



## INTERIM RESULTS

Solid performance

driven by balanced strategic approach

and on-going investment

Shepherd Neame, Britain's Oldest Brewer and owner and operator of 322 high quality pubs in Kent and the South East, today announces results for the 26 weeks ended 23 December 2017.

### Financial performance:

- Turnover increased by +6.3% to £84.1m (2016: £79.2m)
- Underlying EBITDA<sup>1</sup> increased by +4.6% to £12.1m (2016: £11.6m)
- Underlying operating profit<sup>2</sup> up +3.8% to £7.9m (2016: £7.6m)
- Underlying profit before tax<sup>3</sup> up +2.6% to £5.8m (2016: £5.7m)
- Statutory profit before tax was £5.5m – down on the preceding year primarily due to an exceptional charge of £1.5m following reorganisation of the brewing and brands business
- Underlying basic earnings per ordinary share<sup>4</sup> up +4.0% to 31.2p (2016: 30.0p)
- Net assets per share increased by +3.3% since December 2016 to £13.11 and proposed interim dividend per share up +2.3% to 5.75p (2016: 5.62p)

### Operational highlights:

- Our pubs have continued to deliver a strong performance against the market.
  - Managed pubs (66 pubs) LFL sales grew by +2.1% with strong performance from accommodation sales
  - Tenanted pub LFL EBITDAR<sup>5</sup> grew by +2.1% (2016: +1.7%) and average EBITDAR per pub grew by +5.7%

<sup>1</sup> Underlying profit before tax pre net finance costs, depreciation, amortisation, profit or loss on sale of fixed assets excluding property and free trade loan discounts

<sup>2</sup> Profit before net finance cost, any profit or loss on the disposal of properties, investment property fair value movements and exceptional items

<sup>3</sup> Profit before any profit or loss on the disposal of properties, investment property fair value movements and exceptional items.

<sup>4</sup> Underlying profit less attributable taxation divided by the weighted average number of ordinary shares in issue during the period. The number of shares in issue excludes those held by the company and not allocated to the employees under the Share Incentive Plan, which are treated as cancelled.

<sup>5</sup> Like-for-like pub earnings before interest, tax, depreciation, amortisation and rent payable

- Own beer volumes excluding contract increased by +4.2%
  - Focus on existing own brands (Spitfire, Bishops Finger and Whitstable Bay) and recent additions to the range such as Cinque, Five Grain Premium Lager, Orchard View Cider and Bear Island East Coast Pale Ale
  - Management structure in the brewery has been streamlined and operating costs reduced, following the conclusion of the Asahi Super Dry licence.

**Jonathan Neame, Chief Executive, commented:**

***“Despite more challenging trading conditions, the company has had a solid and satisfactory performance in the first half of the financial year.***

***“The strength of the business lies in our balanced strategic approach across each of our trading divisions. Thus, where the rate of growth of food sales in our managed estate has slowed, drinks sales have performed well, the tenanted like-for-like performance has been good and the brewing and brands business has enjoyed strong growth.***

***“We are a well invested business and are well positioned to navigate any future economic and political headwinds. In the second half, we have some exciting plans to develop our pub estate further and the brewery will undergo on-going modernisation. We remain focused on our core objectives of making investments for the long term benefit of shareholders.”***

6 March, 2018

**Shepherd Neame Limited**

Tel: 01795 532206

Jonathan Neame, Chief Executive

Mark Rider, Finance and IT Director

**Instinctif Partners**

Tel: 020 7457 2020

Matthew Smallwood

Andy Low

## NOTES FOR EDITORS

Shepherd Neame is Britain's oldest brewer. Established in 1698 and based in Faversham, Kent it employs around 1,500 people.

The Company retails its own beers, on draught and in bottles, under a range of highly successful brand names, including:

- **Spitfire:** One of the leading premium bottled ales in the UK with national distribution on draught (4.2% abv) and in bottle (4.5% abv). Spitfire Gold, a golden ale (4.1% abv), was launched to mark the 75<sup>th</sup> anniversary of the Battle of Britain and Spitfire Lager, the Lager of Britain (4.0% abv) in 2016.
- **Bishops Finger:** Connoisseur premium ale (5.4% abv).
- **Whitstable Bay:** This range, sold under the Faversham Steam Brewery brand, includes a Pale Ale on draught (3.9% abv) and in bottle (4% abv), an Organic Ale (4.5% abv), Blonde Lager (4.5% abv), Black Oyster Stout (4.2%) and Red IPA (4.5% abv).
- **Cinque, Five Grain Premium Lager:** Introduced July 2017 (5% abv).
- **Bear Island East Coast Pale Ale:** Introduced November 2017 (4.8% abv).
- **Orchard View:** The Company's first cider brand made in collaboration with Aspalls introduced in June 2017 (4.5% abv).

