-Executive. Hilary Riva is the SID. Hilary Riva and Kevin Georgel are considered independent Non-Executive Directors. The biographical details on page 49 show the broad range of experience and skills the Directors bring to the Board. The Board considers itself well balanced, with the appropriate representation of family members in accordance with the Company's Articles of Association.

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

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

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

PERFORMANCE EVALUATION

During the year, the Board carried out its first annual Board performance evaluation, led by the Chairman. Each member of the Board was asked to complete a short Board evaluation and self-evaluation and appraisal form, covering the content and conduct of Board meetings, the relevant Director's contribution to the Board's discussions and decision-making and the Company's strategic direction. This form provided the basis for subsequent discussion individually with the Chairman. The outcome of these reviews were reported to the Board with an analysis of key themes and an action plan to address the points raised. The SID also discussed the Chairman's contribution with the Chairman.

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

RE-APPOINTMENT OF DIRECTORS AND NOTICE PERIODS

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

ADVICE

Peel Hunt LLP provided broking and advisory services during the year and Instinctif LLP provided public relations advice. In addition, Rothschild & Co and Travers Smith LLP provided advice in connection with the Company's financing arrangements.

INTERNAL CONTROL

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

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

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

INVESTOR RELATIONS

The Board believes in an open and regular dialogue with its shareholders and receives regular advice on best practice from its advisors. Information is provided to shareholders in the interim and annual financial statements. The Chief Executive and Chief Financial Officer make an annual presentation of the Group's results to professional investors and analysts. This presentation is simultaneously posted on the Company's website.

The Board offers to hold individual briefings with its major shareholders and twice a year the Chairman, Chief Executive and Chief Financial Officer meet with the Family Council, which was established in 2014 to improve communications with major family shareholders, to make presentations on the Company's performance. The Chairman and Chief Executive discuss governance and strategy with major shareholders and the Board receives updates on these meetings.

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

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

RICHARD OLDFIELD
Chairman

AUDIT COMMITTEE REPORT

BILL BRETT
Chair of Audit Committee

OVERVIEW

The Committee consists of the Non-Executive Directors and is chaired by Bill Brett. We held four meetings during the 52 weeks to 25 June 2022. The attendance of members at these meetings can be seen on page 54. Periodically the Group auditor, Chief Executive and Chief Financial Officer attend meetings by invitation. During any meeting with the external auditors it is the policy of the Committee that the non-executive members meet with the Group auditor with neither the Chief Executive nor the Chief Financial Officer present.

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

SIGNIFICANT FINANCIAL JUDGEMENTS

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

Impairment of non-current assets

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

Designation of underlying and non-underlying items with a particular focus on the COVID-19 pandemic
Certain items are separately disclosed to allow the better understanding of the trading performance of the Group. The Committee considered management's judgement in determining which items should be disclosed in this manner and whether the methodology and treatment were consistent with the Group's accounting policies. The items excluded from underlying results are considered reasonable.

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

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

AUDITOR

Following a formal audit tender process, BDO LLP was appointed as the Group's auditor in 2021. Their performance is reviewed by the Committee which considers their effectiveness, independence and partner rotation. This is the second year of Mark Edwards' tenure as audit engagement partner.

The auditors presented their strategy to the Committee ahead of the audit in June 2022. Subsequently the auditors presented their findings and conclusions from the audit to the Committee in September 2022.

In relation to 2022, BDO LLP provided audit services in respect of the Group accounts of £160,000. No other services were provided by the auditor.

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

BILL BRETT
Chair of Audit Committee

"

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

REMUNERATION COMMITTEE REPORT

HILARY RIVA
Chair of Remuneration Committee

COMMITTEE AND ITS RESPONSIBILITIES

The Remuneration Committee comprises the Non-Executive Directors - Richard Oldfield, Bill Brett, Kevin Georgel - and is chaired by Hilary Riva. The Chief Executive attends the meetings by invitation. The work of the Committee is set out in its terms of reference which are available on the Company's website. The Committee met six times during the period and the attendance for each member is set out in the table on page 54.

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

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

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

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

EXECUTIVE DIRECTOR REMUNERATION

Salary levels for Executive Directors are reviewed annually in line with the overall Company pay review process.
The annual pay review for Executive Directors for the year commencing July 2021 was deferred until October 2021 to align with the point at which the Company ceased receiving Government COVID-19 grants. At this point, the Directors were awarded a pay increase of 2.2% in line with the Company-wide award made to all employees in July 2021. Base salaries for Executive Directors have been increased by 4% for the financial year commencing July 2022 in line with the increase for the wider workforce.

For performance-related pay, the Remuneration Committee has considered whether the various components remain appropriate and has concluded that at present the overall framework should continue to apply but with the modification as set out below.

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

- **Annual Bonus -** A cash bonus scheme providing for annual bonuses based on a series of financial performance and non-financial targets. These targets are set at the start of the financial year and performance evaluated after the financial year is complete. For the year to June 2022, the maximum value of this bonus was up to 30% of salary. The Committee considered the performance of the business against the targets set, the recovery in the performance of the Company and the contribution of individual Executive Directors and their exceptional leadership - particularly that of the Chief Executive - over the past twenty-four months and has applied its discretion in assessing the award for each Executive Director. Taking these factors into account, the Committee determined that the Chief Executive should receive a bonus of 30% of base salary. Bonuses for the other Executive Directors are: Chief Financial Officer - 23% of base salary, Property & Services Director - 22% of base salary and Retail & Tenanted Pubs Operations Director - 15% of base salary. These awards were also made in the context that given the uncertainties faced by the Company in 2021, it was considered inappropriate to pay cash bonuses in that year.

  For the financial year to June 2023, taking into account market practice for other companies of similar size and complexity, the annual bonus for the Chief Executive will be increased to a maximum value of 75% of salary, and to a maximum value of 50% of salary for all other Executive Directors. 65% of the award will be assessed against financial targets based on Underlying profit before tax and 35% on team and individual non-financial targets.

- **Long-term incentive -** Secondary options over ordinary shares granted annually to a value of up to 70% of salary in accordance with the rules of the 2015 Restricted Share Scheme. Under this scheme options are granted every year but only vest three years after grant by reference to performance in underlying earnings per share, net asset value plus dividends per share and total shareholder return over the three-year period. Executive Directors are expected not to sell the vested shares for a further two years. During the year Executive Directors were granted awards under the scheme as detailed on page 61.

  As a result of the impact of the COVID-19 pandemic on the Company's trading, share options granted in October 2018, based on performance in the financial year ending June 2021, have been forfeited.

  Share options granted in October 2019, based on performance in the financial year ending June 2022, will be reviewed in October 2022, are likely to be forfeited.

  For the financial year to June 2023, taking into account market practice for other companies of a similar size and complexity, the maximum value of options over ordinary shares granted for the Chief Executive will be increased to a maximum value of up to 75% of salary. Awards for the other Executive Directors will remain at 70% of base salary. Vesting will continue to be determined by reference to performance in underlying earnings per share, net asset value plus dividends per share and total shareholder return over the three-year period on performance to the financial year ending June 2025.

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

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

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

In addition to these incentives, Executive Directors are free to participate in the All Employee Share Incentive Plan (SIP). This scheme is open to all employees with 18 months' service at the date of award and provides a free award of shares based on length of service and salary. The maximum award available to any employee is £3,600 per annum. No award was made in 2020, 2021 or 2022 as a result of the impact of the COVID-19 pandemic.

NON-EXECUTIVE FEES

Non-Executive Directors receive fees which are reviewed annually by the Board in line with the overall Company pay review process. The last review of Non-Executive fees took place in July 2019 and they took no further increase until July 2022. They took a voluntary fee reduction of 20% from 1 July to 30 October 2020 and then from 1 December 2020 to 12 April 2021. The Chairman and Non-Executive Directors were awarded a fee increase of 4.0% in line with the Company and Executive Directors in July 2022. They do not participate in any performance-related arrangements.

REMUNERATION COMMITTEE REPORT CONTINUED

EXECUTIVE DIRECTOR REMUNERATION (AUDITED INFORMATION)

The table below shows a breakdown of the Executive Director remuneration for the 52 weeks to 25 June 2022, together with comparative figures for the 52 weeks to 26 June 2021.

	Jonathan Neame		George Barnes		Nigel Bunting		Mark Rider	
Group and Company	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000	**2022 £'000**	2021 £'000
Salary[1]	**272**	254	**188**	175	**200**	187	**245**	207
Annual bonus[2]	**82**	-	**42**	-	**30**	-	**56**	-
Salary in lieu of pension contributions[3]	**68**	67	**47**	46	**46**	45	**39**	34
Taxable benefits[4]	**24**	35	**9**	10	**32**	33	**9**	17
Share Incentive Plan[5]	**-**	-	**-**	-	**-**	-	**-**	-
Directors emoluments	**446**	356	**286**	231	**308**	265	**349**	258
Primary and secondary share options vesting in the year[6]	**-**	10	**-**	7	**-**	7	**-**	8
Pension contributions	**-**	-	**-**	-	**-**	-	**10**	10
	446	366	**286**	238	**308**	272	**359**	276

The number of Directors who:	**52 weeks ended 25 June 2022**	52 weeks ended 26 June 2021
Had pension benefits accruing under money purchase schemes	**4**	4
Exercised options over shares in the scheme	**1**	2
Had awards receivable in the form of shares under a long-term incentive plan	**4**	4

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

1. The average pay increase for Executive Directors for the period 1 July 2021 to 30 June 2022 was 4.7%. There was no salary increase awarded for the 2021 financial year. The salary increase for the highest paid Director was 2.2%. During the periods November 2020 and 26 January to 21 February 2021, the Executive Directors took a 20% pay cut to support the Company during the COVID-19 lockdowns.
2. The annual bonus accrued in 2022 relates to performance in the 2022 financial year and will be paid in September 2022. No bonus was accrued in 2021 relating to performance in that financial year.
3. The highest paid Director and two other Executive Directors are not contributing members of the Company pension scheme. In addition, the pension contributions for the remaining Executive Director are capped.
4. Taxable benefits relate to car allowances, private medical insurance and an allowance against purchases of Shepherd Neame products.
5. SIP benefit is calculated as the share price at the year end multiplied by the number of shares awarded in the year.
6. Option benefit is calculated as the share price at the date the shares vest (less the exercise price) multiplied by the number of options vesting in the year. The vesting of the primary share options is conditional upon Directors remaining in employment with the Company for three years from the date of grant of the options. The vesting of the secondary share options is conditional upon the achievement of certain performance criteria in the financial years ending in the three years following the grant, and exercise of options is conditional upon Directors remaining in employment with the Company for three years from the date of grant of the options.

   In 2022, options were exercised by one Director over 1,787 shares (2021: two Directors over 3,584 shares). The aggregate gross gain, not included in the table above, made by this Director on the exercise of share options was £13,581 (2021: £19,000).

Options exercised by the highest paid Director are included in these numbers. The shares exercised in 2022 were exercised by the highest paid director. He did not exercise any options in 2021.

NON-EXECUTIVE DIRECTOR REMUNERATION (AUDITED INFORMATION)

The table below shows a single remuneration figure of all services for the 52 weeks to 25 June 2022, together with comparative figures for the 52 weeks to 26 June 2021.

	2022			2021		
Group and Company	**Fees[1] £'000**	**Benefits[2] £'000**	**Total £'000**	Fees[1] £'000	Benefits[2] £'000	Total £'000
Miles Templeman[3]	**-**	**-**	**-**	39	-	39
Richard Oldfield[3]	**75**	**1**	**76**	49	1	50
Bill Brett	**37**	**-**	**37**	31	-	31
Hilary Riva	**37**	**-**	**37**	31	-	31
Kevin Georgel[4]	**37**	**-**	**37**	19	-	19

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

SHARE AWARDS MADE DURING THE FINANCIAL YEAR (AUDITED INFORMATION)

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

Group and Company	Type of award	Basis of award (maximum)	Number of shares (maximum)	Face value (maximum)
Jonathan Neame	Secondary options	70% of salary	41,518	£191,730
George Barnes	Secondary options	70% of salary	28,629	£132,209
Nigel Bunting	Secondary options	70% of salary	30,483	£140,770
Mark Rider	Secondary options	70% of salary	33,870	£171,500

The table shows the maximum value and the number of shares awarded. The award was made on 9 December 2021 and the number of shares was calculated using the share price at that date of £9.20 less the option price of £0.50.

The award carries performance targets over a three-year reference period ending June 2024, and is subject to gateway criteria. Performance will be assessed in 2024 to establish the percentage of the award that will vest.

