ADNAMS SOUTHWOLD

Adapting to the new

Adnams plc Annual Report and Accounts 2018

Our purpose

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

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

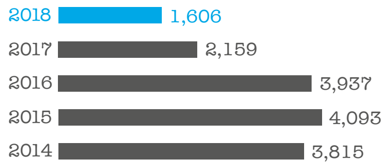
Financial highlights

Turnover £000

£78,918
+5.6%

Operating profit £000*

£1,606
-25.6%



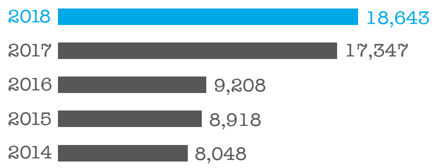
Dividend £

£2.28
0.0%

(per £1 share)

Net bank debt £000

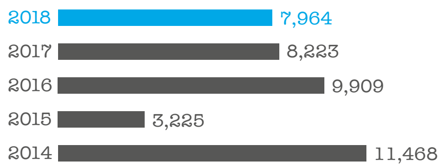
£18,643
+7.5%



Net pension liability £000

£7,964
-3.1%

(pre-tax)



Go to Finance Commentary pg 20

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

* Operating profit is reported before highlighted items.

FROM

TO

Brewing beer since 1872

A business investing in new systems and processes, ensuring it can adapt and thrive in the long term.

Chairman's Report pg 10

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Ghost Ship and Ghost Ship 0.5%. Separated at birth! pg 2

The award we've all been 'longing' for... pg 4

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ADNAMS SOUTHWOLD COMMUNITY TRUST

Doing the right thing pg 8

FROM

A spooky seasonal brew

TO OUR BEST SELLING BEER

and a 0.5% ‘you can’t taste the difference’ version to boot!

Last year, we refreshed our Ghost Ship 4.5% brand design – it’s the same great beer, but with a new look to improve its standout on the bar and in stores. At the same time, we invested in new technology to allow us to create a 0.5% abv version of our most popular beer. According to Nielsen*, 2018 saw a sales increase of over 35% for low/no alcohol drinks. Having the ability to offer consumers a top-quality lower alcohol beer has given us early entry into this growing market.

* Source: Nielsen ScanTrack 52 w/e 6 Oct 2018.

Why investing in low alcohol products makes sense…

+35% sales growth in 2018 for low/no alcohol products[1]

>10.6m

UK adults are now teetotal[2]

1 in 4 of 18-24 year olds do not drink alcohol[2]

What people are saying about Ghost Ship 0.5%

★★★★★

Comparison test

"I bought several different types of lo/no alcohol beers to try before ordering for Xmas and found Ghost Ship to be head and shoulders above the rest for taste and apparent body."

★★★★★

Beer wizards!

"What kind of magic is this? This is the first alcohol free beer I've tried that truly tastes like a real beer. I was sceptical before trying, expecting the usual thin taste that disappears quickly from the palate like most no/low alcohol beers, but this tastes exactly like Ghost Ship! For a bitter drinker who gave up in January this is a revelation. Excellent job!"

Tastes just like a proper beer!

"Very fruity and zingy, with strong citrus hints."

The Telegraph

It actually tastes like an Adnams pale ale

"This has a great malt character on the nose, something like digestive biscuits, then is citrussy and grassy on the palate. It actually tastes like an Adnams pale ale. I gave this to a friend, who didn't realise it was alcohol-free."

BBC Good Food

A top-class non-alcoholic beer

"Produced in Suffolk and inspired by tales of eerie apparitions along its coastline, this is a top-class non-alcoholic beer. It has a beautiful amber hue, complex notes of citrus and a satisfying finish. Perfect for anyone who enjoys the bitter, hoppy taste of ale."

The Sunday Times

1. Source: Nielsen ScanTrack 52 w/e 6 Oct 2018
2. Source: The Grocer

FROM

The advent of our Copper House Distillery in 2010

TO

WORLD'S BEST VODKA PRODUCER

INTERNATIONAL WINE & SPIRIT COMPETITION
IWSC TROPHY 2018
QUALITY AWARD
VODKA PRODUCER OF THE YEAR

Following a second trophy win for Adnams Longshore Vodka at the International Wine & Spirit Competition (IWSC), as well as a silver outstanding medal for Adnams East Coast Vodka and silver for Rye Hill Vodka, we were delighted to be awarded Vodka Producer of the Year 2018. This is a hugely prestigious accolade to have achieved, demonstrating the exceptional quality of the alcohol produced by Adnams. All Adnams vodkas start life as a beer made in our brewery.

Our vodkas are doing particularly well in Australia. Over 10,000 bottles were exported down-under last year.

+31%

Adnams vodka sales have increased 31% in our retail stores and online

JOHN 'CHUFFED TO BITS' McCARTHY

"With the news recently that craft vodka is to be the next big thing in the world of spirits, this award couldn't have come at a better time. Producing a quality vodka from grain to glass is not easy, and it's great to be recognised by the IWSC for all our hard work. Our East Coast Vodka is the base spirit for our award-winning Copper House Gin, so it's great news all round."

FROM

Enjoying a pint

TO

A FULL 5-STAR ADNAMS EXPERIENCE

With the opening of the John Adair Adnams Visitor Centre, we now have an inspirational, comfortable space for guests to learn more about Adnams, taste our drinks and explore what makes us stand out from the crowd. From enjoying a pint in a pub, to a sumptuous meal in The Still Room restaurant, we're aiming to create joyful, memorable experiences at every opportunity. Our tour guides' infectious enthusiasm has been noted in Trip Advisor reviews and their passion for our much-loved brand is testament to our approach to innovation, top customer service and drinks made with care and attention.

This 17th-century seaside hotel has been revamped and eschews seaside clichés for

CONTEMPORARY COOL

THE SUNDAY TIMES BEST PLACES TO STAY 2018

"This 17th-century hotel was relaunched last year, and its top-to-bottom refurb is a triumph. In the sitting room, constellations of contemporary lamps hang beside 18th-century portraits; upstairs, pink-tipped bedsteads float on a sea of teal and taupe. The furniture is robust and chunky, and the bed linen deliciously soft. Best of all is the lack of nautical nonsense in the decor. Who needs it when the beach is 150 yards from the front door?"

The Sunday Times

"We had a 5 night stay at the Swan in Southwold, they have spent a great deal of money modernising what's possible!! And done a wonderful job, it's still an old property and that is part of its charm."

"Excellent hospitality... food terrific, staff all very warm and friendly."

Trip Advisor

THE SWAN SOUTHWOLD

The Guardian

50 BEST UK PUBS

THE HARBOUR INN

"This part of Suffolk rolls away forever, with a sky that's somehow bigger than anywhere else. The Harbour Inn, by the River Blyth among boat sheds and jetties, is a pub designed against flood: in the lower bar, power-points are on the ceiling, pints are passed down through a hatch, and the floors are tiled for the ease of sweeping away mud. In summer it's the perfect spot for watching clean white clouds float over the marshes, while at night there's the opposite of a view – blessed blackness, and muttering estuary winds that bring to mind the ghost stories of MR James."

The Guardian

MEET NICK

our Director of Properties and Experiences

Nick's focus is on enabling customers to have brilliant, memorable experiences, whether they are visiting a pub for a quick drink, or staying for a luxurious week at The Swan, Southwold. As well as looking after Adnams properties, Nick is also heading up Adnams Tours and Experiences and the Events team, ensuring that all visitors receive a fabulous taste of Adnams.

ADNAMS TOURS

Over 21,000 visitors enjoyed Adnams Tours and Experiences in 2018


Lift here to
continue the tour

FROM

Doing the right thing

TO

SOCIAL, ENVIRONMENTAL & FINANCIAL SUSTAINABILITY

Sustainability is the foundation of our business strategy, recognising that long-term business success relies on thriving communities and a healthy environment. From beach cleans to supporting local good causes and charities through The Adnams Community Trust, we work for the future while also delivering success today.

Our green TRAILBLAZER secures gold

We're delighted to report that Adnams Environmental Sustainability Manager, Ben Orchard, has been awarded the prestigious edie Sustainability Leaders Award 2018. The award celebrates a five-year, trail-blazing sustainability programme that has delivered clear commercial benefits and been so successful it has been adopted by other organisations.

The panel of judges noted initiatives that included changing Adnams' Spindrift bottle from blue to brown glass, which generated a 21% carbon reduction and saved more than £25,000 annually. The transformation of Adnams' waste management, resulting in zero waste now sent to landfill, and the sourcing of 100% renewable electricity for Adnams' business operations, were also applauded.

Overall, Ben has delivered carbon savings equivalent to another five years' operations and has reduced Adnams' water ratio to well below the industry average. A holistic sustainability strategy has also seen biodiversity promoted in our hotels and managed inns through honey made with bees living in hives at our distribution centre in Reydon, as well as the hotels achieving gold status in the Green Tourism Business Scheme.

"This was an exceptional entry. An entry focused on achievements, output and results, this was a clear winner in its category."

edie judging panel

1,000,000
individual donations

£250,000
raised via

Pennies!
The digital charity box

In 2018 Adnams Community Trust awarded 62 grants totalling

£58,822.55

The Adnams Community Trust provides small grants to help charities and worthy causes within 25 miles of Southwold. One of the initiatives supported in 2018 involved a project designed to improve the environment for wildlife whilst building strong communities.

Centre Manager Bob Beard and students at Nexus Engineering Training Centre (a social enterprise company) designed and built laser-cut bird nesting boxes to supply free of charge to community groups local to the Great Yarmouth area. The Adnams Community Trust provided a grant for Nexus to purchase the materials needed for the boxes.

How your carrier bag charge

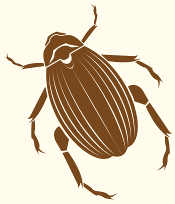
HELPS WILDLIFE

Since the carrier bag charge was introduced at the end of June 2015

Carrier bag sales have raised

£13,667

for the Suffolk Wildlife Trust. They've used this to fund...



British White cattle to graze the Hen Reedbeds habitat

A new bird hide at the Hen Reedbeds

Invertebrate studies at the Hen Reedbeds

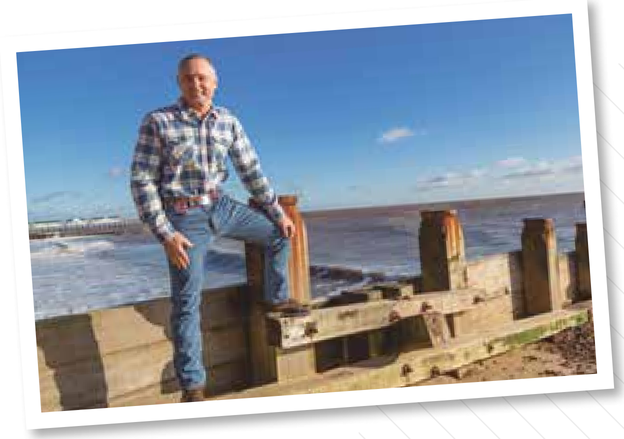
Steps at the Hen Reedbeds made from recycled plastic to improve accessibility

A waterless, composting toilet at Church Farm reserve

RECHARGE
for no charge

Electric cars can now recharge for free at one of our Zero Carbon World (ZCW) Type 2, 'Fast' charge points at The Crown, Southwold; The White Horse, Blakeney; The Ship, Levington; The Five Bells, Wrentham; The Plough, Wangford.