The Company also brews lagers under license, which include:

- **Samuel Adams Boston Lager:** Leading US craft lager (4.8% abv) brewed under an exclusive license from the Boston Beer Company. The Company also imports Rebel IPA, a strong hopped US craft beer (6.5% abv) and Angry Orchard, America's No. 1 Hard Cider (5%).

In the 26 weeks ended 23 December 2017 Shepherd Neame sold 138,000 brewers' barrels of beer (39.8 million pints) including 118,000 brewers' barrels of own brewed beer (34.0 million pints). The majority of these sales were made in the UK although the Company also exports to more than 35 countries.

At the half end, the Company operated 322 pubs, of which 248 were tenanted or leased, 8 were held as investment properties under commercial free of tie leases, and 66 managed. The pub estate ranges from inns and hotels to destination dining, great traditional and local community pubs.

Shepherd Neame's shares are traded on the NEX Exchange Growth Market. See <http://www.nexexchange.com/> for further information and the current share price.

For further information on the Company, see [www.shepherdneame.co.uk](http://www.shepherdneame.co.uk).

## CHAIRMAN'S STATEMENT

### Interim Results

I am pleased to report a solid performance for the company for the 26 weeks ended 23 December 2017, in more challenging trading conditions.

Key objectives for this period have been to consolidate the recent investments in our pub business and to effect a smooth transition for our brewing and brands business as we exit the Asahi Super Dry contract.

Weather conditions, which benefitted our coastal sites in 2016, have been less favourable in 2017, and the eating out market has come under increased competitive pressure. However, the company derives strength and balance from the different financial and market characteristics of the various parts of the business. Thus, although the rate of growth of food sales in our managed pubs has slowed, drinks sales have performed well, the like-for-like tenanted performance has been good and the brewing and brands business has enjoyed strong underlying growth over the prior year.

### Financial Performance

We have continued to deliver a strong performance versus the market with like-for-like sales growth in our managed estate of +2.1% and own beer volume growth excluding contract of +4.2% against the market of -0.4% (source BBPA<sup>6</sup>).

Turnover for the period increased by +6.3% to £84.1m (2016: £79.2m). Underlying operating profit grew by +3.8% to £7.9m (2016: £7.6m). Underlying profit before tax<sup>7</sup> grew by +2.6% to £5.8m (2016: £5.7m). Underlying basic earnings per share are up +4.0% to 31.2p (2016: 30.0p).

Statutory profit before tax is £5.5m. This is lower than 2016 as we have recognised an exceptional charge of £1.5m related to the brewing and brands business reorganisation associated with the termination of the Asahi contract and an impairment charge of £0.5m.

### Capital and Investment

Underlying EBITDA<sup>8</sup> increased by +4.6% to £12.1m (2016: £11.6m), continuing to demonstrate the strongly cash generative nature of the business. The total amount invested in capital expenditure was £6.1m. In 2016, we acquired 13 pubs, taking total capital expenditure to £31.6m, of which core capital expenditure was £6.5m. In addition, we have realised £3.4m on the disposal of properties (2016: £2.4m).

### Dividend

The Board is proposing an interim dividend of 5.75p (2016: 5.62p), an increase of 2.3%. The dividend will be paid on 29 March 2018 to those shareholders on the register at 16 March 2018.

### Tenanted and Managed Pub Operations

#### Overview and Trading Performance

Our pub strategy is built around three strategic pillars:

- To drive footfall to our pubs
- To develop our offer to enhance the customer experience
- To attract, retain and develop the best people

At the half year end we operated 322 pubs (2016: 335) of which 248 are tenanted or leased (2016: 261), 66 are managed (2016: 67) and eight (2016: seven) are held as investment properties under commercial free of tie leases.

Our investment strategy is to improve the average overall quality of our pub estate, to invest for growth and to dispose of pubs that no longer fit our profile. In the period we have not acquired any pubs (2016: 13) and have disposed of four tenanted pubs (2016: six) and one unlicensed property.

Total divisional turnover in the managed estate grew by +11.2% to £32.9m (2016: £29.6m) and divisional underlying operating profit was £4.7m (2016 restated: £4.8m). Same outlet like-for-like sales grew by +2.1% (2016: +5.3%). Retail margins were impacted by the multiple cost pressures affecting the sector such as business rates, national living wage

<sup>6</sup> The British Beer and Pub Association.

<sup>7</sup> Profit before any profit or loss on the disposal of properties, investment property fair value movements and exceptional items.

<sup>8</sup> Underlying profit before tax pre net finance costs, depreciation, amortisation, profit or loss on sale of fixed assets excluding property and free trade loan discounts.

and the apprenticeship levy. In order to mitigate these, we manage and control margins very tightly and constantly seek ways to add value to our offer and enhance our customer's experience. The cost pressures will continue for at least the next two to three years.