GOVERNANCE

DETAILS OF THE EXECUTIVE DIRECTORS SHARE AWARDS (AUDITED INFORMATION)

Subject to performance conditions being met, options over the Company's ordinary shares held by Directors at 25 June 2022 (26 June 2021) are as follows:

	At 2021	Granted	Exercised	Forfeited	At 2022	Note	Exercise price £	Date from which exercisable	Expiry date
George Barnes	12,312	-	-	(12,312)	-	2	0.50	19/10/21	19/10/28
	11,421	-	-	-	**11,421**	2	0.50	18/10/22	18/10/29
	28,629	-	-		**28,629**	2	0.50	04/12/23	04/12/30
	-	15,196	-	-	**15,196**	2	0.50	09/12/24	09/12/31
	52,362	15,196	-	(12,312)	**55,246**				
Nigel Bunting	13,110	-	-	(13,110)	-	2	0.50	19/10/21	19/10/28
	12,161	-	-	-	**12,161**	2	0.50	18/10/22	18/10/29
	30,483	-	-	-	**30,483**	2	0.50	04/12/23	04/12/30
	-	16,180	-	-	**16,180**	2	0.50	09/12/24	09/12/31
	55,754	16,180	-	(13,110)	**58,824**				
Jonathan Neame	1,787	-	(1,787)	-	-	1	0.50	13/10/20	13/10/27
	17,856	-	-	(17,856)	-	2	0.50	19/10/21	19/10/28
	16,563	-	-	-	**16,563**	2	0.50	18/10/22	18/10/29
	41,518	-	-	-	**41,518**	2	0.50	04/12/23	04/12/30
	-	22,038	-	-	**22,038**	2	0.50	09/12/24	09/12/31
	77,724	22,038	(1,787)	(17,856)	**80,119**				
Mark Rider	1,458	-	-	-	**1,458**	1	0.50	13/10/20	13/10/27
	14,566	-	-	(14,566)	-	2	0.50	19/10/21	19/10/28
	13,512	-	-	-	**13,512**	2	0.50	18/10/22	18/10/29
	33,870	-	-	-	**33,870**	2	0.50	04/12/23	04/12/30
	-	19,713	-	-	**19,713**	2	0.50	09/12/24	09/12/31
	63,406	19,713	-	(14,566)	**68,553**				
	249,246	73,127	(1,787)	(57,844)	**262,742**				

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

The exercise of the primary share options is conditional upon Directors remaining in employment with the Company for three years from the date of grant of the options. The exercise of the secondary share options is conditional upon the achievement of certain performance criteria in the financial years ending in the three years following the grant and upon Directors remaining in employment with the Company for three years from the date of grant of the options.

The market price of shares at 25 June 2022 was £8.05 (26 June 2021: £10.15) and the range during the year was £8.05 to £10.15 (2021: £5.25 to £10.35).

DIRECTORS' INTERESTS (AUDITED INFORMATION)

The interests of the current Directors in the Company's shares at 25 June 2022 (26 June 2021) are as follows:

		Beneficial	Ordinary shares as trustees	Under SIP
George Barnes	**2022**	**52,133**	**-**	**3,546**
	2021	52,133	-	3,546
Nigel Bunting	**2022**	**22,388**	**-**	**1,197**
	2021	22,388	-	1,197
Bill Brett	**2022**	**27,510**	**-**	**-**
	2021	27,510	-	-
Jonathan Neame	**2022**	**152,112**	**458,106**	**3,181**
	2021	155,825	461,706	3,181
Richard Oldfield	**2022**	**74,500**	**-**	**-**
	2021	34,250	-	-
Mark Rider	**2022**	**6,495**	**-**	**2,023**
	2021	6,495	-	2,023

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

HILARY RIVA
Chair of Remuneration Committee

DIRECTORS' RESPONSIBILITIES STATEMENT

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, subject to any material departures disclosed and explained in the financial statements; 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 requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

WEBSITE PUBLICATION

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

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The Directors who held office as at the date of approval of this Directors' Report confirm that:

- so far as they are each aware, there is no relevant audit information (as defined) in Section 418(2) of the Companies Act 2006) of which the Group's auditor is unaware; and
- each Director has taken all the steps that they ought to have taken as a Director to be aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

FINANCIAL STATEMENTS

IN THIS SECTION

OTHER INFORMATION

RECRUITING NEW AUDIENCES

Shepherd Neame is the official beer of Margate's legendary Dreamland. Our brands are available throughout the park and in the exclusive surroundings of the new Bear Island VIP Bar. Our beers are the perfect fit for guests as they enjoy the fantastic line-up of live events.

ENHANCING THE CUSTOMER EXPERIENCE

As Britain's oldest brewer we have teamed up with Britain's oldest tea merchant, Twinings. We now serve their premium range of teas at selected pubs and hotels across our estate. To celebrate the partnership, our food team worked with Twinings' master blenders to create an exclusive afternoon tea tasting menu, launched in April this year, with teas carefully selected to match the sweet and savoury treats on offer.

NATIONAL RECOGNITION FOR OUR BUSINESS

Shepherd Neame has been honoured at a local and national level during the past 12 months. We were named Small Cap Network AQSE Company of the Year in July, and took the trophy for Outstanding COVID Response at the Kent Excellence in Business Awards in October. Our beers have also received numerous accolades: most recently three medals in the World Beer Awards and a record seven accolades in the British Bottlers' Institute awards - more than any other brewer.

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

OPINION ON THE FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 25 June 2022 and of the Group's profit for the 52-week period then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Shepherd Neame Limited (the 'Parent Company') and its subsidiaries (the 'Group') for the 52 week period ended 25 June 2022 which comprise the Group income statement, the Group statement of comprehensive income, the Group and Parent Company statement of financial position, the Group and Parent Company statement of changes in equity, the Group and Parent Company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Going concern was considered a key audit matter in the current year; our response to the key audit matter together with our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting is included in the Key audit matters section of our report.

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

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

OVERVIEW

Coverage

- 100% (2021: 100%) of Group profit before tax
- 100% (2021: 100%) of Group revenue
- 100% (2021: 100%) of Group total assets

Key audit matters

	2022	2021
Impairment of Property, plant and equipment and right of use assets	✓	✓
Valuation of investment properties	✓	✓
Going concern	✓	✓
Recognition of leases under IFRS 16	✗	✓

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

Materiality

Group financial statements as a whole

£1.6m (2021:£1.6m) based on 0.45% (2021: 0.43%) of total assets.

Specific materiality for items impacting working capital and operating profit

£800,000 (2021: £800,000) being 50% (2021: 50%) of materiality.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

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

The Group's operations are all conducted in the United Kingdom. The Group's result for the period is the same as the Parent Company's result for the period and the Parent Company makes up 100% of the Group's assets and liabilities. We did not identify any significant components other than the Parent Company and the Group audit team performed an audit of the complete financial information of the Parent Company representing 100% of the Group's results for the period. The non-significant components were subject to analytical review procedures by the Group audit team.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the scope of our audit addressed the key audit matter
Impairment of Property, plant and equipment (PPE) and right of use assets *Note 1l sets out the accounting policy and note 15 sets out the impairment summary, disclosures and sensitivities.* At 25 June 2022 the carrying value of PPE is £275m and the carrying value of right of use assets is £44m. The continued uncertainties over the current economic environment caused by the Coronavirus pandemic, the Ukraine conflict and the broader macroeconomic environment has been identified as an indicator of impairment by management. Impairment assessments for these assets is performed on the basis of each individual cash generating unit - i.e. each individual pub site. There is a risk that, given the uncertainties over future trading caused by the macroeconomic climate that pubs may not achieve the anticipated business performance to support their carrying value. Significant judgement is required in forecasting future cash flows of each pub, including the long term growth rate and the discount rate applied to the future cash flows, and then additional judgement is required in assessing the level of detail to provide in the narrative disclosures to ensure readers of the financial statements have sufficient information. Given the degree of judgement exercised by management we considered this to be a audit matter.	Our audit procedures included: Accuracy of impairment model • Assessed the mechanical accuracy of the impairment model and the methodology applied by management, including the appropriate identification of cash generating units, ensuring consistency with the requirements of IAS 36. Assessment of assumptions within the cashflow forecasts • Analysed management's forecasts underlying the impairment review against past and current performance and against expectations of future performance within the hospitality sector in the UK. • Assessed the reasonableness of management's growth assumptions with reference to post period end trading information. Assessment of the discount rate assumptions • We engaged BDO valuation experts to assist us in independently calculating the discount rate with reference to external market data for comparable companies and comparing it to the discount rate applied in the models by management. • We evaluated the independence, expertise and output of the third party expert engaged by management to assist them in assessing the discount rate calculation. Disclosures • Evaluated the appropriateness of the sensitivities prepared by management by comparing those to our own independently derived sensitivities. • Assessed the completeness and accuracy of disclosures within the financial statements in accordance with IAS 36. **Key observations** Based on our procedures we concluded that the impairment charges have been appropriately determined. We concluded appropriate disclosures had been included by management including sensitivities of the impact of changes in the underlying assumptions.

Key audit matter	How the scope of our audit addressed the key audit matter
Valuation of investment properties *Note 1g sets out the accounting policy and note 16 sets out the carrying value and related movements in the period.* The Group owns a portfolio of property and development land which is valued at £6.7m at 25 June 2022. The valuation of the investment and development property portfolio involves a number of assumptions including capitalisation yields and estimated rental values and is subject to a high degree of estimation uncertainty. This was therefore considered to be an area of significant risk for the audit and a key audit matter.	Our audit procedures included: Assessment of the assumptions applied • Selected a sample of properties and confirmed the accuracy of the information included in the valuation by agreeing rental information to the underlying lease. • Confirmed the accuracy of the investment property listing by reconciling all movements in the year and tracing these back to records held by the Group and the prior year audited figures. • Comparing the valuations against known market conditions through benchmarking to determine if the fair value appears reasonable. • We involved our BDO valuation experts, including RICS qualified valuers, to assist the audit team in assessing the appropriateness of the valuation methodologies and assumptions applied by benchmarking these to available market data. • For properties where the valuation was outside our expectation based on our benchmarking, we corroborated the value attributed with supporting documentation. • We compared valuations to disposals made post period end to assess the differences and determine if these are reasonable. Disclosures • We assessed the disclosures provided to determine if they were compliant with the financial reporting requirements and consistent with the calculations and assumptions used by management. **Key observations** We considered the valuation of the portfolio to be within an acceptable range and the disclosures included within the financial statements to be in line with requirements.
Going concern *Note 1a sets out the basis of preparation and the Directors' rationale for preparing the financial statements on a going concern basis.* The Group works in a sector which has been severely impacted by the Covid 19 pandemic and is now operating with an increasing cost base and an uncertain macroeconomic environment, including the risk of reduced consumer spending. The Group has covenants within its banking arrangements and must consider both the liquidity of the group and the ability to meet covenants, and the likely outcomes if it were not able to do so, when considering the going concern basis of preparation. In addition, the revolving credit facility that the Group operate within is due for refinancing in October 2023. The disclosures surrounding the going concern assumption must allow a reader to adequately understand why the directors' have formed their view on the appropriateness of the going concern basis of preparation. As going concern is an area of significant judgement, and taking into account the factors noted, we have considered this to be a matter of most significance in our audit and therefore a key audit matter.	Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included: Understanding of the Board's assessment: We confirmed our understanding of the Parent Company's and therefore the Group's going concern assessment process and confirmed the period of time over which the assessment has taken place. Assessment of assumptions within the projected cashflows: We evaluated the reasonableness of the assumptions modelled within the Board approved going concern forecasts, which covered the period to December 2023 and included the consideration of the continued impact of the pandemic and recent cost increases (including to energy costs and national minimum wage increases), by comparing these forecasts to how the business has traded prior to the pandemic, since the easing of restrictions on trading as a result of the pandemic, and in the period since the Ukraine conflict and the increased inflationary environment. Financing: We confirmed that the Group and Parent Company had financing facilities in place for at least 12 months after the approval of the financial statements and the support for the confidence the Board have in being able to successfully refinance the revolving credit facility it holds which matures on 30 October 2023. We also confirmed that the forecasts supported the calculations demonstrating covenant compliance and headroom throughout the review period. Sensitivity analysis: We considered the reasonableness of the sensitivities applied to the forecasts to model downside scenarios including reduced revenue and increased costs based on industry expectations. Disclosures: We assessed the adequacy of the disclosures in relation to the risks posed and scenarios the Group and Parent Company has considered in reaching their going concern assessment. **Key observations** Refer to the Conclusions relating to going concern section of our report.

OUR APPLICATION OF MATERIALITY

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

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

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

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

Materiality

We determined materiality for the Group to be £1.6m based on relevant metrics used by investors and other users of the financial statements in the context of the current year. To form the basis of this assessment we considered the total assets of the group and applied a 0.45% value to this.