Chairman's Report



2018 was a year of considerable change for Adnams. After the very substantial investments in 2017, we had our first full year of trading at the transformed Swan Hotel and the first year of operation of our expanded brewery.

Jonathan Adnams OBE
Chairman

2018 was a year of considerable change for Adnams. After the very substantial investments in 2017, we had our first full year of trading at the transformed Swan Hotel and the first year of operation of our expanded brewery. We invested in our cutting-edge dealcoholisation plant, we planned and are developing our systems for the future, and we built new marketing capabilities. Our focus has been on quality, on creating first rate drinks and first rate customer experiences and on making Adnams the best and most efficient organisation that it can be.

At £78.9 million our turnover was 5.6% ahead of 2017 and our beer volumes grew by 2.2%. Operating profit before highlighted items, at £1.6 million, was behind the £2.2 million that we made in 2017. Our EBITDA (Earnings before Interest Tax, Depreciation and Amortisation, a commonly used proxy for cash generation before capital expenditure) remained robust at £5.2 million, slightly down from £5.4 million in 2017, before charging the non-cash highlighted items. This year, we have £1.8 million of highlighted items relating to guaranteed minimum pension commitments and property impairment costs. These items are described more fully in the finance commentary on page 20. After charging these items there was an operating loss of £160,000. This compares to an operating profit of £1.4m in 2017.

The changes that we made in the year led to a number of one-off costs, notably the cost of outsourcing the filling of casks for a few months whilst we installed our dealcoholisation plant, and a new cask robot. However, as we anticipated at the time of our AGM, we moved from a first half position where operating profit was behind 2017 to being ahead of the prior year in the second half. Significant exceptional highlighted items have been charged at the full year.

The strategy of Adnams is to be a high quality branded drinks producer and provider of top quality customer experience in our property estate. The success of our low alcohol Ghost Ship, further highly respected awards for our spirits, and plaudits for the reopened Swan stand as evidence that our strategy is being delivered.

Beer

The beer market continues to evolve rapidly. For the first time for many years, volumes of beer sold in the UK on-trade increased, if only by a modest 0.1%. The relative growth of the off trade continued, with that segment of the market growing by 4.7%. Therefore, total market volumes increased by 2.6%. Within these totals there were some major variations with a strong increase in premium lager sales in both the on-trade and off-trade. In contrast, cask ale sales suffered a very poor year with volumes down by 9%. Cask ale remains the biggest category of beer for Adnams and it is disappointing to see this level of decline. Our new brewery investments were made to ensure that we have the flexibility and adaptability to produce all styles of beer.

One very positive trend for Adnams is the growing interest in 'low and no' alcohol beers, and Ghost Ship 0.5% is making a strong name for itself in this field. Adnams has invested in industry-leading technology to make its beer with results that are correspondingly good. Success has been such that we have already made a further investment to double our production capacity.

Regular readers of these accounts will know that we have frequently referred to the distortions caused by Small Breweries Relief (SBR), the UK's system for granting lower duty rates to smaller brewers. Concerns about the impacts of SBR, which have recently included it being cited by Fuller Smith & Turner as one of the reasons for selling their brewing business, have finally led the government to launch a review. Shareholders should understand that this is a very important matter for the health of mid-size breweries. If Adnams paid the same duty rates as its smaller competitors we would save around £7 million per annum.

Spirits

In 2013, Adnams celebrated winning the Gin Guild Cup for the best gin at the International Wine and Spirits Competition. In 2014, we had corresponding success winning the top vodka award, being the first UK producer to achieve this accolade. In 2018, we repeated our 2014 success with Adnams Longshore Vodka winning the best vodka award and on top of this Adnams was named the Vodka Producer of the Year. There can be no doubt as to the high quality of the spirits produced by Adnams. We have invested in top quality production and external awards have followed. In the gin market we are distinguished by being one of a small number of producers who distil from grain. The vast majority of gin producers distil their drinks using alcohol bought from bulk suppliers, we make our own alcohol and we believe that the quality shows.

Adnams was an early entrant into the craft spirits market in the UK, having opened our distillery over eight years ago. This helped us to grow sales rapidly and Copper House Gin in particular gained a strong reputation. That reputation continues to grow; however, the market has become substantially more challenging as the number of distillers has mushroomed, as has the range of gin flavours. We too have launched flavoured varieties of our Copper House Gin and saw good success in 2018 with our Adnams Pink Gin and later in the year with our Quince Gin.

THE SCIENCE BEHIND GHOST SHIP 0.5%

"To make Ghost Ship 0.5%, we first brew a version of Ghost Ship 4.5% and ferment as we would normally. The beer is then sent across to our new reverse osmosis plant, where under pressure water and ethanol travel across membranes. The driver for the process is the concentration gradient of ethanol across the membranes. We add lots of water to carry the ethanol away leaving a concentrated Ghost Ship minus the alcohol. We then blend back some fresh water and carbon dioxide to create Ghost Ship 0.5%. It's a simple process really, it's just quite complicated when you look at the technology involved."

Dan Gooderham
Brewer

Our spirits volumes continued to grow in 2018; however, our 2.4% growth was much lower than we had been seeing in recent periods as the market has become very crowded.

Properties

The Adnams properties aim to provide top quality customer experience. Foremost amongst them is the Swan Hotel, Southwold, which represents the epitome of the Adnams experience. We aim to provide customers with memorable visits and a deeper understanding of the Adnams brand, integrating Adnams' premium drinks with experience of a great location. Service levels are crucial in pubs and hotels and we have sophisticated systems for capturing customer feedback.

Over the last few years, Adnams has developed a much stronger capability to run its own managed pubs and hotels and this has allowed us the ability to move properties between tenancy, leasehold or management as circumstances suggest. In 2018, we moved the Five Bells in Wrentham under our own management and since the year end we have done likewise with the Cross Keys in Aldeburgh. The growing managed estate also allows us to ensure that skills are shared and staff can cover more properties.

The managed estate allows us to communicate the Adnams brand under our own direction, though some pubs, particularly smaller ones, are better managed by others and many of our tenants and lessees are excellent advocates of Adnams.

Retail

The Adnams shops have an important role in raising the visibility and reputation of our brand and in providing a valuable channel of distribution for our products, particularly given the continuing market trend for customers to prefer beer and spirits packaged for consumption at home. Our shops work hand-in-hand with our online and mail order businesses to grow and widen our customer base. Our shops estate remained largely unchanged during the year.

Brand

The Adnams brand represents our promise to customers. We continue to invest strongly in brand development and evolve the communication channels we use. Digital content is becoming ever more important. However, different from many brands, Adnams has a real authenticity and human dimension to it and we will be blending our instinctive feel for our markets, our customers and their needs with increased use of data to ensure we develop and deliver products that meet their needs in compelling and motivating ways now and in future.

Systems

For the last eighteen months Adnams has been engaged in a major and very important change to its core systems governing the operation of its manufacturing and wholesale businesses. We had hoped to complete this project in the second half of last year; however, the scale of this implementation and the extent of the changes to our business processes have meant that the system will be going live just after the signing of these accounts. There will be some inevitable early disruption from such a fundamental change; however, adopting best practice systems is vital for the future growth and resilience of our business.

Dividend

We are recommending an unchanged final dividend of £1.50 per 'B' share and it is proposed that this be paid on Tuesday 4 June in line with the June payment date adopted last year.

Outlook

Those writing forward-looking statements at this time no doubt share an uneasiness as to how the future will look. At the time of writing we are due to circulate this report on the day before the UK is due to leave the EU. There is much talk of the leave date being delayed, though less clarity as to the deal that will accompany leaving, assuming that it happens. For businesses, this uncertainty makes planning very difficult; however, Adnams has the advantage that it is primarily a UK-based business and whilst we have plans to secure necessary imports and to continue the growth of our export business, our main concerns relate to consumer confidence and availability of suitably skilled staff including those in our wider supply chain and customer base. There is little that we can do about these matters, other than to try to ensure that we remain nimble and able to respond quickly to our markets as they change. This we will seek to do.

Our business is well-invested including state of the art systems. We have ensured that quality is at the heart of what we do and that we can communicate that message to our customers. We are well placed for the future, uncertain as it may be, and we will continue to keep our focus on our long-term success. I would like to thank you for your support.

Jonathan Adnams

Jonathan Adnams OBE
Chairman

Strategic Report

Andy Wood
CEO

A lot of things changed at Adnams in 2018 following the very substantial investments made in the previous few years, notably in 2017. Our enlarged brewery had its first full year of operation and at the same time we continued to invest in our industry-leading processes for producing low alcohol beer. Similarly, we saw substantial changes within our managed properties, notably in promoting and running the Swan Hotel after its transformation. These changes created some one-off costs and slowed planned improvements. Nonetheless, we made good progress in building resilience and working differently to allow us to grasp new opportunities.

Operating profits before highlighted items were £1.6 million, the reduction from last year's £2.2 million was largely in central operations costs, where we incurred increased expense in outsourcing racking of cask beer as we installed our new dealcoholisation plant, and in central management where costs were increased as a result of the new systems implementation project and in a number of areas we saw an increased depreciation charge. EBITDA was £5.2 million in 2018 compared to £5.4 million in 2017. After charging the non-cash highlighted items explained on page 20, we had an operating loss of £160,000.

Brand

We are evolving our brand strategy to strengthen our position in the market and build a more robust platform for future growth. The Adnams brand has a true authenticity at its heart and the company has a long tradition of using instinct and intuition to achieve competitive advantage. Whilst being good at spotting trends early such as gin and alcohol free, the challenge is always to sustain that advantage when larger brands, with deeper pockets, enter the market or the market becomes saturated with new entrants. Compelling content, the sensitive and appropriate use of customer data and effective PR will underpin our new approach. Adnams has many products, services and experiences that are exceptional, authentic and heartfelt in the making. This represents an opportunity to create cut-through with our discerning customer base and generate even greater loyalty to Adnams. In order to finance this new approach, we have brought to an end a number of high profile sponsorships that worked well for us in the past but have now run their course. We are grateful to all partners for some great relationships over the years and in some cases we are finding new ways of working together.

The Drinks Business

Beer

We are pleased to report that our beer volumes continue to grow, being 2.2% ahead of those in 2017. The beer market as a whole grew by 2.6%; however, our performance, given our strength in a cask ale sector that declined by 9%, was nonetheless satisfying. Competition in the beer market has grown year-by-year as brewery numbers have risen and this has put inevitable pressure on margins, most notably in the cask ale market where most small breweries are focused. Adnams has concentrated on adaptability, using our new investments to grow non-cask volumes and ensuring our commitment to quality.