Total divisional turnover in the tenanted estate grew by +1.3% to £18.0m (2016: £17.8m) on 13 fewer outlets. Divisional underlying operating profit was £6.7m (2016 restated: £6.7m). Like-for-like EBITDAR<sup>9</sup> per tenanted pub grew by +2.1% (2016: +1.7%). Average EBITDAR per tenanted pub grew by +5.7% (2016: +4.9%).

### **Driving footfall to our pubs**

We have invested £4.4m (2016: £4.2m) in improving the look and feel of pubs and £1.3m (2016: £1.2m) in repairs and decorations.

In the managed estate, the major project in this half was the development of Pier Five Bar and Kitchen, Chatham Maritime. This is a new waterside destination in a modern bar environment in this fast developing area of the Medway Towns. The bar offers a premium range of craft beers, craft spirits and cocktails, alongside great food and artisan coffee. Initial performance has been encouraging.

In the second half, we have three major redevelopment projects underway as part of our ongoing programme to upgrade our managed estate. We expect to invest around £1m in each of the following projects: The Spitfire, Kingshill, West Malling; The Boathouse (formally The Anchor), Yalding and the Market House (formally Earls), Maidstone. All three projects will complete by the summer.

In the tenanted estate we have carried out major developments at the Dover Castle, Teynham and the Early Bird, Maidstone. We have also co-invested in partnership with our licensees to transform and upgrade the Bull, Newick, the Crown, Leaves Green and the Crown and Cushion, Minley.

We have continued to roll out the company's new signage scheme, following the launch of our new brand identity. Last year we carried out 45 schemes and by the year end we plan to have doubled this.

### **Developing our offer to enhance the customer experience**

Our new premium British beer portfolio is gaining awareness and positive reactions from our pub customers. Like-for-like drinks sales in the managed estate grew by +2.3% (2016: +5.6%). In conjunction with the change in our beer portfolio, we have re-invigorated a number of bars across our pub estate as we introduce the new range.

We continue to upgrade our rooms to enhance the standards of our letting accommodation. During the period we upgraded rooms at the Conningbrook Hotel, Ashford and in the second half plan further upgrades at the Royal Hotel, Deal and Royal Albion, Broadstairs. Like-for-like accommodation sales grew by +6.4% (2016: +9.6%), with occupancy remaining strong at 82.5% (2016: 82.5%) and RevPAR<sup>10</sup> up +2.9% at £72 (2016: £70).

The market for eating out has proved more challenging as the level of competition has intensified. This challenge is compounded by substantial inflation in the food supply chain. Like-for-like food sales grew by +0.2% (2016: +3.3%).

### **Attracting, retaining and developing the best people**

We continue to seek ways to enhance how we recruit, train and develop our people. During the period we have launched a new programme called 'Sheps Way' that sets out how we appraise, train and develop our people. We have also embarked on a project to manage payroll and labour in our managed pubs more effectively and to improve the engagement with our managed house staff.

## **Brewing and Brands Operations**

### **Overview and Trading Performance**

This has been a strong period for our Brewing and Brands business with further outperformance against the market. Our own beer volume excluding contract grew by +4.2% (2016: +2.2%) against a market down -0.4% for the same period.

During this period, we completed the final six months period of the Asahi Licence prior to its termination in January 2018. We have enjoyed strong sales across the portfolio in this period, but in the second half our volume and turnover will fall back as the previous year included Asahi volume. As previously announced we believe the optimum strategy in the long term is to allocate more of our limited capacity to build our own brands and focus on those parts of the market where we have a competitive advantage or strong position.

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<sup>9</sup> Pub earnings before interest, tax, depreciation, amortisation and rent payable.

<sup>10</sup> Revenue Per Available Room

During the last six months we have taken action to streamline our management structure and reduce overheads and operating costs to the appropriate level, in line with lower volume expectations. We expect to benefit from running a less complex operation and from focusing on a smaller, higher quality portfolio of premium British brands.

We have determined to modernise our plant and have commenced a project to install a new labeller and make associated improvements to our bottling line. This will complete by the end of the financial year.

Divisional turnover for the 26 weeks increased by +4.2% to £32.4m (2016 restated: £31.1m) and divisional underlying operating profit was £1.3m (2016 restated: £0.7m).

### **Creating demand and building awareness for our brands**

In recent years we have modernised and transformed our beer range. We have expanded the brands under the Spitfire banner and successfully developed the Whitstable Bay range.

Within the last year, we have added Cinque, Five Grain Premium Lager and Orchard View Cider. More recently, we have launched a well hopped American style beer called Bear Island East Coast Pale Ale. Simultaneously, we have reviewed arrangements with other suppliers and introduced a wider variety of premium beers to our portfolio. The consequence of this activity is an exciting range of new beers with great taste and flavour.

During the period we have appointed Joanna Richardson as Head of Marketing, Brands and Communications and Michael Unsworth as Head of Production to follow the retirement of Richard Frost in March. Both these positions will report to the Chief Executive.