In the prior year the materiality for the Group was £1.6m, based on 0.43% of total assets.

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

Specific materiality

In order to ensure an appropriate amount of work was performed on balances which are of interest to users of the financial statements, in spite of the disrupted trading pattern in the year, we determined a specific materiality of £800,000 (2021: £800,000) for items which are included in operating profit and related to working capital. This figure was set at 50% (2021: 50%) of materiality.

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

Performance materiality

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 65% of materiality and specific materiality as appropriate (being £1m and £0.5m respectively). This is an increase from 50% in the prior year which was the first year BDO LLP audited the entity (being £0.8m and £0.4m respectively).

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

Reporting threshold

We agreed with the audit committee that we would report to them all individual audit differences in excess of £40,000 (£32,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

OTHER COMPANIES ACT 2006 REPORTING

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

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: • the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: • adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Parent Company financial statements are not in agreement with the accounting records and returns; or • certain disclosures of Directors' remuneration specified by law are not made; or • we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

USE OF OUR REPORT

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

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

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

27 September 2022

GROUP INCOME STATEMENT

FOR THE 52 WEEKS ENDED 25 JUNE 2022

		52 weeks ended 25 June 2022			52 weeks ended 26 June 2021		
	Note	Underlying results £'000	Items excluded from underlying results £'000	Total statutory £'000	Underlying results £'000	Items excluded from underlying results £'000	Total statutory £'000
Revenue	3, 4	**151,538**	**-**	**151,538**	86,884	-	86,884
Other income	3, 5	**383**	**-**	**383**	2,839	-	2,839
Operating charges	5, 7	**(139,028)**	**(2,470)**	**(141,498)**	(93,963)	(6,307)	(100,270)
Operating profit/(loss)	3	**12,893**	**(2,470)**	**10,423**	(4,240)	(6,307)	(10,547)
Net finance costs	6, 7	**(5,599)**	**(83)**	**(5,682)**	(5,817)	(471)	(6,288)
Fair value movements on financial instruments charged to profit and loss	6, 7	**-**	**397**	**397**	-	115	115
Total net finance costs		**(5,599)**	**314**	**(5,285)**	(5,817)	(356)	(6,173)
Profit on disposal of property	7	**-**	**1,709**	**1,709**	-	221	221
Investment property fair value movements	7	**-**	**520**	**520**	-	87	87
Profit/(loss) before taxation		**7,294**	**73**	**7,367**	(10,057)	(6,355)	(16,412)
Taxation	8	**(1,462)**	**375**	**(1,087)**	1,868	(3,247)	(1,379)
Profit/(loss) after taxation		**5,832**	**448**	**6,280**	(8,189)	(9,602)	(17,791)
Earnings/(loss) per 50p ordinary share	10						
Basic				**42.5p**			(120.5)p
Diluted				**42.3p**			(120.5)p

All results are derived from continuing activities.

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE 52 WEEKS ENDED 25 JUNE 2022

	Note	52 weeks ended 25 June 2022 £'000	52 weeks ended 26 June 2021 £'000
Profit/(loss) after taxation		**6,280**	(17,791)
Items that may be reclassified subsequently to profit or loss:			
Gains arising on cash flow hedges during the period	26	**2,596**	1,605
Income tax relating to these items	8	**(561)**	(166)
Items that will not be reclassified subsequently to profit or loss:			
Unrealised gain on revaluation of property	14	**-**	31
Other comprehensive gains		**2,035**	1,470
Total comprehensive income/(loss)		**8,315**	(16,321)

GROUP AND PARENT COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 25 JUNE 2022

	Note	Group 25 June 2022 £'000	Group 26 June 2021 £'000	Company 25 June 2022 £'000	Company 26 June 2021 £'000
Non-current assets					
Goodwill and intangible assets	13	**375**	328	**375**	328
Property, plant and equipment	14	**274,651**	285,063	**274,651**	285,063
Investment properties	16	**6,716**	6,068	**6,716**	6,068
Other non-current assets	18, 19	**–**	5	**22**	27
Right-of-use assets	20	**44,235**	47,311	**44,235**	47,311
		325,977	338,775	**325,999**	338,797
Current assets					
Inventories	21	**8,067**	7,320	**8,067**	7,320
Trade and other receivables	22	**17,685**	15,360	**17,685**	15,360
Cash and cash equivalents		**5,579**	5,560	**5,579**	5,560
Assets held for sale	23	**1,099**	2,419	**1,099**	2,419
		32,430	30,659	**32,430**	30,659
Current liabilities					
Trade and other payables	24	**(27,222)**	(26,383)	**(27,244)**	(26,405)
Borrowings	25	**(1,600)**	(1,600)	**(1,600)**	(1,600)
Lease liabilities	20	**(2,780)**	(5,100)	**(2,780)**	(5,100)
		(31,602)	(33,083)	**(31,624)**	(33,105)
Net current assets/(liabilities)		**828**	(2,424)	**806**	(2,446)
Total assets less current liabilities		**326,805**	336,351	**326,805**	336,351
Non-current liabilities					
Lease liabilities	20	**(53,106)**	(53,226)	**(53,106)**	(53,226)
Borrowings	25	**(79,270)**	(94,765)	**(79,270)**	(94,765)
Derivative financial instruments	26	**(2,353)**	(5,414)	**(2,353)**	(5,414)
Provisions	28	**–**	(498)	**–**	(498)
Deferred tax liabilities	29	**(14,749)**	(13,101)	**(14,749)**	(13,101)
		(149,478)	(167,004)	**(149,478)**	(167,004)
Net assets		**177,327**	169,347	**177,327**	169,347
Capital and reserves					
Share capital	30	**7,429**	7,429	**7,429**	7,429
Share premium account	31	**1,099**	1,099	**1,099**	1,099
Revaluation reserve	31	**31**	31	**31**	31
Own shares	31	**(660)**	(1,010)	**(660)**	(1,010)
Hedging reserve	31	**(1,489)**	(3,524)	**(1,489)**	(3,524)
Retained earnings	31	**170,917**	165,322	**170,917**	165,322
Total equity		**177,327**	169,347	**177,327**	169,347

The profit for the year of the Company was £6,280,000 (2021: loss of £17,791,000). Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own Income Statement.

These accounts for Shepherd Neame Limited (registered in England number 0138256) were approved and authorised for issue by the Board of Directors on 27 September 2022 and were signed on its behalf by:

RICHARD OLDFIELD
Chairman

JONATHAN NEAME
Chief Executive

GROUP AND PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE 52 WEEKS ENDED 25 JUNE 2022

	Note	Share capital £'000	Share premium account £'000	Revaluation reserve £'000	Own shares £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000
Balance at 27 June 2020		**7,429**	**1,099**	**17**	**(1,328)**	**(4,963)**	**182,982**	**185,236**
Loss for the financial year		-	-	-	-	-	(17,791)	(17,791)
Gains arising on cash flow hedges during the year	26	-	-	-	-	1,605	-	1,605
Gains on revaluation of property, plant and equipment	14	-	-	31	-	-	-	31
Tax relating to components of other comprehensive income	8	-	-	-	-	(166)	-	(166)
Total comprehensive income/(loss)		**-**	**-**	**31**	**-**	**1,439**	**(17,791)**	**(16,321)**
Revaluation reserve realised on disposal of properties		-	-	(17)	-	-	17	-
Accrued share-based payments	36	-	-	-	-	-	428	428
Distribution of own shares	31	-	-	-	125	-	(121)	4
Unconditionally vested share awards		-	-	-	193	-	(193)	-
Balance at 26 June 2021		**7,429**	**1,099**	**31**	**(1,010)**	**(3,524)**	**165,322**	**169,347**
Profit for the financial year		-	-	-	-	-	6,280	6,280
Gains arising on cash flow hedges during the year	26	-	-	-	-	2,596	-	2,596
Tax relating to components of other comprehensive income	8	-	-	-	-	(561)	-	(561)
Total comprehensive income		**-**	**-**	**-**	**-**	**2,035**	**6,280**	**8,315**
Ordinary dividends paid		-	-	-	-	-	(520)	(520)
Accrued share-based payments	36	-	-	-	-	-	183	183
Distribution of own shares	31	-	-	-	101	-	(99)	2
Unconditionally vested share awards		-	-	-	249	-	(249)	-
Balance at 25 June 2022		**7,429**	**1,099**	**31**	**(660)**	**(1,489)**	**170,917**	**177,327**

There are no differences between the Parent Company Statement of Changes in Equity and the Group Statement of Changes in Equity above for the 52 weeks to 25 June 2022.

GROUP AND PARENT COMPANY STATEMENT OF CASH FLOWS

FOR THE 52 WEEKS ENDED 25 JUNE 2022

	Note	£'000	52 weeks ended 25 June 2022 £'000	£'000	52 weeks ended 26 June 2021 £'000
Cash flows from operating activities					
Cash generated from operations	32a	**21,141**		1,631	
Income taxes received		**-**		195	
Net cash generated by operating activities			**21,141**		1,826
Cash flows from investing activities					
Proceeds from disposal of property, plant and equipment		**5,792**		383	
Proceeds from disposal of investment property		**1**		658	
Proceeds from disposal of assets held for sale		**3,292**		3,485	
Purchases of property, equipment and lease premiums		**(5,304)**		(3,878)	
Purchase of intangible assets		**(129)**		-	
Net cash generated by investing activities			**3,652**		648
Cash flows from financing activities					
Dividends paid	9	**(520)**		-	
Interest paid		**(4,436)**		(4,796)	
Payments of principal portion of lease liabilities	20	**(4,220)**		(3,930)	
Repayment of borrowings	32c	**(15,600)**		-	
Proceeds from borrowings	32c	**-**		2,000	
Share option proceeds		**2**		5	
Net cash used in financing activities			**(24,774)**		(6,721)
Net movement in cash and cash equivalents			**19**		(4,247)
Cash and cash equivalents at beginning of the period			**5,560**		9,807
Cash and cash equivalents at end of the period			**5,579**		5,560

There are no differences between the Parent Company Statement of Cash Flows and the Group Statement of Cash Flows above for the 52 weeks to 25 June 2022.

NOTES TO THE FINANCIAL STATEMENTS

25 JUNE 2022

1 SIGNIFICANT ACCOUNTING POLICIES

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

a General information and basis of preparation

Shepherd Neame Limited (the Company) is a company incorporated in the United Kingdom under the Companies Act. The Company is a private company limited by shares and is registered in England and Wales. The registered office is 17 Court Street, Faversham, Kent ME13 7AX. The principal activities of the Company and its subsidiaries (the Group) and the nature of the Group's operations are set out in the Report of the Directors on page 50. Shepherd Neame Limited is the ultimate controlling party of the Group.

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

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

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

Adoption of new standards

The Group applied for the first time the Interest Rate Benchmark Reform (Phase 2), effective in the current period. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Interest rate benchmark reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendment provides temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free rate (RFR). In the case of the Group, London Interbank Offered Rate (LIBOR)-based interest rates have been replaced by Sterling Overnight Index Average (SONIA) rates during the period. The amendment includes the following practical expedients which the Group has taken advantage of on transition:

- a practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest on the basis that the change was a direct consequence of the reform and that contractual cash flows are economically equivalent to those on the previous basis preceding the change;
- permission for changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued; and
- provision of temporary exemption for entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

This amendments did not have a material impact on the Group.

Other standards

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

- Amendments to IAS 16: 'Property Plant and Equipment: Proceeds Before Intended Use', effective 1 January 2022
- Amendments to IAS 37: 'Onerous Contracts – Costs of Fulfilling a Contract', effective 1 January 2022
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41), effective 1 January 2022
- Amendments to IAS 1: 'Classification of Liabilities as Current or Non-Current', effective 1 January 2023
- Amendments to IAS 8: 'Definitions of Accounting Estimates', effective 1 January 2023
- Amendments to IAS 12: 'Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction', effective 1 January 2023.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2-46 and include the section entitled 'Principal Risks and Uncertainties' on pages 40-43. The Financial Review section on pages 34-39 describes the financial position of the Group, its cash flows and liquidity position. In addition, note 27 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, its borrowing facilities, and its exposure to credit risk and liquidity risk.

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Going concern

The Group has prepared the 2022 financial statements on a going concern basis. When assessing the ability of the Group to continue as a going concern, the Board has considered the Group's financing arrangements, the continuing risks arising from the COVID-19 pandemic as well as other principal risks and uncertainties as disclosed on pages 40-43, notably the cost and inflationary pressures impacting the whole of the hospitality sector and the well-documented supply issues affecting a wide range of industries.

The Board is confident that the Group has sufficient internally generated cash inflows and undrawn bank facilities to meet all of its needs for the foreseeable future. At 25 June 2022, the Group had existing facilities of £105.9m, with headroom on facilities, excluding cash held, of £24.5m.