The 2018 beer market was affected by some unusual events. The weather was perhaps the most notable. The year started very poorly with four months of exceptionally cold and wet conditions including the 'Beast from the East'. Following that we had one of the hottest and sunniest summers on record. The hot summer was probably one of the important reasons why lager performed well, and cask ale performed badly during the year. Some parts of Adnams, notably pubs with beer gardens, were considerably helped by the weather, restaurant sales rather less so. The Football World Cup, and the relative success of the England team, was also quite positive for beer sales, though again lager in particular. Adnams has never observed a notable uplift in World Cup years. The third notable event was the failure of carbon dioxide supplies over the summer. This led to a number of frustrating production difficulties for Adnams.

Our volume growth has continued to be driven by Adnams Ghost Ship, which is available in cask, keg, bottle, can and mini keg. Adnams Bitter and Broadside, which have a higher proportion of sales in cask format, have seen volumes decline. Some of our smaller product lines have continued to see good sales, notably Mosaic Pale Ale, Ease Up IPA and Dry Hopped Lager. We also had a range of seasonal and limited edition keg beers. Our most notable beer launch of the year was Ghost Ship 0.5% and our new reverse osmosis equipment has been running at full capacity ever since it launched. It was an act of confidence to launch a low alcohol beer carrying the name of our most successful full strength beer; however, the quality has lived up to expectation and both beers are now exemplars of their type.

Adnams' sales of cask beer fell broadly in line with the market in 2018, though we saw some relative revival in the later months. Particularly pleasing was the strong, 24% volume growth in sales of canned beer. The premium that has generally attached to bottled beer over canned beer has begun to change and there are now many premium products sold in canned format. Adnams also saw good growth in keg and bottled format though also some reduction in mini casks and mini kegs where Adnams was an early mover in the market and competition has now sharply increased. Mini keg supply was particularly affected by the carbon dioxide supply problems over the summer.

Direct Sales

Our direct delivery business involves Adnams delivering a full range of drinks, including our own products, to free trade pubs and other outlets in the wider East Anglian area and in and around London. Total beer volumes delivered in 2018 were almost the same as in 2017 with own beer volumes slightly down and non-Adnams volumes slightly up. Within the Adnams volumes keg sales rose and cask sales fell. Own spirits volumes were slightly ahead of 2017 and wine volumes slightly down.

During 2018, Adnams forged a closer relationship with Heineken which helped to improve margins in this distribution channel and overall profit rose in the year. Expenses were slightly lower than in 2017.

Adnams has developed, and continues to enhance, an online ordering app for customers to use on their smartphones. This has been a great success and fits increasingly well with how customers run their business.

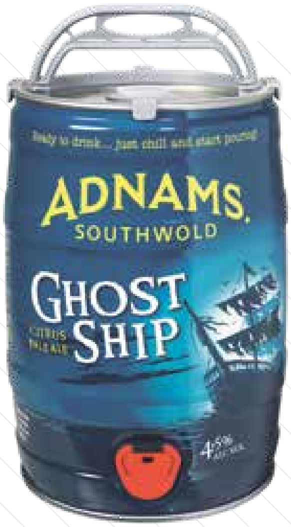
National Sales

Our National sales business involves selling to large pub companies, wholesalers and other brewers. The pub companies comprise those managing their own pubs and those whose pub estates are run by tenants and lessees. The leased and tenanted estates have tended to shrink in recent years and the managed estates have generally grown, and the latter also tend to have larger outlets, though often these are focused on food rather than drinks.

Only five years ago, the National business was much the largest distribution channel for Adnams beer, selling twice as much as any other channel. Today it sells less than it did then and is no longer our largest channel, having been overtaken by the take home channel. This reflects in part the shrinking of the leased and tenanted estates, also the move from on-trade to off-trade consumption and the growing competition with the large numbers of new brewery openings.

COLLABORATIONS

Working with fellow brewers is a fantastic way to exchange ideas and create exciting new styles to reach new audiences for our beers. Sprucy Banger was a festive beer made using pine tips from Holkham Estate brewed in collaboration with Northern Monk Brewing Company in Yorkshire.



15,000 MINI KEGS

Mini keg sales are an increasingly popular way of buying beer, and earlier this year we invested in a new kegging line to bring our kegging operations in-house. The new mini keg line has saved us around £2 per twin-pack and allows full control of our production.

SAY HELLO TO WILD WAVE

Wild Wave English Cider is an exciting new departure for Adnams. It is a project that we've been developing throughout 2018 and Wild Wave will arrive in kegs for trade outlets and in mini kegs and 330ml cans in our retail stores and online by the end of March.

Our focus here is increasingly moving from using a field sales team to using our telephone-based customer experience hub. This hub has the ability to reach far more customers and can direct the field sales team to the most promising opportunities.

Take Home Sales

Our Take Home business covers sales to shops and supermarkets and has been the main engine of our beer volume growth in the last few years. Beer sold through this channel is packaged in bottles, cans, mini casks and mini kegs. The growth in these packaging forms was the main driver behind the substantial new investments that we made in the brewery between 2015 and 2017.

Take Home volumes grew by 9% in 2018, which, whilst slower than the last few years, was comfortably ahead of the growth in the overall off-trade market of 4.7%.

Exports

In recent years, Adnams has been focused on fostering strong relationships with key customers and potential customers in target markets. This yielded good dividends in 2018 with export volumes for Adnams beer growing by 19%. Export volumes were 3.8% of Adnams beer sales in 2018 and 1.5% of turnover by value and we believe that there are good prospects for further growth, assuming no notable disruption to the future international trading environment.

Imported Beers

Adnams has exclusive UK distribution rights for the German pilsner, Bitburger, and for other beers produced by the Bitburger brewery. 2018 marked the twenty-seventh year of this partnership and whilst off-trade volumes fell in the year we saw good increases in direct sales, sales through our pubs and sales through our own retail, notably online and mail order sales.

Adnams Cider

Just before publication of this report we have further enhanced our drinks proposition with the launch of Wild Wave Adnams cider, a premium drink jointly created by our Master Brewer, Fergus Fitzgerald, and our Master of Wine, James Davis. We hold strong hopes for its future success.

Strategic Report
continued

Spirits

Turnover of Adnams spirits in 2018 was slightly lower than in 2017, though still over £4 million. Gross profit on the other hand was slightly higher as sales moved to higher margin channels. The UK has seen a huge boom in small distilleries in the last few years and the market has rapidly fragmented as new drinks have been launched and distilleries have diversified their range into a multiplicity of different flavours. Whilst consumer demand has continued to grow, the increased sales have been spread over an ever greater range of producers and products. Supermarkets have changed their ranges to increasingly focus on flavoured drinks, notably gins, as well as a smaller range of traditional gin.

These trends have presented a challenge to Adnams and we have reacted by extending our own range of flavoured gin and focusing our marketing messages on the undoubted quality of our spirits where we have won further top-level awards in 2018, and we remain one of only a few genuine grain to glass producers.

2018 sales of Adnams Copper House Gin were slightly ahead of those in 2017; however, the increase has dipped as we have fewer supermarket listings. Spirits are sold through the same channels as we described above for beer. Take home is the largest of these and it saw a substantial decline in the year.

We noted above the success that we enjoyed in the export markets for beer and the increase was even more marked with spirits where volumes were about three times as high as they had been in 2017. About 11.5% of our spirits volumes sold in 2018 went for export. Whisky as well as gin was important in this market.

We have been distilling for just over eight years and so our whiskies are beginning to reach a level of maturity at which they can attract a more widespread interest. UK sales are still small; however, we believe that the market for English whisky holds a lot of promise and is never likely to be as crowded as the gin market because of the working capital commitment required whilst the spirit matures.

GIN - SPIRED

Whilst Copper House Dry Gin remains our key focus, flavoured and coloured gins tap into current trends and allow us to be a bit more playful while trialling new styles and flavours.

The Drinks Business reports that sales of flavoured gin in the UK have contributed more than half of all the growth in the gin category in the past year.

"Sales netting £165 million, up an impressive 751% on the same period last year, according to figures from the Wine and Spirit Trade Association."

The Drinks Business/ WSTA

Pub and Hotel Business

The Adnams property business encompasses both properties run by Adnams (managed properties) and properties run by third parties on behalf of Adnams (leased and tenanted properties). The relationship between the two is fluid and properties can move between them as circumstances require. During 2018, the Five Bells at Wrentham moved from tenanted to managed and shortly before the signing of these accounts the Cross Keys at Aldeburgh has done the same. This has expanded our managed estate to nine properties whilst our tenanted estate sits at thirty-eight.

Managed Properties

2018 was the first full year of trading at our largest managed property, the Swan, since its major refurbishment during the first nine months of 2017. It takes a little while to build reputations; however, we have been delighted to see good trading at the Hotel which has found its feet in its new incarnation, welcoming and appreciated by old and new customers alike. Turnover in 2018 was 36% higher than it was in 2016, its last full year of operations before the refurbishment. The Hotel has been receiving some excellent reviews and feedback and bookings are strong.

The unusual weather in 2018 had a notable impact on our managed properties. Most properties traded less well in 2018 than they had done in 2017; however, much of this relative underperformance was already the case by the end of April. The good weather over the summer helped those properties with large gardens, with the Bell at Walberswick producing the strongest result. Those with a restaurant-style offer, like the Crown in Southwold, fared less well.

In September 2018, Adnams implemented a new human resources system. The new system includes a facility for scheduling staff working hours. This is a very necessary requirement with the growing number of managed inns and is starting to help both staff and management in the running of these properties. During 2018, Adnams also built a central team to service the managed inns, ensuring the coordination of core functions including buying, repairs, booking and marketing.

Cost pressures in the property businesses have been a tough challenge. The National Living Wage rose by 4.4% in April 2018 and is rising by a further 4.9% in April 2019. In a business where employee costs represent over half of total expenses, and where a further 0.5% of incremental payroll goes towards the apprenticeship levy, this represents substantial cost pressure.

The Tenanted and Leased Estate

The Adnams tenanted and leased estate reduced in size by five pubs during 2018. One was the result of transferring the Five Bells at Wrentham to the managed estate, one came about upon expiry of the lease at the Bridge House, London and the other three were sales: The Bricklayer's Arms, Colchester, the King's Head, Laxfield and the Lord Nelson, Ipswich. We are pleased to note that all these properties continue to trade as pubs. It was particularly gratifying that the local community decided to buy the King's Head, Laxfield.

The Adnams pub estate is primarily freehold, though we held four leases, the Bridge House being one. This lease expired in the middle of the year and after assessing the costs of renewal we decided to vacate the pub. We are pleased that the new lease has been assumed by an established customer of Adnams and we look forward to the continuing availability of our drinks at the venue.

The cost pressures that apply in our managed estate clearly apply equally in the tenanted estate, excepting that they will fall below the apprenticeship levy threshold. The pub sector as a whole continues to evidence the pressure of costs and changing consumer preferences. The Campaign for Real Ale (CAMRA) record that there are still fourteen pubs closing every week.