### **Investment Property**

As at 23 December 2017, the company owns investment property valued at £7.1m. This is an uplift in value since 24 June 2017 of £0.3m. The company actively looks to manage this portfolio and in January 2018 successfully sold 3.3 acres of land at Shadoxhurst for residential development.

### **Summary**

Whilst the recent weather and trading conditions have been more challenging than in the prior period, – at a time when we have to contend with significant cost inflation and political and economic uncertainty – we have achieved satisfactory growth. We have made the necessary changes to our brewing and brands business to ensure it is well positioned for the future and, in the second half, we have some exciting pub developments.

The year ahead will continue to present challenges and uncertainty. We remain focused on our core objectives and on making investments for the long term benefit of shareholders.

### **Miles Templeman**

Chairman

## CONSOLIDATED PROFIT AND LOSS ACCOUNT 26 weeks ended 23 December 2017

	note	Unaudited 26 weeks ended 23 December 2017			Unaudited 26 weeks ended 24 December 2016			Audited 52 weeks ended 24 June 2017
		Underlying results £'000	Items excluded from underlying results £'000	Total statutory £'000	Underlying results £'000	Items excluded from underlying results £'000	Total statutory £'000	Total statutory £'000
<b>Turnover</b>	4	<b>84,123</b>	–	<b>84,123</b>	79,158	–	79,158	156,198
Operating charges		<b>(76,208)</b>	<b>(1,981)</b>	<b>(78,189)</b>	(71,534)	–	(71,534)	(141,408)
<b>Operating Profit</b>	4	<b>7,915</b>	<b>(1,981)</b>	<b>5,934</b>	7,624	–	7,624	14,790
Net finance costs		<b>(2,110)</b>	–	<b>(2,110)</b>	(1,965)	–	(1,965)	(4,094)
Profit on disposal of property		–	<b>1,366</b>	<b>1,366</b>	–	733	733	588
Investment property fair value movements		–	<b>310</b>	<b>310</b>	–	273	273	496
<b>Profit on ordinary activities before taxation</b>		<b>5,805</b>	<b>(305)</b>	<b>5,500</b>	5,659	1,006	6,665	11,780
Taxation	5	<b>(1,219)</b>	<b>498</b>	<b>(721)</b>	(1,231)	495	(736)	(1,568)
<b>Profit after taxation</b>		<b>4,586</b>	<b>193</b>	<b>4,779</b>	4,428	1,501	5,929	10,212
<b>Earnings per 50p ordinary share</b>	6							
Basic				<b>32.5p</b>			40.1p	69.1p
Underlying basic				<b>31.2p</b>			30.0p	59.1p
Diluted				<b>32.2p</b>			39.8p	68.5p

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 26 weeks ended 23 December 2017

	Unaudited 26 weeks ended 23 December 2017	Unaudited 26 weeks ended 24 December 2016	Audited 52 weeks ended 24 June 2017
	£'000	£'000	£'000
<b>Profit after taxation</b>	<b>4,779</b>	5,929	10,212
Gains arising on cash flow hedges during the period	<b>2,240</b>	1,837	2,460
Tax relating to components of other comprehensive income	<b>(416)</b>	(142)	(321)
<b>Other comprehensive gains</b>	<b>1,824</b>	1,695	2,139
<b>Total comprehensive income for the period</b>	<b>6,603</b>	7,624	12,351

**CONSOLIDATED BALANCE SHEET** As at 23 December 2017

	Unaudited 23 December 2017 £'000	Unaudited 24 December 2016 £'000	Audited 24 June 2017 £'000
<b>Fixed assets</b>			
Goodwill	679	753	735
Tangible fixed assets	305,127	306,852	305,670
Investments and loans	101	272	194
	<b>305,907</b>	<b>307,877</b>	<b>306,599</b>
<b>Current assets</b>			
Stocks	6,854	6,257	7,063
Debtors	21,999	19,734	19,986
Deferred tax asset due after one year	3,370	3,930	3,787
Cash	96	2,128	184
	<b>32,319</b>	<b>32,049</b>	<b>31,020</b>
<b>Creditors: amounts falling due within one year</b>			
Bank loans and overdrafts	(300)	–	–
Creditors	(29,161)	(27,798)	(31,145)
	<b>(29,461)</b>	<b>(27,798)</b>	<b>(31,145)</b>
<b>Net current assets/(liabilities)</b>	<b>2,858</b>	<b>4,251</b>	<b>(125)</b>
<b>Total assets less current liabilities</b>	<b>308,765</b>	<b>312,128</b>	<b>306,474</b>
<b>Creditors: amounts falling due after more than one year</b>			
Bank loans	(79,343)	(86,217)	(78,267)
Derivative financial instruments	(19,648)	(21,833)	(21,887)
Deferred lease liability	(2,168)	(1,927)	(2,027)
Provisions for liabilities	(12,811)	(13,664)	(13,182)
	<b>(113,970)</b>	<b>(123,641)</b>	<b>(115,363)</b>
<b>Net assets</b>	<b>194,795</b>	<b>188,487</b>	<b>191,111</b>
<b>Capital and reserves</b>			
Called-up share capital	7,429	7,429	7,429
Share premium account	1,099	1,099	1,099
Revaluation reserve	73,581	73,709	73,579
Reserve for own shares held	(1,742)	(804)	(2,277)
Hedging reserve	(15,622)	(17,930)	(17,446)
Profit and loss account	130,050	124,984	128,727
<b>Equity shareholders' funds</b>	<b>194,795</b>	<b>188,487</b>	<b>191,111</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 26 weeks ended 23 December 2017