As part of the directors' consideration of the appropriateness of adopting the going concern basis, the Group has modelled two scenarios for the going concern period, the base case and the downside scenario. The base case is the Board approved 2023 financial year budget as well as the first quarter from the 2024 financial plan which forms part of the Board approved five-year plan. Sales are assumed to largely recover to financial year 2019 levels. Operating margins in the 2023 financial year are assumed to be lower than those pre-COVID, with notable cost inflation across energy related products and services, food and labour costs. Under the base case scenario, the Group continues to remain profitable and operates well within its covenants for the going concern assessment period.

The Group has also modelled a downside case scenario whereby sales drop by 5% from that assumed in the base case. Utility pricing has been held at the base case rates given the Group has forward bought utilities to September 2024 in the brewery. In our retail pubs we are fully fixed on utilities through to March 2023 and fixed on two thirds of our anticipated requirement through to September 2024. Under the downside scenario modelled, the Group would still have sufficient resources and headroom on its covenants throughout the assessment period.

After the reporting period, the Company has taken an additional private placement of loan notes for £20m with BAE Systems Pension Funds Investment Management Ltd. Further details are included in note 39. The existing revolving credit facility with Lloyds Bank plc and Santander plc matures on 30 October 2023 at which point committed facilities of £74.3m would remain in place. Based on recent conversations with lenders and the market, the Board are confident that the Group will be able to successfully refinance its revolving credit facility to provide working capital support prior to the maturity date.

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

b Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up for the 52 weeks ended 25 June 2022 (2021: 52 weeks ended 26 June 2021). A subsidiary is an entity that is controlled by the parent. The results of subsidiaries acquired or sold are consolidated for the periods from, or to, the date on which control passes.

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

c Intangible assets excluding goodwill

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

d Business combinations and goodwill

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

e Property, plant and equipment

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

Assets under construction are not depreciated until they are brought into use. The Group does not depreciate freehold land. All other tangible assets are depreciated at varying rates calculated to write off their carrying value, less estimated residual value, evenly over their expected useful life (or lease term, if shorter), as follows:

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

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

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

f Assets held for sale

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

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

g Investment properties

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

h The Company's investments in subsidiaries

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

i Leases

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

1) Group as lessee

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

i. Right-of-use assets

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

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

ii. Lease liabilities

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

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

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

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

2) Group as lessor

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

j Inventories

Inventories are valued at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Cost of own beers produced includes materials and directly attributable fixed and variable production overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average cost method. Provision is made for obsolete, slow-moving or defective items where appropriate.

k Financial instruments

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

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

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

i) Financial assets

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

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

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

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

ii) Financial liabilities

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

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

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

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

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

iii) Derivative financial instruments and hedge accounting

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

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

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

The interest rate swaps are classified as cash flow hedges because the derivative financial instruments hedge the variable interest rate risk of the cash flows associated with the recognised debt instrument measured at amortised cost (the £20.9m long-term loan to 2026).

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

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

In the current period, there has been a reform to update the benchmark interest rates across both borrowings and derivatives from LIBOR to SONIA. The Group has taken advantage of practical expedients available for the transition period as discussed in note 1.

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

l Impairment of assets

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

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

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

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

m Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

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

Current and deferred tax for the year

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

n Revenue recognition

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

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

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to each performance obligation; and
- recognise revenue when a performance obligation is satisfied by transferring a promised good or service to a customer.

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

Sale of goods

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

Accommodation sales

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

Rental income

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

Financing components

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

o Government grants and support

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

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

Coronavirus Job Retention Scheme (CJRS)

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

Government grant income

The Company received various local restriction support grants administered by local councils in response to the various restrictions placed on trading during the period. In the current period, this included Restart Grants and Omicron Hospitality and Leisure Grants. Income relating to these grants has been recognised in other income in the Income Statement.

p Borrowing costs

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

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

q Items excluded from underlying results

In addition to presenting information on an IFRS basis, the Group also presents adjusted profit/(loss) and earnings/(loss) per share information that excludes certain items and the impact of any associated tax, which can vary significantly year on year, or where the exclusion of such items can help explain the underlying performance of the Group. Adjusted profitability measures are presented excluding these items as we believe this provides both management and investors with useful additional information about the Group's performance and supports a more effective comparison of the Group's trading performance from one period to the next. Adjusted profit/(loss) and earnings/(loss) per share information is used by management to monitor business performance against not only shorter-term budgets and forecasts but also the Group's longer-term strategic plans, including its distribution policy. Note 7 provides a detailed list of items excluded from underlying results including a full reconciliation back to IFRS figures. Note 8 provides information on the tax impact of items excluded from underlying results.

r Pensions

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

s Foreign currency

Transactions expressed in foreign currencies are translated into sterling and recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the end of the reporting date are reported at the rates of exchange prevailing at that date. All differences are taken to the Income Statement.

t Dividends

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

u Share-based payments

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

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

2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Key areas of estimation and assumption

Impairment of assets

Non-financial assets are subject to impairment reviews at the end of the reporting period based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. The recoverable amount is based on the higher of the value in use and fair value less costs to dispose. Value in use is calculated from expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance as disclosed in note 15. Fair values at each reporting date are determined by the Company's own professionally qualified staff who are Royal Institution of Chartered Surveyors (RICS)-qualified.

Investment property valuations

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

Key judgements

Taxation

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

Leases

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

Items excluded from underlying results

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

3 SEGMENTAL REPORTING

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

The Group has three operating segments, which are largely organised and managed separately according to the nature of the products and services provided and the profile of their customers:

- Brewing and Brands which comprises the brewing, marketing and sales of beer and other products;
- Retail Pubs and Hotels; and
- Tenanted Pubs which comprises pubs operated by third parties under tenancy or tied lease agreements.

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

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

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

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

1. £910,000 of unallocated income (2021: £1,050,000) includes rent receivable from investment properties and other non-core trading income. Unallocated expenses primarily represent Head Office support costs.

52 weeks ended 26 June 2021	Brewing and Brands £'000	Retail Pubs and Hotels £'000	Tenanted Pubs £'000	Unallocated £'000	Total £'000
Revenue	**42,018**	**27,068**	**16,748**	**1,050**	**86,884**
Other Income	**-**	**2,839**	**-**	**-**	**2,839**
Underlying operating (loss)/profit	(1,287)	983	2,343	(6,279)	(4,240)
Items excluded from underlying results	-	(4,816)	(562)	(929)	(6,307)
Segmental operating (loss)/profit	**(1,287)**	**(3,833)**	**1,781**	**(7,208)**	**(10,547)**
Net underlying finance costs					**(5,817)**
Finance costs excluded from underlying results					**(471)**
Fair value movements on ineffective element of cash flow hedges					**115**
Profit on disposal of property					**221**
Investment property fair value movements					**87**
Loss before taxation					**(16,412)**

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

Geographical information

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

	52 weeks ended 25 June 2022 £'000	52 weeks ended 26 June 2021 £'000
Revenue		
UK	**149,011**	84,606
Rest of the World	**2,527**	2,278
	151,538	86,884

4 REVENUE

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

	52 weeks ended 25 June 2022 £'000	52 weeks ended 26 June 2021 £'000
Sale of goods and services[1]	142,296	83,707
Rental income	9,242	3,177
Revenue	**151,538**	86,884

1. Revenue in the prior year includes £609,000 received from the Government under the Eat Out to Help Out scheme.

5 OTHER INCOME AND OPERATING CHARGES

a Other income

	52 weeks ended 25 June 2022 £'000	52 weeks ended 26 June 2021 £'000
Other income[1]	383	2,839

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

b Operating charges

	Before items excluded from underlying results 52 weeks ended 25 June 2022 £'000	Items excluded from underlying results 52 weeks ended 25 June 2022 £'000	Total 52 weeks ended 25 June 2022 £'000	Total 52 weeks ended 26 June 2021 £'000
Raw materials, consumables and finished goods used	67,846	–	67,846	43,311
Change in inventories of finished goods and work in progress	(747)	–	(747)	910
Staff costs:[1]				
Wages and salaries	29,855	–	29,855	17,157
Social security costs	2,559	–	2,559	1,964
Other pension costs	1,074	–	1,074	940
Amortisation of intangible assets (note 13)	30	–	30	18
Depreciation of property, plant and equipment (note 14)	7,290	–	7,290	7,836
Depreciation of right-of-use assets (note 20)	3,160	–	3,160	3,256
Impairment of intangible assets (note 15)	–	52	52	328
Impairment of property, plant and equipment (note 15)	–	1,561	1,561	3,628
Impairment of right-of-use assets (note 15)	–	1,226	1,226	1,619
Impairment of assets held for sale (note 15)	–	24	24	134
Loss on sale of plant and equipment (excluding properties)	53	–	53	840
Property repairs	3,195	–	3,195	2,242
Rental expense in relation to short-term and low-value leases	176	–	176	153
Foreign exchange loss	2	–	2	28
Net fair value (gains)/losses on financial assets at fair value through profit or loss	(210)	–	(210)	5
Impairment of stock recognised as an expense (note 21)	399	–	399	684
Other operating charges[2]	24,346	(393)	23,953	15,217
Total operating charges	**139,028**	**2,470**	**141,498**	100,270

1. Staff costs are presented net of income received from the Coronavirus Job Retention Scheme of £300,000 (2021: £9,266,000).
2. Other operating charges primarily relate to pub and brewery overheads and administration costs.

The analysis of auditor's remuneration is as follows:

	52 weeks ended 25 June 2022 £'000	52 weeks ended 26 June 2021 £'000
Auditor's remuneration in respect of the audit of the Group's annual accounts	**160**	160
Total fees payable to auditor	**160**	160

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

6 NET FINANCE COSTS

	52 weeks ended 25 June 2022 Total statutory £'000	52 weeks ended 26 June 2021 Total statutory £'000
Finance income		
Interest income from financial assets	**-**	(1)
Finance costs		
Interest expense arising on:		
Financial liabilities at amortised cost - bank loans	**4,363**	4,575
Financial liabilities at amortised cost - lease liabilities	**1,244**	1,285
Other financial liabilities not at fair value through profit and loss	**-**	(22)
Unwinding of discounts on provisions	**(8)**	(20)
Finance costs expensed	**5,599**	5,818
Underlying net finance costs	**5,599**	5,817
Finance costs excluded from underlying results		
Cost related to putting in place CLBILS loan	**-**	201
Costs relating to the agreement of covenant waivers with our lenders	**50**	270
Costs relating to the transition from LIBOR to SONIA for sterling debt instruments	**33**	-
Ongoing fair value movements on financial instruments charged to income statement	**(397)**	(115)
Total finance costs excluded from underlying results	**(314)**	356
Net finance costs	**5,285**	6,173

7 NON-GAAP REPORTING MEASURES

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

- profit or loss on disposal of properties;
- investment property fair value movements;
- separately disclosed operating and finance charges which are either material or infrequent in nature and do not relate to the underlying performance;
- fair value movements on financial instruments charged to profit and loss; and
- taxation impacts of the above (see note 8).

	52 weeks ended 25 June 2022 £'000	52 weeks ended 26 June 2021 £'000
Underlying EBITDA	**23,428**	7,710
Depreciation and amortisation	**(10,480)**	(11,110)
Free trade loan discounts	**(2)**	-
Loss on sale of assets (excluding property)	**(53)**	(840)
Underlying operating profit/(loss)	**12,893**	(4,240)
Net underlying finance costs pre IFRS 16	**(4,355)**	(4,532)
Net underlying finance costs	**(5,599)**	(5,817)
Underlying profit/(loss) before taxation	**7,294**	(10,057)
Profit on disposal of properties	**1,709**	221
Investment property fair value movements	**520**	87
Separately disclosed operating charges:		
Impairment of intangible assets, properties, right-of-use assets and assets held for sale	**(2,863)**	(5,709)
Restructuring costs	-	(709)
Other operating charges excluded from underlying results	**393**	111
Separately disclosed finance costs:		
Costs related to putting in place CLBILS loan	-	(201)
Costs relating to the agreement of covenant waivers with our lenders	**(50)**	(270)
Costs relating to the transition from LIBOR to SONIA for sterling debt instruments	**(33)**	-
Fair value movements on financial instruments charged to profit and loss	**397**	115
Profit/(loss) before taxation	**7,367**	(16,412)

Separately disclosed operating charges

a) An impairment charge of £2,863,000 (2021: £5,709,000) in relation to seven freehold properties and eight right-of-use assets (see note 15).

b) A recovery of £159,000 (2021: £111,000) in relation to previously disclosed fraud carried out by an employee.

c) A provision of £498,000 was made in the year to 27 June 2020 in respect of potential charges relating to an inquiry opened by HMRC regarding the provision of uniforms and training to employees. The inquiry was closed by HMRC in March 2022 and the excess provision of £443,000 has been released in the period (see note 28).

d) Professional fees of £47,000 relating to two company acquisitions which completed after the year end (see note 39).