Nonetheless, many pubs continue to trade well and we believe that the self-reinforcing benefits of a strong pub with a strong brand place the Adnams estate in a good position and year-on-year like-for-like trading in our tenanted estate was broadly consistent, despite the negative trends in the industry.

Adnams Southwold

FIVE BELLS INN

CHARACTER

The Five Bells joined the Managed properties portfolio in 2018. With three refurbished en-suite rooms, it's a characterful country pub with open fires and is a cosy place to enjoy Adnams beers and home-cooked food.

THE CROSS KEYS
ALDEBURGH

LOCAL LIFE

The Cross Keys in Aldeburgh reopened in March 2019 after a full refurbishment. We are delighted to have in Emily Portsmouth an energetic, enthusiastic and experienced manager who joins Adnams to manage this historic pub which has become part of the Adnams Managed properties portfolio.

Strategic Report
continued

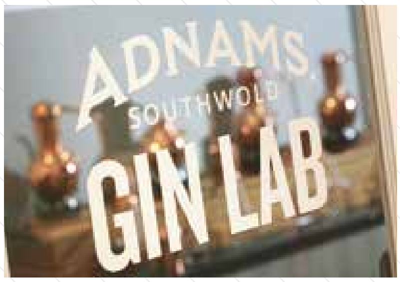
Shops and Online

Our shops have been providing a very important distribution channel and an equally important representation of the Adnams brand for a number of years. 2018 was a year of relatively little change in terms of openings and closures, and the shops focused on developing their proposition and serving their customer base. They remain an excellent launch platform for new products and a means of communication with a widening Adnams customer base. Results were slightly behind the prior year, with turnover being 0.7% lower and whilst costs were also down slightly, margin was lower, particularly on wine and kitchenware.

Adnams' online presence serves many functions. We have a growing online shop selling similar items to those in our physical shops, we facilitate the bookings at our managed houses and for brewery and distillery tours and it is a means of wider communication with customers and the public. The retail side of our website is quite old, and we plan to migrate to a new platform. This migration is linked to the implementation of our new central computer systems and so is happening in 2019.

Successful online sales by Adnams require us to have an engaging and easily navigable website, and also dependable logistics that deliver well packaged, often fragile, products to customers on a timely and reliable basis. At Adnams we have historically packed online orders ourselves; however, our facilities were designed for wholesale distribution. To improve on this, in the fourth quarter of 2018 we moved the packing of our online deliveries to a specialist provider with facilities devoted to retail distribution. This change led to higher costs towards the end of the year.

Online sales grew by 10% in 2018 and we are hopeful of achieving good further growth through our new website.



VISIBILITY & REPUTATION

Our stores remain one of the best places to chat to staff and try our drinks ranges. Our Bury St Edmunds and Norwich Westlegate stores also offer Make your Own Gin Experiences, in addition to our distillery site in Southwold.

Wine
Our wine offering has been an historic strength at Adnams and we continue to have a thriving fine wine business, together with a wine club and wine sales through our shops. An important part of our retail sales is made by mail order, which enjoyed a strong 2018 with sales and profit well ahead of 2017. We also sell to free trade and other wholesale customers. In 2018, we made substantial changes to the way in which we buy wine so that we can improve reliability of supply and ensure that we achieve the most competitive prices.

Wine, along with Bitburger, represents the main category of imports that we make from the European Union. We have been seeking to hold slightly higher stock levels of these products ahead of the date that the UK has planned to leave the EU. The substantial uncertainties around this date and around future trading arrangements have made it difficult to develop detailed plans. It is the nature of wines that some products can become periodically unavailable and alternatives are generally accessible.

10% GROWTH IN ONLINE SALES

Our top five online products:

1 2 3 4 5

Strategic Report
continued

FROM

Continually looking at reducing resource usage

TO

A HUGE NEW CHAPTER IN OUR SUSTAINABILITY STORY

We've introduced further new thinking into our production to reduce both water and energy consumption. This is a huge chapter in our sustainability story – our spirit water consumption has reduced by about half and our overall energy (and carbon emissions) will also reduce.

Don't see waste see resources

Part of the distilling process requires the spirits to be condensed by passing cold water against the hot spirit. The water takes on the heat and thereby becomes a valuable resource which would otherwise go to waste.

We have installed a heat exchanger to remove the heat from this water and transfer it to cold brewing liquor to use in our brewery ready for our next beer. This reduces our heat demand by 5–10%.

Cooling water re-use can continue indefinitely, reducing our previous water consumption by around 85%.

Collaboration

This idea was inspired by work that the National Trust is undertaking, using existing heat (in this case from a natural source of water) to provide warmth for its houses.

With this understanding of an idea, the sharing of knowledge around the technology, and a fair few iterations, we identified a source of existing wasted heat within our processes and a way of using it elsewhere on site.

Water efficiency delivers business resilience

Southwold is one of the driest parts of the UK. We're extremely mindful of our water consumption and our impact on the region.

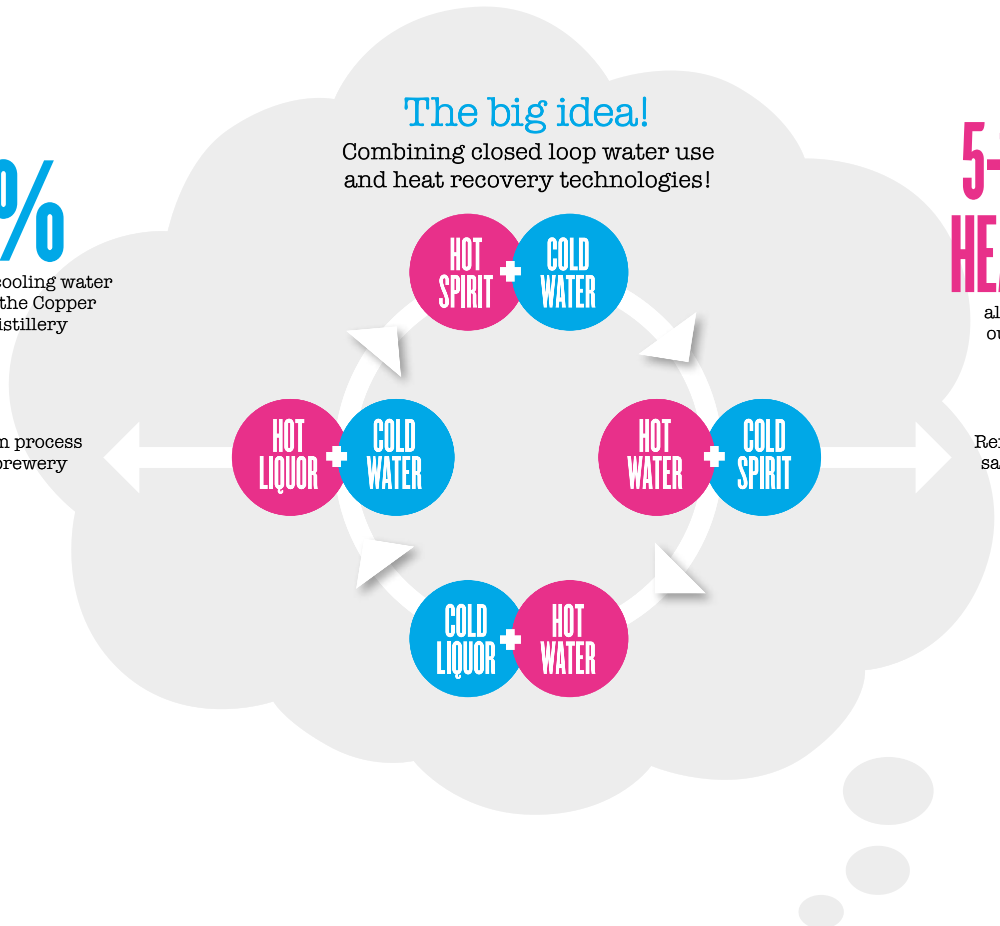
The effluent we produce is carefully controlled to ensure its composition and chemical strength fall within strict limits; removing the heat from the distillery cooling water not only provides us with a source of energy but reusing that water helps us with these consents.

Through this close management of our water and effluent we had the capacity to be able to produce Ghost Ship 0.5%. Removal of the alcohol molecules is a relatively water intensive process, but we've designed it this way to keep a close replica of the original flavour.

85%

reduction in cooling water required in the Copper House Distillery

Remove from process for use in brewery



5-10% LESS HEAT DEMAND

also helping to reduce our carbon emissions

Remove from process for sale/further processing

Environmental Reporting

During 2018, we continued to improve the sustainability of our operations, noting the economic benefits of doing so. Our reputation as a leader in this field remains solid and we have been able to engage with more consumers, particularly millennials, choosing to spend their money on brands they trust. Public awareness of the environmental issues facing our planet has never been higher and this will continue into 2019, as will the success of those brands, such as ours, that are actively trying to reduce these problems.

We continue to use our established management framework to ensure that we think holistically about our environmental impacts across the lifecycle of our products. We are continuing to use the United Nation's Sustainable Development Goals to help define our strategy and are already undertaking many actions across our operations that meet these goals.

Carbon and Energy

Our total carbon emissions increased by 531 tonnes (19%). This is the result of having a larger managed estate, increased product volumes and new processes such as dealcoholisation and in-house kegging. This was as we expected. On a like-for-like basis, we have achieved a reduction of six tonnes (0.4%).

Since October 2017, our electricity has all been renewably sourced. This received considerable media coverage and saved 875 tonnes of carbon in 2018. On a per-revenue basis, our year-on-year carbon emissions have risen by 13.1%, to 41.7kg per £k. All our businesses, other than the brewery, used less carbon per barrel of beer or £k revenue. Of particular note is our logistics division, which delivered more beer using less diesel.

Water

Our water use ratio increased to 3.9 pints of water (+21.3%) to make a pint of beer and our total consumption increased by 22.4% to 109.3 million m^3. As with our carbon emissions, this is attributable to the new processes that we began from late 2017. Our like-for-like operations remain unchanged. Most of the increase simply transfers accountability for the water use from our contract packagers to us. Using industry data, we remain content that our operations are as efficient, if not more so, than the industry at large.

As we continue to grow volumes of bright and kegged beer, which are more water intensive than cask beer, we expect to see our water use rise further; however, we will be working to mitigate this impact.

Our distillery saw a significant improvement in its water use following the installation of an innovative and unique water and heat recovery system. This saves 85% of our cooling water, cutting our overall spirits water ratio in half. The heat that is recovered from this process is given to the brewery, which uses it to make up the hot liquor it requires. This project arose following extensive collaboration with other organisations that pioneer sustainability projects as we do. Our average 2018 water ratio was 30.3 litres of water per litre of finished spirit (-36.7% versus 2017), which is drastically lower than the industry average. This cut has been very important in ensuring that we remain within our effluent consent limits.

Waste and Biodiversity

Public awareness of packaging, especially plastic and single use, grew dramatically in 2018. We already have a very high level of recyclability within our range and continue to remove plastics from our product packaging, as we have done since 2015. Furthermore, in addition to removing plastic straws last year, we removed single use toiletry bottles from our managed properties and replaced them with refillables.