	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Own shares held £'000	Hedging reserve £'000	Profit and loss account £'000	Total £'000
<b>Balance at 24 June 2017</b>	<b>7,429</b>	<b>1,099</b>	<b>73,579</b>	<b>(2,277)</b>	<b>(17,446)</b>	<b>128,727</b>	<b>191,111</b>
Profit for the period	–	–	–	–	–	4,779	4,779
Gains arising on cash flow hedges during the year	–	–	–	–	2,240	–	2,240
Tax relating to components of other comprehensive income	–	–	–	–	(416)	–	(416)
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,824</b>	<b>4,779</b>	<b>6,603</b>
Ordinary dividends paid	–	–	–	–	–	(3,348)	(3,348)
Transfer of realised revaluation	–	–	2	–	–	(2)	–
Accrued share-based payments	–	–	–	–	–	416	416
Distribution of own shares	–	–	–	378	–	(365)	13
Unconditionally vested share awards	–	–	–	157	–	(157)	–
<b>Balance at 23 December 2017</b>	<b>7,429</b>	<b>1,099</b>	<b>73,581</b>	<b>(1,742)</b>	<b>(15,622)</b>	<b>130,050</b>	<b>194,795</b>

	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Own shares held £'000	Hedging reserve £'000	Profit and loss account £'000	Total £'000
<b>Balance at 25 June 2016</b>	<b>7,429</b>	<b>1,099</b>	<b>73,253</b>	<b>(915)</b>	<b>(19,288)</b>	<b>122,299</b>	<b>183,877</b>
Profit for the period	–	–	–	–	–	5,929	5,929
Gains arising on cash flow hedges during the year	–	–	–	–	1,837	–	1,837
Tax relating to components of other comprehensive income	–	–	337	–	(479)	–	(142)
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>337</b>	<b>–</b>	<b>1,358</b>	<b>5,929</b>	<b>7,624</b>
Ordinary dividends paid	–	–	–	–	–	(3,274)	(3,274)
Transfer of realised revaluation	–	–	119	–	–	(119)	–
Accrued share-based payments	–	–	–	–	–	301	301
Purchase of own shares	–	–	–	(44)	–	–	(44)
Distribution of own shares	–	–	–	47	–	(44)	3
Unconditionally vested share awards	–	–	–	108	–	(108)	–
<b>Balance at 24 December 2016</b>	<b>7,429</b>	<b>1,099</b>	<b>73,709</b>	<b>(804)</b>	<b>(17,930)</b>	<b>124,984</b>	<b>188,487</b>

# CONSOLIDATED CASH FLOW STATEMENT

26 weeks ended 23 December 2017

	£'000	Unaudited 26 weeks ended 23 December 2017 £'000	Unaudited 26 weeks ended 24 December 2016 £'000	Audited 52 weeks ended 24 June 2017 £'000
<b>Net cash flows from operating activities (note 9)</b>		<b>7,929</b>	9,942	22,080
<b>Cash flows from investing activities</b>				
Proceeds of sale of tangible fixed assets	3,436		2,358	5,876
Purchase of tangible fixed assets	(6,108)		(19,252)	(25,668)
Additional loans to customers	–		(49)	(48)
Customer loan redemptions	70		68	130
Acquisition of subsidiaries	–		(12,302)	(12,378)
Cash acquired on acquisition	–		831	827
<b>Net cash flows from investing activities</b>		<b>(2,602)</b>	(28,346)	(31,261)
<b>Cash flows from financing activities</b>				
Dividends paid	(3,348)		(3,274)	(4,102)
Interest paid	(2,058)		(1,954)	(3,994)
Long-term loan	1,000		27,000	19,000
Issue costs of long-term loan	–		(265)	(292)
Purchase of own shares	(1,322)		(341)	(622)
Share option proceeds	13		3	12
<b>Net cash (outflows)/inflows from financing activities</b>		<b>(5,715)</b>	21,169	10,002
<b>Net (decrease)/ increase in cash and cash equivalents</b>		<b>(388)</b>	2,765	821
<b>Cash and cash equivalents at beginning of the period</b>		<b>184</b>	(637)	(637)
<b>Cash and cash equivalents at end of the period</b>		<b>(204)</b>	2,128	184

## NOTES TO THE ACCOUNTS 23 December 2017

### 1 Interim Statement

The financial information contained in this interim statement, which is unaudited, does not constitute statutory accounts as defined in s434 of the Companies Act 2006. Statutory accounts for the 52 weeks ended 24 June 2017, upon which the auditors issued an unqualified opinion, have been filed with the Registrar of Companies. The financial information comprises the results of Shepherd Neame Limited and its subsidiaries.