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

During the 52 weeks ended 26 June 2021, there was a one-off net charge of £709,000 in respect of restructuring costs.

Separately disclosed finance costs

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

The non-underlying finance charges for the 52 weeks ended 26 June 2021 comprise £471,000 of legal and professional fees associated with agreeing revised covenants and agreeing covenant waivers with our lenders, as well as fees associated with the CLBILS loan. These charges were offset by £115,000 credited in respect of the ineffective portion of the movement in fair value interest rate swaps.

8 TAXATION

a Tax on profit/(loss)

	52 weeks ended 25 June 2022			52 weeks ended 26 June 2021		
Tax charged/(credited) to the income statement	Underlying results £'000	Excluded from underlying results £'000	Total statutory £'000	Underlying results £'000	Excluded from underlying results £'000	Total statutory £'000
Current income tax						
Current tax on profit/(loss) for the year	-	-	-	(37)	-	(37)
Adjustments for current tax on prior periods	-	-	-	(110)	47	(63)
Total current income tax credit	-	-	-	(147)	47	(100)
Deferred income tax						
Origination and reversal of timing differences	**1,462**	**(84)**	**1,378**	(1,724)	(784)	(2,508)
Change in corporation tax rate	-	**(33)**	**(33)**	-	4,032	4,032
Adjustments for current tax on prior periods	-	**(258)**	**(258)**	3	(48)	(45)
Total deferred tax charge/(credit)	**1,462**	**(375)**	**1,087**	(1,721)	3,200	1,479
Total tax charged/(credited) to the income statement	**1,462**	**(375)**	**1,087**	(1,868)	3,247	1,379

Tax charged to other comprehensive income	2022	2021
Deferred tax		
Gains arising on cash flow hedges in the period	**493**	305
Effect of increase in future rate of corporation tax	**68**	(139)
Total tax charged to other comprehensive income	**561**	166

8 TAXATION CONTINUED

b Reconciliation of the total tax charge

	52 weeks ended 25 June 2022 £'000	52 weeks ended 26 June 2021 £'000
Profit/(loss) before income tax	**7,367**	(16,412)
Tax on Group profit/(loss) at UK standard rate of corporation tax of 19.0% (2021: 19.0%)	**1,400**	(3,118)
Expenses not deductible/(taxable) for tax purposes	**151**	(9)
Profit on sale of property less chargeable gains	**(173)**	582
Effect of a change in tax rate	**(33)**	4,032
Current and deferred tax over-provided in previous years	**(258)**	(108)
Total tax charged to the income statement	**1,087**	1,379

c Factors that may affect future tax charges

An increase in the future main corporation tax rate to 25% from 1 April 2023, from the previously enacted 19%, was announced in the Budget on 3 March 2021, and substantively enacted on 24 May 2021. Therefore deferred tax assets and liabilities that are expected to reverse on or after 1 April 2023 have been calculated at the rate of 25% as at the reporting date. A 1% reduction in the rate of corporation tax from this level will decrease deferred tax balances held by £600,000.

There is no expiry date on timing differences.

9 DIVIDENDS

	52 weeks ended 25 June 2022 £'000	52 weeks ended 26 June 2021 £'000
Declared and paid during the year		
Interim dividend for 2022: 3.50p (2021: nil) per ordinary share	**520**	-
Dividends paid	**520**	-

The Directors propose a final dividend of 15.00p (2021: nil) per 50p ordinary share totalling £2,222,000 (2021: nil) for the 52 weeks ended 25 June 2022. The dividend is subject to approval by shareholders at the Annual General Meeting, to be held on 28 October 2022, and has not been included as a liability in these financial statements as it has not yet been approved or paid.

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

10 EARNINGS PER SHARE

	52 weeks ended 25 June 2022 £'000	52 weeks ended 26 June 2021 £'000
Profit/(loss) attributable to equity shareholders	**6,280**	(17,791)
Items excluded from underlying results	**(448)**	9,602
Underlying profit/(loss) attributable to equity shareholders	**5,832**	(8,189)

	Number	Number
Weighted average number of shares in issue	**14,784**	14,760
Dilutive outstanding options	**62**	-
Diluted weighted average share capital	**14,846**	14,760

Earnings/(loss) per 50p ordinary share		
Basic	**42.5p**	(120.5)p
Diluted	**42.3p**	(120.5)p
Underlying basic	**39.4p**	(55.5)p

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

Diluted earnings per share have been calculated on a similar basis taking into account 62 (2021: nil) dilutive potential shares, which excludes shares held by trusts in respect of employee incentive plans and options. There were no dilutions in the previous year due to the loss per share.

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

11 DIRECTORS' REMUNERATION

Details of Directors' remuneration required to be disclosed by the Companies Act 2006 are included in the table and footnotes on pages 60 and 61.

12 EMPLOYEES

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

	52 weeks ended 25 June 2022 Number	52 weeks ended 26 June 2021 Number
Brewery, head office and visitor centre	**229**	230
Retail pubs	**1,325**	1,260
	1,554	1,490

13 GOODWILL AND INTANGIBLE ASSETS

Group and Company	Brewing and distribution rights £'000	Goodwill £'000	Total £'000
Cost			
At 27 June 2020	92	1,074	1,166
Additions	–	–	–
At 26 June 2021	92	1,074	1,166
Additions	129	–	129
At 25 June 2022	**221**	**1,074**	**1,295**
Amortisation and impairment			
At 27 June 2020	17	475	492
Amortisation charge for the period	18	–	18
Impairment charge for the period	–	328	328
At 26 June 2021	35	803	838
Amortisation charge for the period	30	–	30
Impairment charge for the period	–	52	52
At 25 June 2022	**65**	**855**	**920**
Net book value			
At 25 June 2022	**156**	**219**	**375**
At 26 June 2021	57	271	328
At 27 June 2020	75	599	674

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

The opening Group goodwill of £271,000 arose on the acquisition of Ultimate Entertainment Services Limited, Village Green Restaurants Limited and the Horse and Groom (Dartford) Limited. None of the goodwill recognised is expected to be deductible for income tax purposes. All goodwill relates to the Retail and Tenanted segments and is apportioned as shown.

Goodwill is allocated to cash-generating units as follows:

	52 weeks ended 25 June 2022 £'000	52 weeks ended 26 June 2021 £'000
Ultimate Entertainment Services Limited	**125**	125
Village Green Restaurants Limited	**94**	94
Horse and Groom (Dartford) Limited	**–**	52
Total goodwill	**219**	271

During the 52 weeks ended 25 June 2022, the Group recognised an impairment loss of £52,000 in respect of the Horse and Groom (Dartford) Limited (2021: £127,000 in respect of Village Green Restaurants Limited and £201,000 in respect of the Horse and Groom (Dartford) Limited). The impairment losses in the current and prior year were principally driven by poor performance during the year due to the COVID-19 pandemic. See note 15.

14 PROPERTY, PLANT AND EQUIPMENT

Group and Company	Freehold properties £'000	Leasehold properties under 50 years £'000	Plant, machinery, vehicles and containers £'000	Fixtures and fittings £'000	Assets under construction £'000	Total £'000
Valuation or cost						
At 27 June 2020	257,486	2,030	36,446	94,260	1,963	392,185
Additions	90	55	415	2,430	145	3,135
Revaluation	4	16	-	-	-	20
Disposals	(1,380)	-	-	(2,170)	(672)	(4,222)
Transfers to investment property	(1,637)	(13)	245	799	(1,206)	(1,812)
At 26 June 2021	254,563	2,088	37,106	95,319	230	389,306
Additions	45	119	454	4,098	513	5,229
Revaluation	-	-	-	-	-	-
Disposals	(6,051)	(39)	(45)	(5,021)	(12)	(11,168)
Transfers within property, plant and equipment	-	-	20	34	(54)	-
Transfers to investment property	(326)	-	-	(198)	-	(524)
Transfers from investment property	20	-	-	-	-	20
Transfers to assets held for sale	(1,272)	-	-	(375)	-	(1,647)
At 25 June 2022	**246,979**	**2,168**	**37,535**	**93,857**	**677**	**381,216**
Accumulated depreciation and impairment						
At 27 June 2020	10,124	880	29,978	53,860	46	94,888
Charge for year	549	70	1,057	6,160	-	7,836
Impairment	3,162	28	-	437	1	3,628
Revaluation	(11)	-	-	-	-	(11)
Disposals	(331)	-	-	(1,502)	-	(1,833)
Transfers to investment property	(224)	-	-	(41)	-	(265)
At 26 June 2021	13,269	978	31,035	58,914	47	104,243
Charge for year	564	128	1,011	5,587	-	7,290
Impairment	1,141	13	-	407	-	1,561
Revaluation	-	-	-	-	-	-
Disposals	(1,695)	(39)	(44)	(3,998)	(1)	(5,777)
Transfers to investment property	(74)	-	-	(130)	-	(204)
Transfers to assets held for sale	(263)	-	-	(285)	-	(548)
At 25 June 2022	**12,942**	**1,080**	**32,002**	**60,495**	**46**	**106,565**
Net book value						
At 25 June 2022	**234,037**	**1,088**	**5,533**	**33,362**	**631**	**274,651**
At 26 June 2021	241,294	1,110	6,071	36,405	183	285,063
At 27 June 2020	247,362	1,150	6,468	40,400	1,917	297,297

Included in additions is £92,000 (2021: £52,000) of own labour capitalised.

Disposals includes an amount of £2,853,000 (2021: £1,343,000) in respect of fully depreciated items.

The Company has entered into certain operating leases as lessor. The gross cost of assets held for use under these leases amounted to £23,152,000 (2021: £23,037,000), the related accumulated depreciation charges amounted to £580,000 (2021: £586,000), and the aggregate rentals receivable amounted to £1,245,000 (2021: £388,000).

15 IMPAIRMENT

During the year, impairment losses of £2,863,000 (2021: £5,709,000) and impairment reversals of nil (2021: nil) were recognised within items excluded from underlying results:

Group and Company	2022 £'000	2021 £'000
Intangible assets	**52**	328
Property, plant and equipment	**1,561**	3,628
Right-of-use assets	**1,226**	1,619
Assets held for sale	**24**	134
Impairment losses net of reversals	**2,863**	5,709

The impairment losses were attributable to the following reportable segments:

Group and Company	2022 £'000	2021 £'000
Retail Pubs & Hotels	**1,899**	4,816
Tenanted Pubs	**940**	562
Unallocated	**24**	331
Total impairment charge	**2,863**	5,709

Impairment is assessed at the cash-generating unit level, considered to be on the basis of each individual pub, which is reviewed at each reporting date for indicators of impairment. Given the challenging economic environment the Group is trading in as noted in the Strategic Report, there were various indicators of potential impairment. Whether an asset is impaired or not is determined by comparing the carrying value against its estimated recoverable amount. The recoverable amount is taken as the higher of the fair value less costs to sell (FVLCS) and its value-in-use. The value-in-use is determined by conducting a net present value review of all relevant cash flows from the asset based upon the budget for the forthcoming financial year approved by the Directors. Cash flows beyond the budget period are extrapolated in perpetuity for freehold properties and over the length of the remaining lease for leasehold properties. The key assumptions used are the long-term growth rates applied, which in the year under review were 2.0% (2021: 2.0%) for retail pubs and 2.0% (2021: 2.0%) for tenanted pubs, and a pre-tax discount rate of 9.83% (2021: 9.66%). These key assumptions are based on management knowledge and historical information.

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

Impairments are also recognised where the property valuation is lower than the cash-generating unit's carrying value, for those assets determined to be at risk of impairment. The impairment is measured as the difference between the carrying value and the higher of FVLCS and its value-in-use. Where the property valuation exceeds the carrying value, no impairment is required. Impairments are included in operating charges excluded from underlying results.

Sensitivity to changes in assumptions

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

Increased impairment resulting from:

	A 10% reduction in cash flow forecast		A 0.5% increase in discount rate		A 0.5% reduction in growth rate	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Property, plant and equipment	**853**	2,895	**485**	1,433	**364**	1,180
Right-of-use assets	**1,264**	1,000	**426**	682	**279**	600
	2,117	3,895	**911**	2,115	**643**	1,780

16 INVESTMENT PROPERTIES

Investment properties, which are all freehold, are revalued to fair value through the profit and loss account at each reporting date by the Company's own professionally qualified staff, who are RICS-qualified. An independent valuation of the properties has not been performed.