Environmental Expenditure

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

Risk and Adaptation

We continue to update our risk register with environmental and climate change related risks. These include changing weather patterns, water availability, energy costs and flooding. We are acutely aware that this list is growing each year, and that climate-related risks are increasing. Adapting to these risks helps us to remain a resilient and successful company. Adaptation projects will become more common for us, especially where we are acting to prevent any loss in quality of product.

Carbon data

New Method: Market based Emission Factors

Year	**Total Emissions** Tonnes of Carbon Dioxide Equivalent (CO_2e)	**Normalised Emissions** $kgCO_2e$ per £k revenue	**Scope 1 Emissions** (Tonnes): "Fuels used for combustion and owned transport"	**Scope 2 Emissions** (Tonnes): "Purchased Electricity"	**Production** $kgCO_2e$ per barrel produced	**Distribution** $kgCO_2e$ per barrel delivered	**Retail** $kgCO_2e$ per £k revenue	**Managed Properties** $kgCO_2e$ per £k revenue
2018	**3,286** (+19.3%)	**41.668** (+13.1%)	**3,286** (+19.4%)	**0** (-100.0%)	**12.6** (+17.4%)	**6.3** (-0.5%)	**1.8** (-10.4%)	**64.2** (-2.4%)
2017 Restated	**2,755**	**36.850**	**2,752**	**3**	**10.7**	**6.4**	**2.0**	**65.9**
2017	**2,761**	**36.927**	**2,752**	**9**	**10.7**	**6.4**	**2.1**	**66.4**
2016	**2,567**	**36.539**	**2,500**	**68**	**9.5**	**6.4**	**2.1**	**82.2**
2015	**2,518**	**38.327**	**2,312**	**206**	**10.9**	**6.8**	**2.3**	**73.2**

Note
Using Location Based Emission Factors, Total Emissions were 4,161 (+14.2%) Tonnes of Carbon Dioxide Equivalent (CO_2e), Normalised Emissions were 52.8 (+8.3%) $kgCO_2e$ per £k revenue, Fuels used for combustion and owned transport were 3,286 (+19.4%) Tonnes and Purchased Electricity amounted to 875 (-1.7%) Tonnes.

Strategic Report
continued

Finance Commentary

Business Systems

A very important project has been in train within Adnams over the last eighteen months. The central computer systems that support our core drinks business have been in place for over twenty-five years. That is a long time for such systems and is a great credit to how effective and reliable they have been. However, they are no longer able to support our business for the future and we have been migrating to a new system, part of which was adopted in late 2017. We had hoped to fully migrate in the second half of 2018; however, the extent of the change led us to decide that full implementation should be deferred to a quieter period in the first quarter of 2019. The new system will be going live just after the signing of these accounts.

The new system will demand new ways of working and will facilitate improvements in productivity and working capital needs. Whilst major changes of this sort create inevitable short-term disruption, we believe that substantial benefits will follow and this will be our focus as we start using the system. The Adnams brewery and distillery will gain major benefits from the new system. Our production facilities have grown very substantially in size and complexity in recent years and the number of products that we produce and the number of ways in which those products are packaged have greatly increased. Improved systems are a necessity.

Business Costs

We noted the squeezing of margins in the 2017 accounts and that this would be a focus in 2018, facilitated by new systems. The delay in delivering those systems has inevitably meant some corresponding delay in reducing costs; however, cost reduction remains very much our focus.

The increase in central operating costs in 2018 was largely down to increased packaging costs. Some of this was a one-off cost; notably, the installation of our new dealcoholisation equipment required us to outsource cask beer racking for some months. The increase in central costs related to the new systems implementation, mainly the core systems noted above, and also the new human resources system implemented in September. We also saw higher depreciation costs and professional fees. The fees mainly related to advice around claiming research and development tax credits, an important area for Adnams as we have been innovative in many areas, notably in our production processes and in our sustainability agenda.

Highlighted Items

In 2018, highlighted operating costs total £1.8 million. These relate to two issues. Firstly, they cover the cost of adjustments to guaranteed minimum pension (GMP) requirements, further to the decision made in a 2018 court judgement in relation to a scheme run by Lloyds Bank. Secondly, they relate to property impairment costs.

The now closed Adnams defined benefit pension scheme was contracted out from the State Earnings Related Pension Scheme (SERPS), and as a result grants its members a GMP benefit in compensation. Pension schemes are required to adopt the principle of equalisation, which means that any two people with identical pensionable service and salary will be entitled to the same benefits, whether they are male or female. The Lloyds Bank case has established acceptable options for GMP equalisation, and these are likely to have a cost for most affected schemes. In nearly all cases, including that of the Adnams Scheme, that cost has yet to be fully determined as an equalisation option has not yet been chosen and the very detailed calculations needed to establish the cost have not been performed. Nonetheless, companies are required to put an estimated cost in their accounts and the £1.0 million cost included herein has been provided to us by Aviva. It represents a 2.4% of Scheme liabilities. It is treated as a charge against current year profit as it is seen as the enhancement of a past entitlement which has not previously been recognised, and it cannot be spread into future years as there is no future benefit from the service of Scheme members.

Adnams properties are assessed every year to establish that their value is not overstated in our books of account. We hold our properties at historic cost and they have never been revalued. The value of the overall estate is believed to considerably exceed the book cost; however, movements in value may sometimes mean that this is not true for individual properties. Our annual impairment assessment looks at each property individually. We assess the value in use and the estimated realisable value. If either of these exceed the book value, then no impairment is made. We look to achieve a 7.5% return to justify a property as having an adequate value in use. If the cash generated by the property runs at less than 7.5% of the book value then an impairment is potentially due, depending upon the estimated market value and on whether there are reasons why the value in use may have been temporarily reduced. Using this methodology we have assessed an impairment charge of £766,000 in 2018.

Depreciation

Triggered by our new systems investment we have undertaken a review of anticipated useful lives of our fixed assets. Though our existing central system lasted for over twenty-five years, we agreed that a sensible lifetime for the new investment, given the speed of business change, would be ten years.

Shareholders will have noted that we have previously assumed that our freehold buildings have anticipated useful lives between twenty-five and fifty years. The main building with a twenty five year depreciation period has been the Reydon distribution centre and this shorter life was chosen given the innovative design and construction. The building is now over twelve years old and shows no sign that a shorter depreciation life is needed, and so all freehold buildings have now been standardised at a fifty year depreciable life. We have also extended the estimated useful life of the large stainless steel brewery vessels from twenty-five to thirty years. Past experience suggests that these vessels have very long lives.

The impact of these changes in the 2018 accounts is to reduce the depreciation charge by £0.3 million, however the additional capital expenditure would, without these changes, have increased the charge by £0.6 million and so the accounts show a net increase of £0.3 million over 2017.

Borrowings

Year end debt levels rose from £17.3 million in 2017 to £18.6 million in 2018. Continuing relatively high capital expenditure, £4.1 million in 2018, contributed notably to this increase. The higher level of expenditure relates particularly to new systems and dealcoholisation plant. We envisage capital expenditure being substantially lower in 2019.

The ratio of debt to EBITDA (excluding highlighted items) stood at 3.6 times (2017: 3.2 times) and the ratio of EBIT (excluding highlighted items) to interest expense stood at 3.2 times (2017: 7.0 times). Our two longer-term bank facilities (£5 million fixed rate to February 2021, and £5 million revolving credit facility to February 2020), have financial covenants the levels for which have been reduced which meant that there was no covenant breach at the year end. The debt: EBITDA and interest cover ratios at the 2018 year end were within boundaries that are quite normal for our industry, nonetheless we aim to reduce debt levels in future periods.

Facility levels at 31 December 2018 were £22 million, comprising the two longer-term facilities noted above together with a £12 million, overdraft. Whilst there is no short-term need to vary our facilities, we are discussing the facility structure with our bankers and we envisage new facility arrangements being agreed later this year. We are comfortable that such debt capacity as we need will be available.

Tax

The effective tax rate (the tax charge in the accounts as a proportion of the pre-tax accounting profit) was 33% in 2017. In 2018, we have a tax credit of £92,000 which takes account of expenditure that is ineligible for tax relief and also our claims for research and development (R&D) allowances. We take a prudent approach to our tax affairs and steer away from anything close to tax avoidance; however, we do not shun tax reliefs properly given and our pioneering work in production and sustainability has led to the R&D claim included in the current year accounts.

During the year, HMRC initiated a pay as you earn (PAYE) audit at Adnams. This uncovered a few areas where our processes needed to be tightened; however, it was pleasing that our, prudent tax approach was vindicated. A few final points are being resolved at the current time.

Pensions

Our accounts recognise a deficit relating to the historic Adnams defined benefit pension scheme. This scheme was closed to new entrants in 2002 and to all further accrual in 2005; nonetheless, it requires continuing management to ensure that liabilities can be met. Scheme liabilities at the end of 2005, following closure to accrual, amounted to £24 million. Despite the fact that no further pension entitlements have been accrued since that time, liabilities at the end of 2018 were £42 million and the deficit was £8.0 million, down from £8.2 million in 2017, despite the £1 million additional GMP charge noted above under Highlighted Items. Throughout the period since 2005 Adnams has continued with substantial cash contributions to the Scheme, which in the last few years have been £480,000 per annum. The mushrooming of liabilities despite the lack of further pension accrual and despite the continuing contributions is mainly a result of the very low interest rates that have prevailed in recent years and the decision by the trustees in 1986 to grant fixed 4% pension increases.

Defined benefit pension schemes undergo triennial valuations and contributions are often reset on the basis of these valuations. The next such valuation for the Adnams scheme will be as at 1 April 2019 and we envisage reporting the results of this valuation in the 2019 full year accounts. The valuation will be undertaken by a new Scheme Actuary as the existing actuary is an employee of Aviva, who have decided to withdraw from actuarial and administrative support for defined benefit pension schemes. The Adnams Scheme will be supported by First Actuarial.

Treasury Policies

We keep our treasury policies under review in the light of economic circumstances. In recent times we have taken the view that we will accept the year-by-year impact of currency and interest rate fluctuations on the basis that over the long-term gains and losses balance out and the volatility does not imperil our operations. We have nonetheless agreed a fixed rate on £5 million of our debt.

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

Further details of financial risk are shown in note 28 to the accounts.

Dividend Policy

We are recommending an unchanged final dividend in 2018 of £1.50 per ‘B’ share (37.5p per ‘A’ share). This will mean that the full year dividend will be £2.28 per ‘B’ share (57p per ‘A’ share), unchanged on 2017.

In most recent years, the Board has agreed to pay an interim dividend equal to 35% of the previous full year dividend. In 2018, it was instead agreed that the dividend would remain unchanged at 78p per ‘B’ share (19.5p per ‘A’ share) rather than increasing by 2p to 80p per ‘B’ share (20p per ‘A’ share) which the 35% policy would have indicated.

Business Risks and Uncertainties

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

Firstly, the state of the economy, notably the level of consumer confidence and changes in alcohol consumption patterns are key to us. We try to ensure that we are sensitive to changes so that we can rapidly adapt.