### 2 Accounting Policies

The consolidated interim accounts have been prepared under FRS 104 Interim Financial Reporting and on the basis of the accounting policies set out in the statutory accounts for the 52 weeks ended 24 June 2017.

### 3 Non-GAAP reporting measures

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

- Profit or loss on disposal of properties
- Investment property fair value movements
- Exceptional items – these are items which are either material or infrequent in nature and do not relate to the underlying performance

	26 weeks ended 23 Dec 2017 unaudited £'000	26 weeks ended 24 Dec 2016 unaudited £'000	52 weeks ended 24 June 2017 audited £'000
<b>Underlying EBITDA</b>	<b>12,101</b>	11,566	23,352
Depreciation and amortization	(4,074)	(3,861)	(7,846)
Free trade loan discounts	(39)	(41)	(63)
Loss on sale of assets (excluding property)	(73)	(40)	(184)
<b>Underlying operating profit</b>	<b>7,915</b>	7,624	15,259
Net finance costs	(2,110)	(1,965)	(4,094)
<b>Underlying profit before taxation</b>	<b>5,805</b>	5,659	11,165
Profit on disposal of property	1,366	733	588
Investment property fair value movements	310	273	496
Exceptional items	(1,981)	–	(469)
<b>Profit on ordinary activities before taxation</b>	<b>5,500</b>	6,665	11,780

Exceptional items of £1,981,000 comprised £1,495,000 in respect of restructuring costs following a review of strategy for the brewing and brands business associated with the termination of the Asahi contract, and an impairment charge of £486,000 in respect of the Royal Wells Hotel, Tunbridge Wells reflecting a reduction of trading at this site.

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

#### 4 Segmental reporting

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

- Brewing and Brands which comprises the brewing, marketing and sales of beer, wine and spirits;
- Managed Pubs and Hotels and;
- Tenanted and Leased Pubs which comprises pubs operated by third parties under tenancy or lease agreements.

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

	Brewing and Brands £'000	Managed Pubs and Hotels £'000	Tenanted and Leased Pubs £'000	Unallocated £'000	Total £'000
<b>26 weeks ended 23 December 2017</b>					
<b>Turnover</b>	<b>32,401</b>	<b>32,922</b>	<b>17,984</b>	<b>816</b>	<b>84,123</b>
Underlying operating profit	1,317	4,721	6,663	(4,786)	7,915
Exceptional items	(1,495)	(486)	–	–	(1,981)
<b>Divisional operating profit</b>	<b>(178)</b>	<b>4,235</b>	<b>6,663</b>	<b>(4,786)</b>	<b>5,934</b>
Net finance costs					<b>(2,110)</b>
Profit on disposal of property					<b>1,366</b>
Investment property fair value movements					<b>310</b>
<b>Profit on ordinary activities before taxation</b>					<b>5,500</b>

#### Other segment information

Capital expenditure – tangible fixed assets and goodwill	598	2,394	2,727	278	<b>5,997</b>
Depreciation and amortisation	992	1,422	1,145	515	<b>4,074</b>
Underlying divisional EBITDA	2,376	6,159	7,823	(4,257)	<b>12,101</b>
Number of pubs	–	66	248	8	<b>322</b>

	Brewing and Brands £'000	Managed Pubs and Hotels £'000	Tenanted and Leased Pubs £'000	Unallocated £'000	Total £'000
<b>26 weeks ended 24 December 2016</b>					
<b>Turnover</b>	<b>31,081</b>	<b>29,601</b>	<b>17,755</b>	<b>721</b>	<b>79,158</b>
<b>Underlying and divisional operating profit</b>	<b>725</b>	<b>4,771</b>	<b>6,660</b>	<b>(4,532)</b>	<b>7,624</b>
Net finance costs					<b>(1,965)</b>
Profit on disposal of property					<b>733</b>
Investment property fair value movements					<b>273</b>
<b>Profit on ordinary activities before taxation</b>					<b>6,665</b>

#### Other segment information

Capital expenditure – tangible fixed assets and goodwill	823	17,750	12,870	750	<b>32,193</b>
Depreciation and amortisation	1,055	1,276	1,066	464	<b>3,861</b>
Underlying divisional EBITDA	1,852	6,055	7,726	(4,067)	<b>11,566</b>
Number of pubs	–	67	261	7	<b>335</b>

The segmental disclosure reflects how management now monitor the performance of each division, which has resulted in a re-statement of the 2016 disclosure.