The fair values for commercial property and land are based on the rental income earned on the properties in perpetuity, discounted to present value at a rate of between 5% and 10% (2021: 4% to 11%) and average yields earned on comparable properties from publicly available information; and the fair values for residential properties on comparable market evidence. The valuations and assumptions used are reviewed by the Board and the auditor. The highest and best use of the properties does not differ materially from their current use.

The techniques are consistent with the principles in IFRS 13 Fair Value Measurement and use significant unobservable inputs, such that the fair value measurement of each property within the portfolio has been classified as Level 3 (2021: Level 3) in the fair value hierarchy. There has been no change to the valuation technique during the year.

Group and Company	2022 £'000	2021 £'000
Valuation:		
Carrying value at start of period	**6,068**	8,811
Additions	**94**	108
Disposals	**(1)**	(2,002)
Transfers to assets held for sale	**(265)**	(2,483)
Transfers from property, plant and equipment	**320**	1,547
Transfers to property, plant and equipment	**(20)**	-
Fair value movement	**520**	87
Carrying value at end of period	**6,716**	6,068

Investment property income

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

Group and Company	2022 £'000	2021 £'000
Rental income	**156**	177
Direct operating expenses	**(164)**	(181)
Fair value movement	**520**	87

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

If the investment properties had not been revalued, they would have been carried in the Statement of Financial Position at 25 June 2022 at a historical cost of £2,776,000 (2021: £3,667,000).

17 RECOGNISED FAIR VALUE MEASUREMENTS

Fair value hierarchy

Group and Company at 25 June 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment properties (see note 16)	-	-	6,716	6,716
Assets held for sale (see note 23)	-	-	1,099	1,099
Total non-financial assets	**-**	**-**	**7,815**	**7,815**

Group and Company at 26 June 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment properties (see note 16)	-	-	6,068	6,068
Assets held for sale (see note 23)	-	-	2,419	2,419
Total non-financial assets	-	-	8,487	8,487

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

Level 1

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

Level 2

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

Level 3

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

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the reporting period.

18 OTHER NON-CURRENT ASSETS

Loans to customers due after one year

Group and Company	2022 £'000	2021 £'000
Carrying value at start of period	**5**	5
Redemptions	**(2)**	(1)
Loan discounts awarded	**(2)**	-
Reclassification of non-current loans	**(1)**	-
Unwinding of discounts on loans receivable	**-**	1
Carrying value at end of period	**-**	5

Loans receivable constitute financing transactions and are measured at the present value of the future cash flows, discounted at a market rate of interest. They are receivable within one year (2021: between one and five years) and consequently have been reclassified to other receivables.

In the prior year, no loans were expected to be repaid in cash and £5,000 was expected to be repaid or offset against discounts to be earned but not received by customers. The level of discounts awarded and the interest and fees charged depends on the trading performance of each customer against individual targets.

19 INVESTMENTS IN SUBSIDIARIES

Company	2022 £'000	2021 £'000
Cost and net book value		
At beginning and end of period	**22**	22

At 25 June 2022 and 26 June 2021, the Group financial statements include the following subsidiary undertakings:

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

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

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

20 LEASES

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

a Amounts recognised in the statement of financial position

Group and Company	2022 £'000	2021 £'000
Right-of-use assets		
Properties	**43,631**	46,717
Vehicles	**516**	548
Equipment	**88**	46
	44,235	47,311
Lease liabilities		
Current	**2,780**	5,100
Non-current	**53,106**	53,226
	55,886	58,326

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

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

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20 LEASES CONTINUED

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

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

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

b Amounts recognised in the Income Statement

Group and Company	2022 £'000	2021 £'000
Depreciation charge on right-of-use assets		
Properties	**2,861**	2,999
Vehicles	**262**	224
Equipment	**37**	33
	3,160	3,256
Interest expense (included in net finance costs)	**1,245**	1,285
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in operating charges)	**176**	153
Impairment of right-of-use assets	**1,226**	1,619

The Group's total cash outflow in relation to leases in 2022 is £4,220,000 (2021: £3,930,000).

The Group has applied the practical expedient regarding COVID-19-related rent concessions to all rent concessions that are eligible. The amount recognised as a negative variable lease payment in the Income Statement and corresponding decrease in the lease liabilities, which reflects the waivers of lease payments arising from rent concessions to which the practical expedient has been applied, is £116,000 (2021: £733,000).

The Group tests right-of-use assets for impairment when there are indicators that the assets may have been impaired. The continued uncertainties over the current economic environment caused by the COVID-19 pandemic, the current high levels of cost inflation and potential changes in consumer spending habits arising from the "cost of living" crisis, have been identified as indicators of potential impairment.

There will be an impairment if the recoverable amount is lower than the carrying value. The recoverable amount is value-in-use. The same assumptions to calculate value-in-use are used for both goodwill and property, plant and equipment. See note 15.

The impairment calculation is most sensitive to the pre-tax discount rate and underlying EBITDAR assumptions. Management have performed a sensitivity analysis on the impairment test. See note 15.

21 INVENTORIES

Group and Company	2022 £'000	2021 £'000
Raw materials and consumables	**2,509**	2,244
Work in progress	**411**	415
Finished goods including goods for resale	**5,147**	4,661
	8,067	7,320

Inventories recognised as an expense during the year ended 25 June 2022 totalled £67,846,000 (2021: £43,311,000). These were included in operating charges.

Write-down of inventories to net realisable value amounted to £399,000 (2021: £684,000). These were recognised as an expense during the year ended 25 June 2022 and are included in operating charges in the Income Statement.

22 TRADE AND OTHER RECEIVABLES

Group and Company	2022 £'000	2021 £'000
Trade receivables	**13,505**	12,236
Other receivables	**295**	127
Derivative financial instruments (see note 26)	**219**	9
Prepayments	**3,223**	2,553
Accrued income	**443**	435
	17,685	15,360

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

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

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

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

Group and Company	2022 £'000	2021 £'000
Opening balance	**680**	627
(Decrease)/increase in loss allowance recognised in the Income Statement	**(265)**	53
Closing balance	**415**	680

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

Group and Company	2022 £'000	2021 £'000
Current	**11,278**	10,964
Overdue up to 30 days	**1,766**	567
Overdue between 30 and 60 days	**305**	1,106
Overdue more than 60 days	**571**	279
Trade receivables before loss allowance	**13,920**	12,916
Loss allowance	**(415)**	(680)
Trade receivables net of loss allowance	**13,505**	12,236

Included in other receivables are loans to customers of £19,000 (2021: £91,000) due within one year and £38,000 (2021: £48,000) due in more than one year, net of a provision of £2,000 (2021: £10,000).

23 ASSETS CLASSIFIED AS HELD FOR SALE

Group and Company	2022 £'000	2021 £'000
Property held for sale	**1,099**	2,419

At 25 June 2022, three properties were classified as held for sale (2021: seven properties). Two were reclassified from investment properties in the year and sit within the Unallocated operating segment, and one was reclassified from property, plant and equipment during the year and sits within the Tenanted Pubs operating segment (2021: all within the Unallocated operating segment), and all have been identified for sale based on their fit with the remaining estate. Sales are expected within 12 months from the reporting date. An impairment charge of £289,000 (2021: £134,000) was recognised on the transfer of two (2021: five) properties to held for sale.

24 TRADE AND OTHER PAYABLES

	Group 2022 £'000	Group 2021 £'000	Company 2022 £'000	Company 2021 £'000
Trade payables	**8,884**	8,962	**8,884**	8,962
Amounts due to subsidiary undertakings	**-**	-	**22**	22
Other tax and social security	**6,649**	7,184	**6,649**	7,184
Accruals	**8,515**	6,904	**8,515**	6,904
Deferred income	**168**	696	**168**	696
Trade deposits	**2,191**	2,072	**2,191**	2,072
Other payables	**815**	565	**815**	565
	27,222	26,383	**27,244**	26,405

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

Company amounts due to subsidiary undertakings of £22,000 (2021: £22,000) have no fixed repayment date or interest payable. Company amounts due to subsidiary undertakings are unsecured.

25 BORROWINGS

Group and Company	2022 £'000	2021 £'000
Bank loans	**46,400**	62,000
Other loans	**35,000**	35,000
Less: capitalised loan arrangement fees	**(530)**	(635)
Total borrowings	**80,870**	96,365
Analysed as:		
Borrowings within current liabilities	**1,600**	1,600
Borrowings within non-current liabilities	**79,270**	94,765
	80,870	96,365

Borrowings at the end of the reporting period comprise a 20-year term loan of £35,000,000 arranged in October 2018, a 20-year term loan of £20,900,00, arranged in April 2007 and drawings of £25,500,000 on the revolving credit facility.

The £35,000,000 loan represents a private placement of loan notes with BAE Systems Pension Funds Investment Management Ltd and is repayable on 30 October 2038. The interest rate is fixed at 3.99% and payable six monthly. Due to a technical breach of covenants, the interest rate has been temporarily increased to 4.49% until the Company's leverage ratio returns to an accepted level for four consecutive quarters, which is anticipated in March 2023.

The £20.9m term loan was provided by Lloyds Bank plc and is repayable in four instalments of £1.6m payable in December every year, with the outstanding balance being repayable on 31 December 2026. The interest rate payable is three-month SONIA (previously LIBOR) plus a margin dependent on the ratio of net debt to underlying EBITDA. The variable interest payments have been swapped for fixed interest payments payable quarterly. Details of the swap arrangements are given in note 26.

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

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

During 2020, the Group's banking lenders Lloyds Bank plc and Santander UK plc agreed to increase the Group's overall debt facilities utilising the UK Government's CLBILS. This provided the Group with a £25,000,000 revolving credit facility of which £15,000,000 was committed, with a further £10,000,000 being available on request. This facility was cancelled on 31 March 2022 as the Group returned to normal covenant limits. At the end of the reporting period, £19,500,000 (2021: £20,500,000) of the total £45,000,000 (2021: £60,000,000) committed revolving credit bank facility was available and undrawn, as well as the £5,000,000 overdraft facility.

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

Fair value

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

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

Group and Company 2021	Term or expiry date	Period rate fixed (years)	Weighted average interest rate	Book value £'000	Fair value £'000	Fair value level
£22.5m loan swapped into fixed rate	Dec 2026	5.5	6.82	22,500	22,500	3
£35.0m private placement at fixed rate	Oct 2038	17.3	4.49	35,000	35,000	3
£45.0m revolving credit facility	Oct 2023	-	2.56	39,500	39,500	3
£25.0m revolving credit facility (CLBILS)	July 2022	-	-	-	-	3
Total borrowings				97,000		

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

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

26 FINANCIAL INSTRUMENTS

a Capital management

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

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

b Categories of financial assets and liabilities

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

Group and Company 2022	At fair value through profit and loss £'000	At fair value through other comprehensive income £'000	Financial assets carried at amortised cost £'000	Financial liabilities carried at amortised cost £'000	Total £'000
Assets					
Trade and other receivables (note 22)	–	–	14,243	–	14,243
Cash and cash equivalents	–	–	5,579	–	5,579
Derivative financial instruments not designated as hedging instruments	219	–	–	–	219
Total assets	219	–	19,822	–	20,041
Liabilities					
Borrowings (note 25)	–	–	–	80,870	80,870
Trade and other payables (note 24)	–	–	–	20,405	20,405
Derivative financial instruments designated as hedging instruments	–	2,353	–	–	2,353
Lease liabilities (note 20)	–	–	–	55,886	55,886
Total liabilities	–	2,353	–	157,161	159,514

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

c Derivatives

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

Interest rate swaps

At 25 June 2022 the Group held one (2021: one) interest rate swap contract for a nominal value of £24,000,000 (2021: £25,000,000). The interest rate swap is classified as a cash flow hedge because the derivative financial instrument hedges the risk of variation in interest cash flows on its borrowings. The Group pays a fixed rate and receives a variable interest rate based on three-month SONIA (previously LIBOR). The interest rate swaps settle on a three-monthly basis and the Group settles the difference between the fixed and floating interest on a net basis. At the end of the reporting period, £20,900,000 of the Group's borrowings (2021: £22,500,000) were hedged by the interest rate swap at a fixed rate of 5.1% (2021: 5.1%), which expires in December 2026.

The interest rate swap cash flow hedge was assessed as being highly effective at inception and changes in cash flow hedge fair values are recognised in the hedging reserve to the extent that the hedge is effective. A gain of £2,596,000 (2021: £1,605,000) was recognised in other comprehensive income in respect of the swap in cash flow hedges. The ineffective portion of fair value movements of hedging instruments was recognised within finance costs, being a credit of £397,000 (2021: £115,000), due to the nominal value of the derivative exceeding the related loan.