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

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

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

We feel that this classification remains as valid in 2018 as it was in 2017.

The future

Since the 2016 EU referendum, political debate in the UK has been largely and increasingly focused on the outturn and impact of that referendum. Clarity has been in short supply and that has inevitably hindered business planning and this uncertainty seems in 2019 to be adversely affecting consumer confidence and adding to skills shortages in some areas. It is however the nature of things that time resolves uncertainties and those with a longer-term perspective should not be overly influenced by shorter-term events.

Adnams will experience further change in 2019 as its new systems come into use and it continues to adapt to fast moving markets; however, we are a robust business and look forward to that challenge. I would like to thank the many stakeholders in our business and most particularly our hard working staff.

On behalf of the Board,

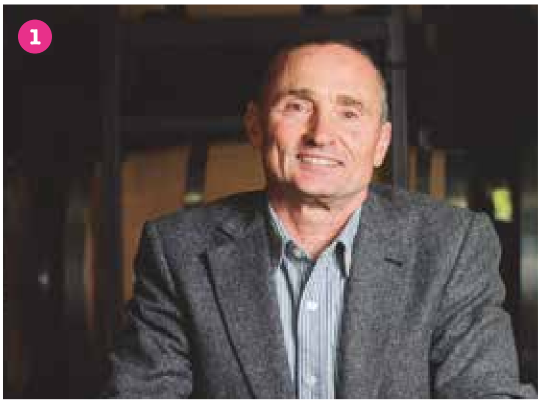
Andy Wood OBE
Chief Executive

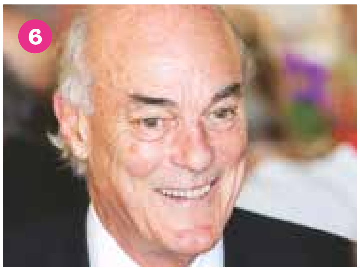
Financial highlights

	2014	2015	2016	2017	2018	Variance[1]
Operating profit (£000)[2]	3,815	4,093	3,937	2,159	1,606	(25.6%)
ROCE (percentage)[3]	13.0%	10.5%	10.7%	4.7%	3.5%	(25.5%)
Gearing (book value)	37.9%	29.7%	33.5%	60.6%	67.6%	11.6%
Net debt (£000)	8,048	8,918	9,208	17,347	18,643	7.5%
Interest cover[4]	12.3	15.3	17.4	7.0	3.2	(54.3%)
Ord dividend (per £1 share)[5]	2.05	2.16	2.26	2.28	2.28	0.0%

1 % variance between 2017 and 2018.
2 Before highlighted items, where applicable.
3 The return on capital is based on the pre-highlight operating profit line and capital employed, including debt.
4 Excluding highlighted items and interest on pension deficit.
5 Including proposed final dividend for 2018.

Our Board





1. Jonathan Adnams OBE
Chairman

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

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

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

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

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

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

2. Andy Wood OBE DL
Chief Executive

Andy Wood joined Adnams in 1994. He joined the Board in 2000 as Sales and Marketing Director, becoming Managing Director in 2006 and Chief Executive in 2010. Andy has an MBA, a doctorate from Cranfield University, three further honorary degrees and is a visiting Professor at the University of East Anglia. He was awarded an OBE in 2013 and was HRH The Prince of Wales' Ambassador for Responsible business in the East of England. In 2018, Andy was awarded the First Special Award for Environmental Responsibility as part of a House of Lords reception on Responsible Capitalism.

From the summer of 2010 to April 2014, Andy was the founding Chairman of the New Anglia Local Enterprise Partnership and was instrumental in securing Central Government financial support for a variety of economic development initiatives across Suffolk and Norfolk. In particular, the New Anglia LEP area was the only one to secure two City Deals for Ipswich and Norwich.

Andy is Chairman of an East Anglian financial services company, NED of Hotel Folk, a Suffolk based hospitality business and is Chairman of Visit East of England.

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

3. Karen Hester
Chief Operating Officer

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

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

Favourite drink: Adnams Pink Gin & Tonic

4. Stephen Pugh
Finance Director

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

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

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

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

Favourite drink: A pint of Ease Up IPA

5. Nicky Dulieu
Non-Executive Director & Chair of the Remuneration Committee

Nicky is a highly experienced businesswoman who has held a number of senior positions in leading UK retailers, including Finance Director of the Food Division at Marks and Spencer and Chief Executive Officer at Hobbs.

Nicky is a passionate gardener and this, combined with her retail expertise, led her to become Chairman of Notcutts in 2015, the Suffolk family owned group of destination Garden Centres. She is also a Commercial Board Member for the Royal Horticultural Society and a Non Executive Director and Remuneration Chairman at Huntsworth PLC, an international healthcare and communications group.

Nicky joined the Adnams Board in April 2014.

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

6. Guy Heald
Non-Executive Director

Guy joined the Adnams Board in April 2015.

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

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

Favourite drink: A bottle of Sole Star

7. Bridget McIntyre
Non-Executive Director
& Chair of the Audit Committee

Bridget started her business career training to be an accountant. After qualification in 1987, she worked in a variety of industries from Collins the publishers to Volvo cars. She moved to work at Aviva and held a number of senior positions across the business. Most recently she was UK chief executive of RSA Insurance.

Bridget is currently an NED of Jarrolds. She is a governor of the Health Foundation and founder of her own social enterprise business, Dream on, a Suffolk-based company focused on improving the lives of women.

Bridget joined the Adnams Board in May 2013.

Favourite drink: A mini bottle of Adnams Prosecco

8. Steven Sharp
Senior Non-Executive Director & Chair of the Nominations Committee

A former Executive Director of Marks and Spencer, Steven was responsible for Marketing, Financial Services, E-Commerce and Store Development.

He is Executive Chairman of Imagineer London, an international Marketing and Branding Agency.

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

Favourite drink: A nice pint of Blackshore Stout

Report of the Directors

The Chairman's Report and the Strategic Report on pages 10 to 21 include information about the company's business and financial performance during the year and indications of likely future developments and should be read in conjunction with this report.

Dividends to ordinary shareholders	2018 £000
Final 150% (paid 1 June 2018)	**(708)**
Interim 78% (paid 1 October 2018)	**(368)**

Proposed final dividend of £708,000 (150%) to be paid 4 June 2019.

Financial risks
The financial risk management objectives, policies and exposures of the company are set out in the Strategic Report and in note 28 to the accounts.

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

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

The statement of directors' responsibilities is shown on page 47.

J P A Adnams, B F McIntyre and S M Sharp retire by rotation and being eligible offer themselves for re-election.

	'A' Ordinary 25p		'B' Ordinary £1	
Directors' interests	**2018**	2017	**2018**	2017
Ordinary shares				
J P A Adnams	**189,303**	189,303	**10,138**	3,263
N J Dulieu*	**161**	161	**–**	–
M G H Heald*	**171,889**	172,512	**37,035**	39,707
	7,250**	–	**–**	–
K Hester	**2,015**	2,015	**–**	–
B F McIntyre*	**105**	105	**–**	–
S C Pugh	**5,833**	5,833	**–**	–
S M Sharp*	**304**	304	**–**	–
A C Wood	**1,745**	1,745	**–**	–
	10,670**	10,670**	**3,800****	3,800**

* Denotes non-executive director.
** Shares held as Trustee.

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

Employee matters

Involvement

Adnams is committed to involving employees in the performance and development of the company by encouraging them to discuss with management matters of interest and subjects affecting day-to-day operations.

Health, welfare and development of employees

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

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

Disabled persons

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

Independence

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

Charitable donations

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

Donations to the Adnams Charity during the year amounted to £18,000 (2017: £22,000).

Supplier payment

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

At 31 December 2018, the company had an average of 28 days (2017: 26 days) purchases outstanding in trade creditors.

Directors' qualifying third-party indemnity provisions

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

Statement as to disclosure of information to the auditor

The directors confirm that:

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

Auditor

Grant Thornton UK LLP offer themselves for re-appointment as auditor in accordance with section 489 of the Companies Act 2006.

By Order of the Board

E S Cantwell
Secretary

21 March 2019

Notice of meeting

Notice is hereby given that the One Hundred and Twenty-Ninth Annual General Meeting will be held at The Britten Studio, Snape Maltings on 25 April 2019 at 11 o'clock for the following purposes:

Ordinary resolutions

1 To consider the Accounts and Directors' report

2 To declare a final dividend

3 To re-appoint J P A Adnams, who retires by rotation

4 To re-appoint B F McIntyre, who retires by rotation

5 To re-appoint S M Sharp, who retires by rotation

6 To re-appoint Grant Thornton UK LLP as Auditor

7 To authorise the directors to fix the remuneration of the Auditor

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

By Order of the Board

E S Cantwell
Secretary

21 March 2019

Registered Office

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

Profit and loss account

For the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Turnover	5	**78,918**	74,765
Operating expenses	6	**(77,312)**	(72,606)
Operating profit before highlighted items		**1,606**	2,159
Highlighted items – operating expenses		**(1,766)**	(721)
Operating (loss)/profit		**(160)**	1,438
(Loss)/profit on disposal of assets	7	**(21)**	671
(Loss)/profit on ordinary activities before interest and taxation		**(181)**	2,109
Interest receivable		**1**	1
Interest payable	10	**(505)**	(310)
Other finance charge on pension scheme	27	**(192)**	(251)
(Loss)/profit on ordinary activities before taxation		**(877)**	1,549
Tax on profit on ordinary activities	11	**92**	(513)
(Loss)/profit for the financial year		**(785)**	1,036

Statement of comprehensive income

For the year ended 31 December 2018

	Notes	2018 £000	2017 £000
(Loss)/profit for the financial year		**(785)**	1,036
Actuarial gain on pension scheme	27	**971**	1,457
Movement on deferred tax relating to actuarial gain	20	**(165)**	(248)
Total comprehensive income for the financial year		**21**	2,245

	Notes	2018	2017
(Loss)/earnings per share basic and diluted	13		
'A' Shares of 25p each		**(41.6)p**	54.9p
'B' Shares of £1 each		**(166.4)p**	219.6p

The notes form an integral part of the financial statements.

Balance sheet

As at 31 December 2018

	Notes	2018 £000	2017 £000
Tangible fixed assets	14	**45,181**	46,535
Current assets			
Stocks	16	**9,496**	8,065
Debtors	17	**10,654**	10,085
Cash at bank and in hand		**22**	23
		20,172	18,173
Creditors: amounts falling due within one year	18	**(18,883)**	(17,185)
Net current assets		**1,289**	988
Total assets less current liabilities		**46,470**	47,523
Creditors: amounts falling due after more than one year	19	**(10,199)**	(10,221)
Provision for liabilities	20	**(720)**	(437)
		(10,919)	(10,658)
Net assets excluding pension liability		**35,551**	36,865
Pension liability	27	**(7,964)**	(8,223)
Net assets including pension liability		**27,587**	28,642
Capital and reserves			
Called up share capital	21	**472**	472
Share premium	22	**144**	144
Profit and loss account	22	**26,971**	28,026
Equity shareholders' funds		**27,587**	28,642

The notes form an integral part of the financial statements.