#### 4 Segmental reporting continued

52 weeks ended 24 June 2017	Brewing and Brands £'000	Managed Pubs and Hotels £'000	Tenanted and Leased Pubs £'000	Unallocated £'000	Total £'000
<b>Turnover</b>	<b>59,760</b>	<b>60,671</b>	<b>34,434</b>	<b>1,333</b>	<b>156,198</b>
Underlying operating profit	1,566	9,005	12,973	(8,285)	15,259
Exceptional items	–	(421)	(48)	–	(469)
<b>Divisional operating profit</b>	<b>1,566</b>	<b>8,584</b>	<b>12,925</b>	<b>(8,285)</b>	<b>14,790</b>
Net finance costs					(4,094)
Profit on disposal of property					588
Investment property fair value movements					496
<b>Profit on ordinary activities before taxation</b>					<b>11,780</b>

#### Other segment information

Capital expenditure – tangible fixed assets and goodwill	1,399	21,529	15,506	1,120	<b>39,554</b>
Depreciation and amortisation	2,113	2,569	2,174	990	<b>7,846</b>
Underlying divisional EBITDA	3,857	11,604	15,166	(7,275)	<b>23,352</b>
Number of pubs	–	66	253	8	<b>327</b>

#### 5 Taxation

	26 weeks ended 23 Dec 2017 £'000	26 weeks ended 24 Dec 2016 £'000	52 weeks ended 24 June 2017 £'000
Corporation tax	<b>1,092</b>	1,344	2,714
Deferred tax	<b>(371)</b>	(608)	(1,146)
<b>Total tax charged to profit and loss account</b>	<b>721</b>	736	1,568

Taxation has been provided at 21.00% (2016: 21.75%) based on the estimated effective tax rate for the 53 weeks to 30 June 2018. The average statutory rate of corporation tax for the 53 weeks to 30 June 2018 is 19.00% (52 weeks to 24 June 2017: 19.75%).

Taxation on items excluded from underlying results for the 26 weeks ended 24 December 2016 included a deferred tax credit of £335,000. This arose from the restatement of deferred tax assets and liabilities in respect of accelerated capital allowances and rolled over gains based on the future tax rate of 17% from April 2020 (previously 18%), which was substantively enacted in the period and is expected to apply when the timing differences reverse.

Similarly, tax relating to components of other comprehensive income for the 26 weeks ended 24 December 2016 included a deferred tax credit of £221,000 due to restating the deferred tax balances in respect of the revalued freehold licensed properties and derivative financial instruments.

#### 6 Earnings per share

	26 weeks ended 23 Dec 2017 £'000	26 weeks ended 24 Dec 2016 £'000	52 weeks ended 24 June 2017 £'000
Profit attributable to equity shareholders	<b>4,779</b>	5,929	10,212
Items excluded from underlying results	<b>(193)</b>	(1,501)	(1,476)
<b>Underlying earnings attributable to equity shareholders</b>	<b>4,586</b>	4,428	8,736
	<b>Number</b>	<b>Number</b>	<b>Number</b>
Weighted average number of shares in issue	<b>14,689</b>	14,774	14,780
Dilutive outstanding options	<b>141</b>	116	121
<b>Diluted weighted average share capital</b>	<b>14,830</b>	14,890	14,901

#### Earnings per 50p ordinary share

Basic	<b>32.5p</b>	40.1p	69.1p
Underlying basic	<b>31.2p</b>	30.0p	59.1p
Diluted	<b>32.2p</b>	39.8p	68.5p

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

## 7 Dividends

	26 weeks ended 23 Dec 2017 £'000	26 weeks ended 24 Dec 2016 £'000	52 weeks ended 24 June 2017 £'000
Final dividend for 2017: 22.73p (2015: 22.05p) per ordinary share	3,348	3,274	3,268
Interim dividend for 2018: 5.62p per ordinary share	–	–	834
<b>Dividends paid</b>	<b>3,348</b>	<b>3,274</b>	<b>4,102</b>

## 8 Acquisitions

### a) Ultimate Entertainment Services Limited

On 4 July 2016, the Company acquired 100% of the issued share capital of Ultimate Entertainment Services Limited, a company which operated five Shepherd Neame tenancies in and around Faversham and Canterbury, Kent, for cash consideration of £452,000. The fair value of assets acquired at that date was £142,000, which was less than the fair value of the consideration by £310,000, which has been treated as goodwill. This goodwill will be amortised over its useful economic life of five years.

The business of Ultimate Entertainment Services Limited was hived up to Shepherd Neame Limited at the date of acquisition, and results since that date have been recognised in this company.

### b) Village Green Restaurants Limited

On 29 November 2016, the Company acquired 100% of the issued share capital of Village Green Restaurants Limited, a company which owned and operated freehold pub restaurants in and around Maidstone and Ashford, Kent, for cash consideration of £11,926,000. The fair value of assets acquired at that date was £11,420,000, which was less than the fair value of the consideration by £506,000, which has been treated as goodwill. This goodwill will be amortised over its useful economic life of ten years.