Interest rate caps

During the 52 weeks ended 27 June 2020, the Group entered into an interest rate cap agreement in order to minimise the risk of variation in interest cash flows on its borrowings. At the end of the reporting period, £20,000,000 (2021: £20,000,000) of the Group and Company's borrowings were hedged by the interest cap at a rate of 2.0% (2021: 2.0%), which expires in 2023. The fair value movement recognised in operating charges was a gain of £210,000 (2021: loss of £5,000).

Fair value hierarchy for financial instruments measured at fair value

The financial instruments that are recognised and measured at fair value in the financial statements are classified into three levels, as prescribed under the accounting standards. See page 96 for an explanation of each level.

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

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

FINANCIAL STATEMENTS

27 FINANCIAL RISK MANAGEMENT

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

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

Interest rate risk

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

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

There are two components to the interest rates on the £20.9m 20-year term bank loan and revolving credit facility. One component is attached to the level of bank margin. The other component is attached to the rate of SONIA and on the term loan is fixed by means of an interest rate swap contract which runs for the same period as the loan, as disclosed in notes 25 and 26.

Interest on the £35.0m 20-year term loan notes is fixed at 3.99% (temporarily increased to 4.49%). Interest on drawings on the revolving credit facility and short-term overdraft facility are not fixed but £20.0m of the risk is capped at 2.0%. It has been Group policy to have short-term borrowing on a variable rate basis. At the year end, taking account of interest rate swaps, 42% (2021: 59%) of the Group's loans were at fixed rates and 58% (2021: 80%) were at fixed or capped rates.

Sensitivity

The Group borrows in sterling at market rates. The three-month SONIA (previously LIBOR) rate during the 52 weeks ended 25 June 2022 ranged between 0.05% and 1.19%. The Directors consider a range of 1.0%-2.0% to be a reasonable possible increase in rates, with reference to market yield curves and the current economic conditions.

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

Group and Company	2022 £'000	2021 £'000
Increase interest rate by 1.0%	**(255)**	(395)
Increase interest rate by 2.0%	**(510)**	(790)

Liquidity and cashflow risk

The Group manages its liquidity risk by monitoring cash receipts and payments and preparing rolling cash flow forecasts from which to predict short- and long-term funding requirements; and to ensure that borrowing facilities are available, if required, and that covenants in respect of bank loans are not contravened. Capital expenditure is approved by the Board and investment appraisal models used to evaluate proposed expenditure. The Board is vigilant in managing the business, assessing and monitoring acquisitions and investments, and forecasting the Group's profit and cash flows. The funding position of the Group is continuously reviewed against headroom in the Group's borrowing facilities.

It is currently the Group's policy to finance the majority of its business needs by means of long-term loans, which amounted to £81,400,000 fully drawn at the year end. 43% (2021: 51%) of the Group's borrowings are repayable after more than five years, 55% (2021: 47%) within the first to fifth years and 2% (2021: 2%) within one year.

The balance of requirements at the end of the reporting period was provided by: a five-year revolving credit loan facility of £45,000,000, which is due to mature in October 2023; and a committed overdraft facility of £5,000,000, which matures in October 2023. The size of the facilities is regularly reviewed and the overdraft facility is renewed annually. At the year end £25,500,000 (2021: £39,500,000) of the revolving credit loan facility and nil (2021: nil) of the overdraft facility was being utilised.

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

Group and Company at 25 June 2022	Within one year £'000	Between one and two years £'000	Between two and five years £'000	After five years £'000	Total £'000
Borrowings including interest payable	**4,446**	**29,188**	**22,422**	**52,810**	**108,866**
Derivative financial instruments	**993**	**951**	**1,352**	**-**	**3,296**
Lease liabilities	**3,945**	**3,914**	**11,203**	**52,872**	**71,934**
Trade and other payables	**20,405**	**-**	**-**	**-**	**20,405**
	29,789	**34,053**	**34,977**	**105,682**	**204,501**

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

Covenants

The Group's borrowings are dependent on certain financial covenants being met. If these were breached, funding could be withdrawn, leaving the Group with insufficient working capital. If the Group were unable to find alternative sources of funding it might not be able to continue trading in its current form. The Group has considered the effects of its latest forecasts on its compliance with bank covenants, which are tested each quarter on a 12-month rolling basis and no risk is considered.

Counterparty credit risk

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

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

Foreign currency risk

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

Price risk

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

28 PROVISIONS FOR LIABILITIES

Group and Company	2022 £'000	2021 £'000
Historic taxation provision	-	498

A provision of £498,000 was made in the year to 27 June 2020 in respect of potential charges relating to an inquiry opened by HMRC regarding the provision of uniforms and training to employees. The inquiry was closed by HMRC in March 2022 and the excess provision of £443,000 has been released in the period.

29 DEFERRED TAX

Group and Company	Asset 2022 £'000	Liability 2022 £'000	Net 2022 £'000	Asset 2021 £'000	Liability 2021 £'000	Net 2021 £'000
As at start of period	**5,028**	**(18,129)**	**(13,101)**	3,209	(14,665)	(11,456)
(Charged)/credited to the Income Statement	**(289)**	**(798)**	**(1,087)**	1,985	(3,464)	(1,479)
(Charged)/credited to other comprehensive income	**(561)**	-	**(561)**	(166)	-	(166)
As at end of period	**4,178**	**(18,927)**	**(14,749)**	5,028	(18,129)	(13,101)

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

	Asset 2022 £'000	Liability 2022 £'000	Net 2022 £'000	Asset 2021 £'000	Liability 2021 £'000	Net 2021 £'000
Derivative financial instruments	**437**	-	**437**	998	-	998
Corporate interest restriction carried forward	**570**	-	**570**	153	-	153
Accelerated capital allowances	-	**(3,297)**	**(3,297)**	-	(2,808)	(2,808)
Revaluation of freehold pubs	-	**(9,354)**	**(9,354)**	-	(8,999)	(8,999)
Rolled-over capital gains	-	**(5,859)**	**(5,859)**	-	(5,935)	(5,935)
Tax losses carried forward	**748**	-	**748**	3,864	-	3,864
IFRS 16 transitional adjustment	**2,040**	-	**2,040**	-	-	-
Capital losses carried forward	**371**	-	**371**	-	-	-
Others	**12**	**(417)**	**(405)**	13	(387)	(374)
As at end of period	**4,178**	**(18,927)**	**(14,749)**	5,028	(18,129)	(13,101)

30 SHARE CAPITAL

	2022 £'000	2021 £'000
Allotted, called-up and fully paid:		
14,857,500 ordinary shares of 50p each	**7,429**	7,429

The Company has one class of ordinary shares which carry no right to fixed income, and all shares carry one vote per share.

On a winding-up of the Company, any surplus assets would be applied to the ordinary shares in proportion to the amounts paid up.

31 RESERVES

Share premium account

The balance in the share premium account represents the proceeds received above the nominal value on the issue of the Company's equity share capital.

Revaluation reserve

The revaluation reserve represents any transfers between property, plant and equipment, and investment property.

Own shares

The own shares held reserve relates to shares held by Shepherd Neame (Trustees) Limited and the Trustees of the Shepherd Neame Share Incentive Plan to satisfy potential awards under the Long Term Incentive Plan and Share Incentive Plan respectively. At 25 June 2022, 59,844 ordinary shares were held with a market value of £482,000 (2021: 88,148 and £894,000). No shares were purchased during the year (2021: nil).

Of the own shares held, 17,940 are allocated to employees under the Share Incentive Plan but have not yet vested. A further 87,353 shares, previously held by the Company, have vested unconditionally and as such are no longer treated as own shares held (2021: 38,964 and 78,659 respectively). Of these shares 59,013 can be distributed to employees free of tax (2021: 65,492).

Hedging reserve

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

Retained earnings

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

32 NOTES TO THE STATEMENT OF CASH FLOWS

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

	52 weeks ended 25 June 2022			52 weeks ended 26 June 2021		
	Underlying results £'000	**Excluded from underlying results £'000**	**Total £'000**	Underlying results £'000	Excluded from underlying results £'000	Total £'000
Operating profit/(loss)	**12,893**	**(2,470)**	**10,423**	(4,240)	(6,307)	(10,547)
Adjustment for:						
Depreciation and amortisation	**10,480**	**-**	**10,480**	11,110	-	11,110
Impairment of property, plant and equipment (note 15)	**-**	**1,561**	**1,561**	-	3,628	3,628
Impairment of intangible assets (note 15)	**-**	**52**	**52**	-	328	328
Impairment of right-of-use assets (note 15)	**-**	**1,226**	**1,226**	-	1,619	1,619
Impairment of assets held for sale (note 15)	**-**	**24**	**24**	-	134	134
Share-based payments expense	**183**	**-**	**183**	428	-	428
(Increase)/decrease in inventories (note 21)	**(747)**	**-**	**(747)**	910	-	910
Increase in debtors and prepayments	**(2,242)**	**-**	**(2,242)**	(5,279)	-	(5,279)
Increase/(decrease) in creditors and accruals	**712**	**(374)**	**338**	(870)	(678)	(1,548)
Loss on sale of assets (excluding property)	**53**	**-**	**53**	840	-	840
Interest received	**-**	**-**	**-**	3	-	3
Income tax received	**-**	**-**	**-**	195	-	195
Fair value movements on financial assets	**(210)**	**-**	**(210)**	5	-	5
Net cash inflow/(outflow) from operating activities	**21,122**	**19**	**21,141**	3,102	(1,276)	1,826

32 NOTES TO THE STATEMENT OF CASH FLOWS CONTINUED

b Reconciliation of movement in cash to movement in net debt

Group and Company	52 weeks ended 25 June 2022 £'000	52 weeks ended 26 June 2021 £'000
Opening cash and overdraft	**5,560**	9,807
Closing cash and overdraft	**5,579**	5,560
Movement in cash in the period	**19**	(4,247)
Cash from increase in bank loans	**-**	(2,000)
Cash used to repay bank loans	**15,600**	-
Movement in loan issue costs	**(105)**	(103)
Movement in net debt resulting from cash flows	**15,514**	(6,350)
Net debt at beginning of the period	**(90,805)**	(84,455)
Net debt	**(75,291)**	(90,805)
Current lease liability	**(2,780)**	(5,100)
Non-current lease liability	**(53,106)**	(53,226)
Statutory net debt	**(131,177)**	(149,131)

c Analysis of net debt

Group and Company 2022	June 2021 £'000	Cash flow £'000	Reclassification of long-term loans £'000	Repayment of loans £'000	Non-cash £'000	June 2022 £'000
Cash and cash equivalents	5,560	19	-	-	-	**5,579**
Debt due in less than one year	(1,600)	-	(1,600)	1,600	-	**(1,600)**
Debt due after more than one year	(94,765)	-	1,600	14,000	(105)	**(79,270)**
Net debt	(90,805)	19	-	15,600	(105)	**(75,291)**
Lease liabilities (note 20)	(58,326)	4,220	-	-	(1,780)	**(55,886)**
Statutory net debt	(149,131)	4,239	-	15,600	(1,885)	**(131,177)**

Group and Company 2021	June 2020 £'000	Cash flow £'000	Reclassification of long-term loans £'000	New loans £'000	Non-cash £'000	June 2021 £'000
Cash and cash equivalents	9,807	(4,247)	-	-	-	5,560
Debt due in less than one year	(94,262)	-	92,662	-	-	(1,600)
Debt due after more than one year	-	-	(92,662)	(2,000)	(103)	(94,765)
Net debt	(84,455)	(4,247)	-	(2,000)	(103)	(90,805)
Lease liabilities (note 20)	(55,860)	3,930	-	-	(6,396)	(58,326)
Statutory net debt	(140,315)	(317)	-	(2,000)	(6,499)	(149,131)

Non-cash movements in lease liabilities comprises lease additions and modifications of £699,000 (2021: £5,844,000) and interest of £1,245,000 (2021: £1,285,000), less waivers of £164,000 (2021: £733,000).

33 CAPITAL COMMITMENTS - GROUP AND COMPANY

Contracts for capital expenditure not provided for in the financial statements amounted to £605,000 (2021: £344,000).

34 OPERATING LEASE COMMITMENTS

Operating lease commitments where the Group is the lessor

The Group earns rental income from two sources. Licensed property included within property, plant and equipment is rented under agreements where lessees must also purchase goods from the Group. Additionally there are a smaller number of agreements in respect of investment properties where there is no requirement for the lessee to purchase goods. At the end of the reporting period, future minimum rentals receivable by the Group are as follows:

Group and Company	**Investment properties 2022 £'000**	**Other property, plant and equipment 2022 £'000**	Investment properties 2021 £'000	Other property, plant and equipment 2021 £'000
Within one year	**171**	**752**	237	1,027
Between one and five years	**452**	**1,297**	898	2,320
After five years	**-**	**-**	417	-
	623	**2,049**	1,552	3,347

35 DIRECTORS' INTERESTS

The interests of the Directors in the Company's shares and options over the Company's ordinary shares held by Directors at 25 June 2022 and 26 June 2021 are included in the tables and footnotes on pages 60 and 61.