The financial statements were approved by the Board of directors on 21 March 2019, authorised for issue and signed on its behalf by:

S C Pugh
Director

Company registration number 31114

Statement of changes in equity

For the year ended 31 December 2018

	Notes	Called-up share capital £000	Share premium account £000	Profit and loss account £000	Total £000
At 1 January 2017		**472**	**144**	**26,857**	**27,473**
Profit for the year		–	–	1,036	1,036
Other comprehensive income					
Actuarial gain on pension scheme	27	–	–	1,457	1,457
Movement on deferred tax relating to pension scheme		–	–	(248)	(248)
Total comprehensive income		**–**	**–**	**2,245**	**2,245**
Dividends paid	12	–	–	(1,076)	(1,076)
At 31 December 2017		**472**	**144**	**28,026**	**28,642**
Loss for the year		–	–	(785)	(785)
Other comprehensive income					
Actuarial gain on pension scheme	27	–	–	971	971
Movement on deferred tax relating to pension scheme	20	–	–	(165)	(165)
Total comprehensive income		**–**	**–**	**21**	**21**
Dividends paid	12	–	–	(1,076)	(1,076)
At 31 December 2018		**472**	**144**	**26,971**	**27,587**

The notes form an integral part of the financial statements.

Statement of cash flows

For the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Cash flows from operating activities			
(Loss)/profit for the financial year		(785)	1,036
Adjustments for:			
Depreciation of tangible assets and write off of investments		3,550	3,376
Loss/(profit) on sale of fixed asset disposals		21	(683)
Interest, and other finance charges on pension scheme		696	560
Tax on profit on ordinary activities		(92)	513
Difference between pension charge and cash contributions	27	(480)	(480)
GMP adjustment for past service	27	1,000	–
Increase in stocks		(1,431)	(835)
Increase in debtors		(251)	(1,231)
Increase in creditors		398	23
Impairment	6	766	–
Cash from operations		3,392	2,279
Taxation paid		(109)	(593)
Net cash generated from operating activities		3,283	1,686
Cash flows from investing activities			
Payments to acquire tangible fixed assets	14	(4,051)	(9,345)
Receipts from sales of tangible fixed assets		1,070	902
Payments to acquire investments/deposits		(22)	(8)
Net cash used in investing activities		(3,003)	(8,451)
Cash flows from financing activities			
Receipt from new bank loan		–	5,000
Interest paid		(500)	(298)
Dividends paid	12	(1,076)	(1,076)
Net cash used in financing activities		(1,576)	3,626
Net decrease in cash and cash equivalents		(1,296)	(3,139)
Cash and cash equivalents at 1 January		(7,347)	(4,208)
Cash and cash equivalents at 31 December		(8,643)	(7,347)
Cash and cash equivalents consist of:			
Cash at bank and in hand		22	23
Bank overdraft (included in bank overdraft and loans within creditors: amounts falling due within one year)		(8,665)	(7,370)
Cash and cash equivalents		(8,643)	(7,347)
Bank loan		(10,000)	(10,000)
Net debt		(18,643)	(17,347)
Reconciliation of net cash flow to movement in net debt			
Decrease in cash		(1,296)	(3,139)
Cash flow from (increase)/decrease in loans		–	(5,000)
Movement in net debt		(1,296)	(8,139)
Net debt at 1 January		(17,347)	(9,208)
Net debt at 31 December		(18,643)	(17,347)

The notes form an integral part of the financial statements.

Notes to the financial statements

For the year ended 31 December 2018

1 Company information

Adnams plc is a Public Limited Company incorporated in England. The registered office is Sole Bay Brewery, Southwold, Suffolk IP18 6JW.

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

2 Basis of preparation

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

Going concern

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

3 Significant judgements and estimates

One notable area of judgement is the assessment of possible impairment of the fixed assets, especially properties, employed by Adnams (note 14). We use a threshold rate of return for these assets when assessing whether an impairment charge could be required. In recent years, we have used a pre-tax rate of 7.5%. Whilst interest rates vary year-by-year there is a case for constantly adjusting this rate, but we feel that there is merit in using a consistent rate and we have chosen this course and feel that 7.5% remains a sensible threshold.

The cost of our closed defined benefit pension plan (note 27) is determined using actuarial valuations. These valuations involve making assumptions, notably about discount rates and mortality rates. Due to the complexity of the valuation, the underlying assumptions and the long-term nature of the plan, such estimates are subject to significant uncertainty.

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

4 Principal accounting policies

Tangible assets

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

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

Freehold buildings	2% p.a.
Leasehold property	
– long lease	2% p.a.
– short lease	period of lease
Plant and equipment	3% to 10% p.a.
Fixtures and fittings	15% p.a.
Motor vehicles	15% p.a.
Computer equipment	25% p.a.

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

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

Impairment reviews

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

4 Principal accounting policies (continued)

Investments

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

Stocks

Stocks have been valued on a consistent basis at the lower of cost or net realisable value on a first-in, first-out basis. Cost of beer and spirits stocks includes relevant production costs and associated overheads. Net realisable value is based on estimated selling price less any further costs expected.

Debtors

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

Creditors

Short-term creditors are measured at transaction price.

Bank loans

Bank loans are measured at amortised cost.

Leases

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

Financial instruments

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

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

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

Taxation

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

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

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

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

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

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

Turnover

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

Notes to the financial statements
continued

4 Principal accounting policies (continued)

Employee benefits

Pension costs – defined benefit scheme

For the Adnams defined benefit scheme, assets are measured at fair value. Scheme liabilities are measured on an actuarial basis using the projected unit credit method and are discounted at appropriate high quality corporate bond rates. The net surplus or deficit is presented separately from other net assets on the balance sheet. A net surplus is recognised only to the extent that it is recoverable by the company through reduced contributions or through refunds from the plan. As the scheme is closed to all accrual there are no current service costs. Costs from settlements and curtailments are charged against operating surplus. Past service costs are recognised in the current reporting period. Interest is calculated on the net defined benefit liability. Remeasurements are reported in other comprehensive income. Additional information is included in note 27.

Pension costs – defined contribution schemes

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

Foreign currency translation

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

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

Dividends

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

5 Turnover

Represents sales invoiced (excluding VAT and net of discounts), rents, commissions and royalties. Turnover outside the United Kingdom during the year was £1,174,000 (2017: £725,000).

6 Operating expenses

		2018 £000	2017 £000
Raw materials, consumables and duty		**49,094**	47,865
Change in stock of finished goods and work in progress		**(1,253)**	(271)
Staff costs (note 9)		**12,941**	11,873
Depreciation (note 14)		**3,550**	3,220
(Loss)/profit on disposal of plant and vehicles		**5**	(12)
Auditor's remuneration	– Audit of the company's annual accounts	**35**	37
	– Audit-related assurance services	**2**	2
	– Tax compliance services	**5**	6
	– Tax advisory (Including R&D)	**41**	2
Operating lease rentals		**750**	684
Foreign exchange gain		**(343)**	(166)
Other operating costs		**12,485**	9,366
		77,312	72,606

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

The £721,000 of highlighted items in 2017 comprises £577,000 of costs of removing asbestos during the renovation of The Swan and a further £144,000 of costs arising from writing-off assets at The Swan which were removed as part of the redevelopment.

7 Profit on disposal of assets

Profit on disposal of assets in 2017 and the loss in 2018 results from the sale of properties.

8 Segmental analysis

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

	Brewing & Brands 2017 £000	Pubs & Hotels 2017 £000	Retail 2017 £000	Central Operations 2017 £000	Central Management 2017 £000	Total 2017 £000
Total sales	48,832	13,491	12,439	–	3	74,765
Operating profit/(loss) before highlighted items	7,030	3,025	1,587	(4,541)	(4,942)	2,159
Highlighted items – operating expenses	–	(721)	–	–	–	(721)
Operating profit/(loss)	7,030	2,304	1,587	(4,541)	(4,942)	1,438
Profit on disposal of assets	–	671	–	–	–	671
Interest receivable	–	–	–	–	1	1
Interest payable	–	–	–	–	(310)	(310)
Other finance charge on pension scheme	–	–	–	–	(251)	(251)
Profit/(loss) on ordinary activities before taxation	7,030	2,975	1,587	(4,541)	(5,502)	1,549
Depreciation	478	677	225	1,586	254	3,220

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

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

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

Notes to the financial statements
continued

9 Directors and employees

Staff costs during the year were as follows:	2018 £000	2017 £000
Wages and salaries	11,500	10,554
Social security costs	1,017	917
Other pension costs	424	402
	12,941	11,873

The average monthly number of persons employed by the company, including executive directors, was as follows:	2018 Number	2017 Number
Trading	19	24
Customer services	111	103
Production	36	33
Shops	107	112
Managed properties	238	222
Corporate services	67	64
	578	558
Total number of part-time workers included above:	203	203

Directors' remuneration:	2018 £000	2017 £000
Fees	128	124
Basic salaries	740	729
Benefits	7	11
Car and pension allowances	130	113
	1,005	977

	Salaries and fees £000	Benefits £000	Car and pension allowances £000	2018 £000	2017 £000
J P A Adnams	203	1	34	238	235
N J Dulieu	31	–	–	31	30
M G H Heald	31	–	2	33	30
K Hester	137	2	27	166	151
B F McIntyre	35	–	–	35	34
S C Pugh	152	2	29	183	182
S M Sharp	31	–	–	31	30
A C Wood	248	2	38	288	285
	868	7	130	1,005	977

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

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

Accumulated total accrued pension:	2018 £000	2017 £000
J P A Adnams	96	93
A C Wood	28	27
K Hester	12	11

Accumulated total accrued pension normally represents scheme service to retirement, but for 31 December 2017 and 2018 this figure reflects the scheme closure in June 2005.

The transfer value of the highest paid director's accrued benefits in the defined benefit pension scheme amounted to £614,503 (2017: £589,447).

Contributions were paid to the Adnams defined contribution pension scheme in respect of K Hester, £13,000 (2017: £13,000) and M G H Heald, £2,498 (2017: £1,194).

Until 2017, the company had an approved Share Incentive Plan in which the Executive Directors participated, the scheme was suspended in 2018. Allocated shares, which are included in Directors' Interests in the Report of the Directors, were as follows:

	2018 'A' shares	2017 'A' shares
J P A Adnams	–	120
K Hester	–	120
S C Pugh	–	120
A C Wood	–	120

There were no share option arrangements in place.