The businesses of Village Green Restaurants Limited were hived up to Shepherd Neame Limited between March and May 2017 and the results of these businesses since that date have been recognised in the parent company.

In the 26 weeks to 23 December 2017, no turnover or profit was included in the Group consolidated profit and loss account in respect of Village Green Restaurants Limited. In the 26 weeks ended 24 December 2016, turnover of £614,000 and underlying operating profit of £79,000 (52 weeks ended 24 June 2017, turnover of £2,573,000 and underlying operating profit of £317,000) was included in the consolidated profit and loss account in respect of Village Green Restaurants Limited since the acquisition date. This reflects the trade within those pubs from the date of acquisition to the date at which the assets and trade were hived up to Shepherd Neame Limited.

## 9 Notes to the cash flow statement

### (a) Reconciliation of operating profit to net cash flows from operating activities

	26 weeks to 23 Dec 2017			26 weeks ended	52 weeks ended
	Underlying results £'000	Excluded from underlying results £'000	Total £'000	24 Dec 2016 £'000	24 June 2017 £'000
<b>Operating profit</b>	<b>7,915</b>	<b>(1,981)</b>	<b>5,934</b>	7,624	14,790
Adjustment for:					
Depreciation and amortisation	4,074	–	4,074	3,861	7,846
Impairment provision	–	486	486	–	199
Charge for share-based payments credited to reserves	301	115	416	301	619
(Decrease)/increase in stocks	126	83	209	393	(349)
(Increase)/decrease in debtors and prepayments	(2,016)	7	(2,009)	(1,616)	(1,826)
(Decrease)/increase in creditors and accruals	(162)	264	102	666	3,216
Free trade loan discounts	39	–	39	41	63
Loss of sale assets (excluding property)	73	204	277	40	184
Interest received	3	–	3	4	6
Income tax paid	(1,602)	–	(1,602)	(1,372)	(2,668)
<b>Net cash inflow from operating activities</b>	<b>8,751</b>	<b>(822)</b>	<b>7,929</b>	9,942	22,080

### (b) Analysis of net debt

	June 2017 £'000	Cash flow £'000	Long-term loan £'000	Amortisation of issue costs £'000	December 2017 £'000
Cash	184	(88)	–	–	96
Bank overdraft	–	(300)	–	–	(300)
Cash and cash equivalents	184	(388)	–	–	(204)
Debt due after more than one year	(78,267)	–	(1,000)	(76)	(79,343)
<b>Total</b>	<b>(78,083)</b>	<b>(388)</b>	<b>(1,000)</b>	<b>(76)</b>	<b>(79,547)</b>

## 10 Capital expenditure and commitments

In the 26 weeks ended 23 December 2017, there were additions to tangible fixed assets on an accruals basis of £5,997,000 (2016: £32,193,000). In the financial period, there were disposals of tangible fixed assets with a net book value of £2,347,000 (2016: £1,665,000). As at 23 December 2017, capital commitments contracted, but not provided for by the Group, amounted to £1,763,000 (2016: £1,094,000).

## 11 Related party transactions

Jonathan Neame, Chief Executive of Shepherd Neame Limited, is Chairman of Visit Kent. During the 26 weeks ended 23 December 2017, fees and sponsorship activity paid to Visit Kent amounted to £3,000 (2016: £2,000) including VAT. The balance owed to Visit Kent Limited as at 23 December 2017 was nil (2016: nil).

During the 26 weeks ended 23 December 2017, the Group purchased goods to the value of nil (2016: £8,000) including VAT and made sales of £39,000 (2016: £74,000) to St Austell Brewery Company Limited, a company of which Jonathan Neame is a non-executive Director. At 23 December 2017, the Group was owed £4,000 (2016: £11,000), including VAT, by St Austell Brewery Company Limited. At 23 December 2017, the balance owed by the Group to St Austell Brewery Company Limited was nil (2016: nil).

George Barnes is an executive director of Shepherd Neame Limited. Mr A J A Barnes, a close member of George Barnes' family, is a partner of Clarke Barnes Solicitors LLP, which provided legal services in respect of Group properties during the period at a cost of £16,000 including VAT and disbursements to third parties (2016: £11,000). There was a balance of £4,000 owed to the partnership as at 23 December 2017 (2016: nil).

Nigel Bunting, executive director of Shepherd Neame Limited, is also a director of Davy and Company Limited. During the period, the Group purchased goods to the value of £2,000 (2016: £3,000) and made sales to the value of £123,000 (2016: £121,000) to Davy and Company Limited and its associated companies. At 23 December 2017, the balance owed by Shepherd Neame Limited to the Davy Group of companies was nil (2016: nil) and the balance owed to the Group by the Davy Group of companies, including VAT, was £52,000 (2016: £23,000).

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