36 SHARE-BASED PAYMENT

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

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

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

a The Shepherd Neame employee Share Incentive Plan

The Shepherd Neame employee Share Incentive Plan (SIP) is open to all employees with 18 months' service at the award date. A free award of shares, based on length of service and salary and subject to the maximum of £3,600, was made to all eligible employees in all years from 2003 to 2019 with the exception of 2009. No award was made in 2020, 2021 or 2022 as a result of the impact of the COVID-19 pandemic. Participants are entitled to these free shares from three years after the date of the award if they remain in the Company's employment.

The Company did not purchase any shares for the SIP in either 2022 or 2021.

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

	2022 Number	2021 Number
Outstanding shares at start of year	**117,623**	134,728
Forfeited during the year	**(1,750)**	(1,648)
Distributed during the year	**(10,580)**	(15,457)
Outstanding shares at end of year	**105,293**	117,623
Distributable at end of year	**87,353**	78;659

FINANCIAL STATEMENTS

36 SHARE-BASED PAYMENT CONTINUED

The employees do not have to make any payment for the award of shares under the plan. As such the weighted average exercise price is nil. The weighted average share price at date of distribution for the shares distributed was £8.56 (2021: £8.20).

The expense recognised for share-based payments made under the SIP in respect of employee services during the year to 25 June 2022 was £85,000 (2021: £189,000).

b The Shepherd Neame 2005 Restricted Share Scheme

This is a Restricted Share Scheme for Senior Managers and Executive Directors, including the highest paid Director and three other Directors. The scheme ended in 2015.

Under the 2005 Restricted Share Scheme, primary options were awarded which are exercisable three years after they were awarded subject, normally, to the grantee remaining in the Company's employment. The Directors were also granted secondary options. Upon the Group having achieved certain financial performance targets, a proportion of the secondary options originally granted are exercisable three years after the date of grant and, normally, provided that the Director remains in the Company's employment.

The contractual life of each option granted is 10 years and the options outstanding at 25 June 2022 had a remaining contractual life of 2.3 years.

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

	2022 Number	2022 Weighted average exercise price	2021 Number	2021 Weighted average exercise price
Outstanding at start of year	**2,141**	**£0.83**	2,141	£0.83
Exercised	**(1,427)**	**£1.00**	-	-
Outstanding options at end of year	**714**	**£0.50**	2,141	£0.83
Exercisable at end of year	**714**	**£0.50**	2,141	£0.83

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

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

There was no charge recognised for share-based payments made under this scheme in respect of employee service during the year to 25 June 2022 (2021: nil).

c The Shepherd Neame 2015 Restricted Share Scheme

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

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

During the year the Company purchased nil shares (2021: nil).

The contractual life of each option granted is 10 years and the options outstanding at 25 June 2022 had a remaining contractual life of 8.5 years.

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

	2022 Number	2022 Weighted average exercise price	2021 Number	2021 Weighted average exercise price
Outstanding at start of year	**329,620**	**£0.50**	183,417	£0.50
Granted during the year	**104,135**	**£0.50**	199,325	£0.50
Exercised	**(7,603)**	**£0.50**	(7,017)	£0.50
Forfeited during the year	**(63,517)**	**£0.50**	(46,105)	£0.50
Outstanding options at end of year	**362,635**	**£0.50**	329,620	£0.50
Exercisable at end of year	**12,029**	**£0.50**	11,649	£0.50

The weighted average fair value of the options granted during the year was £7.84 (2021: £5.76). The exercise price for all options outstanding at the end of the year was £0.50.

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

The following table lists the inputs to the models used for the years ended 25 June 2022 and 26 June 2021:

	2022	2021
Expected share price volatility	32.64%	31.39%
Risk-free interest rate	0.49%	0.00%
Dividend yield	0%	0%
Expected life of option (years)	3	3
Weighted average share price	£9.20	£6.98

A charge of £98,000 was recognised for share-based payments made under the Shepherd Neame 2015 Restricted Share Scheme in respect of employee service during the year to 25 June 2022 (2021: £239,000).

37 PENSION COMMITMENTS

The Group operates two defined contribution schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The total expense charged to profit or loss in the period for pension costs in respect of the schemes amounts to £1,074,000 (2021: £940,000). Contributions of £172,000 (2021: £162,000) were payable to the schemes at the year end. One of the Executive Directors (2021: one) is a contributing member of one of the Company's defined contribution schemes. The highest paid Director and two other Executive Directors are no longer contributing members of this scheme although they do have entitlement to deferred benefits.

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

38 RELATED PARTY TRANSACTIONS

The key management personnel of the Group are considered to be the Board of Directors, the total remuneration for whom was £1,586,000 for the year (2021: £1,322,000), being remuneration of £1,586,000 (2021: £1,290,000) and share-based payment expenses of nil (2021: 32,000) as disclosed in the Remuneration Committee Report on pages 58-62. The Directors are granted discounts on purchases from the Company, in line with the discount given to all other staff.

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

George Barnes is an Executive Director of Shepherd Neame Limited. Mr A J A Barnes, a close member of George Barnes's family, is a partner at Barnes Solicitors LLP. During the year to 25 June 2022, Barnes Solicitors LLP provided legal services at a cost of £2,000, including VAT and disbursements to third parties (2021: £40,000). No balance was owed to Barnes Solicitors LLP by Shepherd Neame Limited at the end of the reporting period (2021: nil).

Nigel Bunting, an Executive Director of Shepherd Neame Limited, is also a Director of Davy & Company Limited. During the year, the Group made sales to the value of £119,000 (2021: £19,000) to Davy & Company Limited and its associated companies. At the end of the reporting period, £26,000 was owed to the Group by the Davy Group of companies (2021: £5,000).

Kevin Georgel, a Non-Executive Director of Shepherd Neame Limited, is also a Director of St Austell Brewery Company Limited. During the year, the Group did not make any sales (2021: nil) to St Austell Brewery Company Limited. At the end of the reporting period, nil was owed to the Group by St Austell Brewery Company Limited (2021: £3,000).

Hilary Riva, a Non-Executive Director of Shepherd Neame Limited, is also a Director of the Alexander Centre CIC. During the year, the Group made sales to the value of £5,000 (2021: nil) to the Alexander Centre CIC, and purchased services to the value of £1,000 (2021: nil) from the Alexander Centre CIC. At the end of the reporting period, no balance was owed to the Group by the Alexander Centre CIC (2021: nil) and no balance was owed by the Group to the Alexander Centre CIC (2021: nil).

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

39 EVENTS AFTER THE REPORTING PERIOD

After the reporting period, the Company acquired two freehold pubs in Essex from East Anglia Pub Co Limited. These pubs have been transferred to the Retail estate.

The Company has also acquired East Anglia Pub Corporation Limited which operated one pub in Essex, and Urban Reef Restaurant Limited which operated one pub in Bournemouth. Both of these pubs have been transferred to the Retail estate.

The total investment in these acquisitions was £6.7m.

After the reporting period, the Company has also taken an additional private placement of loan notes for £20,000,000 with BAE Systems Pension Funds Investment Management Ltd (BAE Pension Fund). BAE Pension Fund will receive loan notes at a fixed interest rate of 5.47% for ten years. This is in addition to the 20-year private placement of £35,000,000 arranged with BAE Pension Fund in October 2018 at a fixed rate of interest of 3.99%.

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GLOSSARY - ALTERNATIVE PERFORMANCE MEASURES

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

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

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

Measure	Definition	Location of reconciliation to GAAP measure
Underlying operating profit/(loss)	Operating profit/(loss) excluding operating charges that are either material or infrequent in nature and do not relate to the underlying performance.	Note 7
Underlying profit/(loss) before tax	Underlying operating profit/(loss) less underlying net finance costs.	Income Statement
Underlying profit/(loss) after tax	Underlying profit/(loss) before tax less attributable taxation.	Income Statement
Underlying basic earnings/(loss) per share	Underlying profit/(loss) after tax divided by the weighted average number of ordinary shares in issue during the period. The number of shares in issue excludes those held by the Company and not allocated to employees under the Share Incentive Plan, which are treated as cancelled.	Note 10
Underlying net finance costs	Finance costs excluding charges that are either material or infrequent in nature and do not relate to either the underlying performance or fair value movements on financial instruments charged to profit and loss.	Note 6
Underlying tax rate	Calculated by dividing underlying tax by underlying profit before tax.	
Underlying EBITDA	Underlying profit/(loss) before tax pre net finance costs, depreciation, amortisation, profit or loss on sale of fixed assets excluding property and free trade loan discounts.	
Underlying EBITDAR	Underlying profit/(loss) before tax pre net finance costs, depreciation, amortisation, rent payable, profit or loss on sale of fixed assets excluding property and free trade loan discounts.	
Pub income	Pub profit before depreciation, amortisation, rent and property costs and other cost allocations.	
Retail like-for-like (LFL) sales	Retail LFL sales includes revenue from the sale of drink, food and accommodation but excludes machine income. LFL sales performance is calculated against a comparable 52-week period for pubs that were in the estate in the same period within both years.	
Like-for-like (LFL) tenanted pub income	Tenanted income calculated to exclude from both years those pubs which have not been in the estate throughout the two years. The principal exclusions are pubs purchased or sold, pubs which have closed, and pubs transferred to or from our retail business. Income is calculated against a comparable 52-week period for pubs that were trading in both 52-week periods.	
Depreciation pre IFRS 16	Depreciation excluding right-of-use asset depreciation	Note 3
Net debt	Net debt comprises cash, bank overdrafts and bank and other loans less unamortised loan fees.	Note 32
Gearing pre IFRS 16	Calculated by dividing net debt by net assets excluding IFRS 16 lease adjustments.	
Covenant leverage	Net debt plus cash due via electronic transfer as settlement for a financial asset divided by underlying EBITDA pre IFRS adjustments.	

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

Measure	Definition
RevPAR	Revenue per available bedroom - the average room rate inclusive of VAT achieved multiplied by the occupancy percentage.
Room occupancy rate	Room nights occupied expressed as a percentage of total room nights available for a financial year.
Total beer volume	Shepherd Neame branded, licensed, foreign, customer own-label and contract beer and cider sales volumes.
Own beer volumes	Shepherd Neame branded, licensed, customer own-label and contract beer and cider sales volumes.

FIVE-YEAR FINANCIAL SUMMARY

	IFRS 52 weeks Group 2022 £'000	IFRS 52 weeks Group 2021 £'000	IFRS Restated 52 weeks Group 2020 £'000	FRS 102 52 weeks Group 2019 £'000	FRS 102 53 weeks Group 2018 £'000
Income statement					
Revenue	**151,538**	86,884	118,207	145,801	156,567
Other income	**383**	2,839	450	-	-
Underlying operating profit/(loss)	**12,893**	(4,240)	1,515	15,258	16,064
Operating items excluded from underlying results	**(2,470)**	(6,307)	(17,515)	(168)	(2,381)
Net underlying finance costs	**(5,599)**	(5,817)	(5,155)	(3,901)	(4,295)
Net non-underlying finance costs	**314**	(356)	(150)	(10,772)	-
Profit on disposal of property	**1,709**	221	274	2,848	1,908
Investment property fair value movements	**520**	87	50	206	823
Profit/(loss) on ordinary activities before taxation	**7,367**	(16,412)	(20,981)	3,471	12,119
Taxation	**(1,087)**	(1,379)	1,590	(882)	(2,104)
Earnings/(loss) available to shareholders	**6,280**	(17,791)	(19,391)	2,589	10,015
Assets employed					
Non-current assets	**325,977**	338,775	353,049	315,498	308,733
Current assets	**32,430**	30,659	29,216	21,230	25,494
Current liabilities	**(31,602)**	(33,083)	(127,468)	(24,029)	(24,614)
Non-current liabilities	**(149,478)**	(167,004)	(69,561)	(104,602)	(108,561)
Net assets	**177,327**	169,347	185,236	208,097	201,052

Per 50p ordinary share	2022	2021	2020	2019	2018
Basic earnings/(loss)	**42.5p**	(120.5)p	(131.6)p	17.6p	68.1p
Underlying earnings available to shareholders	**39.4p**	(55.5)p	(21.7)p	60.9p	63.0p
Dividends (interim and proposed final)	**18.50p**	-	-	30.08p	29.20p
Net assets	**£11.94**	£11.40	£12.47	£14.01	£13.53
Dividend cover	**2.3**	-	-	0.6	2.3
Underlying dividend cover	**2.1**	-	-	2.0	2.2

New pub acquisition
Urban Reef, Bournemouth

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