10 Interest payable and similar charges

	2018 £000	2017 £000
Bank loans and overdraft	503	308
Preference share dividends paid: 3.85% cumulative £10 shares	1	1
Preference share dividends paid: 4.9% non-cumulative £5 shares	1	1
	505	310

Notes to the financial statements
continued

11 Tax on profit on ordinary activities

The charge based on the profit for the year comprises:	2018 £000	2017 £000
UK corporation tax @ 19% (2017: 19.25%)	93	54
Tax over provided in prior years	(302)	(79)
Total current tax	(209)	(25)
Deferred taxation (note 20)		
Origination and reversal of timing differences	148	302
Pension cost relief in excess of pension cost charge including effect of rate changes	(121)	237
Adjustment in respect of prior years	90	(1)
Total deferred tax	117	538
Tax on profit on ordinary activities	(92)	513

The tax assessed for the year is higher (2017: higher) than the average rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are reconciled below:

Profit on ordinary activities before tax	(877)	1,549
Profit on ordinary activities multiplied by average rate of corporation tax in the UK of 19% (2017: 19.25%)	(167)	298
Disallowed expenses	326	218
Non-taxable income	(32)	(83)
Adjustment relating to prior years and rate change	(219)	80
Tax on profit on ordinary activities	(92)	513

The aggregate current and deferred tax charge relating to items that are recognised as items of other comprehensive income is £165,000 (2017: £248,000).

During 2018, the UK corporation tax rate was 19%. Following the Budget 2016 announcements, there will be a further planned reduction in the main rate of corporation tax to 17% from 1 April 2020. We have used 17% in our deferred tax calculations, which is the tax rate that is expected to apply in the periods in which the timing differences are expected to reverse.

12 Dividends

	2018 £000	2017 £000
Equity dividends on ordinary shares		
Interim paid 1 October 2018 78% (2017: 2 October 78%)	368	368
Final paid 1 June 2018 150% (2017: 2 May 150%)	708	708
	1,076	1,076

The directors propose a final dividend of £1.50 per £1 nominal share (totalling £708,000) for the year ended 31 December 2018. The dividend will be submitted for approval at the Annual General Meeting, to be held on 25 April 2019. This dividend has not been accounted for within the current year financial statements as it has yet to be approved or paid.

13 Earnings per share

	2018	2017
Including property disposals:		
'A' Ordinary shares	**(41.6)p**	54.9p
'B' Ordinary shares	**(166.4)p**	219.6p

Basic and diluted earnings per share for 'A' Ordinary shares are calculated by dividing the earnings available for 'A' Ordinary shareholders of £(309,000) (2017: £408,000) by the number of issued 25p 'A' Ordinary shares (note 21): 744,000 (2017: 744,000).

Basic and diluted earnings per share for 'B' Ordinary shares are calculated by dividing the earnings available for 'B' Ordinary shareholders of £(476,000) (2017: £628,000) by the number of issued £1 'B' Ordinary shares (note 21): 285,842 (2017: 285,842).

	2018	2017
Excluding property disposals:		
'A' Ordinary shares	**(42.5)p**	22.2p
'B' Ordinary shares	**(169.9)p**	88.8p

14 Tangible fixed assets

	Freehold and leasehold land and buildings £000	Plant, equipment, fixtures & fittings and motor vehicles £000	Total £000
Cost			
At 1 January 2018	34,059	41,188	75,247
Additions	87	3,964	4,051
Disposals	(1,613)	(329)	(1,942)
At 31 December 2018	**32,533**	**44,823**	**77,356**
Depreciation and impairment			
At 1 January 2018	8,917	19,795	28,712
Provided in the year	366	3,184	3,550
Disposals	(635)	(218)	(853)
Impairment	766	–	766
At 31 December 2018	**9,414**	**22,761**	**32,175**
Net book value at 31 December 2018	**23,119**	**22,062**	**45,181**
Net book value at 31 December 2017	25,142	21,393	46,535

At 31 December 2018 £1,464,000 (2017: £501,000) of assets were in the course of construction.

The cost of land and buildings comprises:	2018 £000	2017 £000
Freehold land	**2,005**	2,252
Freehold buildings	**29,761**	30,493
Long leasehold	**663**	621
Short leasehold	**104**	693
	32,533	34,059

Notes to the financial statements
continued

The company carried out an annual impairment review of its pub and shop assets, as explained in the accounting policy disclosed on page 30.

Adnams properties are assessed every year to establish that their value is not overstated in our books of account. Each property is looked at individually. We assess the value in use and the estimated realisable value. If either of these exceed the book value, then no impairment is made. We look to achieve a 7.5% return to justify a property as having an adequate value in use. If the cash generated by the property runs at less than 7.5% of the book value then an impairment is potentially due, depending upon the estimated market value and on whether there are reasons why the value in use may have been temporarily reduced. Using this methodology we have assessed an impairment charge of £766,000 in 2018 (2017: £nil).

15 Investments

Investments	2018 £000	2017 £000
At 1 January	–	50
Additions	–	–
Provision in year	–	(12)
Transfer to debtors	–	(38)
At 31 December	–	–

An investment of £50,000 was made during 2016 in 707 shares of £0.0001 in The Pint Shop Ltd, registered at Heydon Lodge Flint Cross, Newmarket Road, Royston SG8 7PN. The investment was made for trading reasons and was restated as a trade debtor in 2017 and is being written off over four years.

16 Stocks

	2018 £000	2017 £000
Raw materials	**1,669**	1,491
Work in progress	**1,719**	1,469
Finished goods and goods for resale	**6,108**	5,105
	9,496	8,065

No charge for slow moving and obsolete stock was recognised in profit and loss during the year (2017: £4,000).

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

17 Debtors

	2018 £000	2017 £000
Trade debtors	**8,958**	8,657
Prepayments	**1,184**	1,234
Corporation tax asset	**512**	194
	10,654	10,085

Amounts due after more than one year comprised £39,000 (2017: £58,000) included in trade debtors.

A provision for specific trade debts which are not considered recoverable of £45,000 (2017: £14,000) was recognised in profit and loss during the year.

18 Creditors: amounts falling due within one year

	2018 £000	2017 £000
Bank overdraft and loans	**8,665**	7,370
Trade creditors	**5,694**	5,101
Taxation and social security	**1,879**	1,628
Accruals	**2,645**	3,086
	18,883	17,185

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

See note 28 for further details of the bank overdraft and loans.

19 Creditors: amounts falling due after more than one year

	2018 £000	2017 £000
Tenants' deposits	**153**	175
Bank loans (repayable in less than 5 years)	**10,000**	10,000
3.85% cumulative preference shares of £10 each (3,100 shares)	**31**	31
4.9% non-cumulative preference shares of £5 each (3,100 shares)	**15**	15
	10,199	10,221

Tenants' deposits are taken on the commencement of a tenancy in a tied estate property. The balance is held in creditors until the tenancy ends, when a deposit is repaid less any unpaid amounts owed to Adnams plc. The bank loan is secured by a debenture to Barclays Bank plc over the assets of the company.

See note 21 for full details of the preference shares.

See note 28 for further details of the bank loans.

20 Deferred taxation

	2018 £000	2017 £000
Accelerated capital allowances	**878**	730
Other timing differences	**222**	94
Chargeable gains	**974**	1,011
Deferred tax excluding that relating to pension liability	**2,074**	1,835
Deferred tax on pension scheme deficit (note 27)	**(1,354)**	(1,398)
Total deferred tax liability	**720**	437
Movement in the provision		
At 1 January 2018	**1,835**	
Deferred tax charged to the profit and loss account (current year movement at 17%)	**149**	
Adjustment in respect of prior years	**90**	
At 31 December 2018	**2,074**	
Deferred tax asset relating to pension deficit		
At 1 January 2018	**(1,398)**	
Deferred tax credited in the profit and loss account (current year movement at 17%)	**(121)**	
Deferred tax charged in the statement of comprehensive income	**165**	
At 31 December 2018	**(1,354)**	

Notes to the financial statements
continued

20 Deferred taxation (continued)
The amount of the net reversal of deferred tax expected to occur next year is £72,000 (2017: £62,000), relating to the reversal of existing timing differences on fixed assets offset by tax deductions from payments to utilise provisions. In addition, it includes cash contribution to the pension fund offset by anticipated finance charges relating to the scheme.

21 Called up share capital

	Authorised		Allotted, called up and fully paid	
	2018 £000	2017 £000	**2018 £000**	2017 £000
Ordinary shares				
‘A’ of 25p each (744,000 shares)	**186**	186	**186**	186
‘B’ of £1 each (285,842 shares)	**288**	288	**286**	286
	474	474	**472**	472

Profits distributed by the company are applied first to the 3.85% cumulative preference shares, then to the 4.9% non-cumulative preference shares before distribution on the ordinary shares. The preference shares carry no votes at meetings, the ordinary shares have a single vote for each ‘A’ or ‘B’ share. On a winding up of the company, the surplus assets will be applied first to repay capital on the 3.85% cumulative preference shares, then capital plus any dividend arrears on the 4.9% non-cumulative preference shares; the remaining surplus is applied to the ‘A’ and ‘B’ ordinary shares in proportion to the amounts paid up. Preference shares are classed as financial liabilities and held within creditors falling due after more than one year, see note 19.

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

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

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

23 Capital commitments

	2018 £000	2017 £000
Contracted for	**149**	1,058

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

24 Operating lease commitments

	2018 £000	2017 £000
Future minimum lease payments:		
Within one year	**686**	721
In 1–5 years	**2,351**	2,539
In over 5 years	**2,660**	3,251
	5,697	6,511

25 Contingent liabilities
At the year end, Barclays Bank held a bond guarantee on behalf of Adnams plc with HMRC for £30,000 (2017: £30,000).

26 Transactions with related parties

	2018 £000	2017 £000
Dividends paid to directors	**335**	329

The key management of Adnams plc are considered to be the executive directors, the compensation for whom was £988,000 for the year (2017: £998,000) including employer's national insurance and pension contributions.

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

During the year, the company made sales of £270,000 (2017: £297,000) and held a year end balance of £12,000 (2017: £27,000) to The Hotel Folk Ltd of which Mr A C Wood is a director.

During 2017 the company paid £620 (2018: £nil) for services to S G Wealth Management Limited of which Mr A C Wood is a director.

Mr M G H Heald is a director of or connected with five companies that are customers of Adnams plc. The names of these companies, together with the sales made and the debtor balances outstanding at 31 December 2018 and 2017, are listed below. Transactions in each case were on arm's length terms and outstanding balances were not overdue.

1. The Hotel Folk Ltd: sales of £270,000 (2017: £297,000) and balance of £12,000 (2017: £27,000).
2. The Soho Theatre Bar Ltd: sales of £204,000 (2017: £203,000) and a balance of £10,000 (2017: £13,000). Adnams signed a three-year sponsorship agreement with The Soho Theatre with effect from 1 September 2014 at a rate of £30,000. This was renewed for a further three years in 2017 at a rate of £35,000.
3. Zakari Wines Ltd: sales of £1,000 (2017: £285) and a balance of £nil (2017: £nil).
4. Sagittarius Royaume-Uni Ltd: sales of £659 (2017: £184) and a balance of £1,000 (2017: £184) and paid for purchases of £3,000 (2017: £nil).
5. Fishers Gin Ltd: sales of £80,000 (2017: £72,000) and a balance of £13,000 (2017: £47,000).

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

During the year, the company made sales of £9,000 (2017: £18,000), £4,000 (2017: £4,000) of which was outstanding at the year end, to Jarrold & Sons Ltd of which Ms B F McIntyre is also a director.

During the year, the company made sales of £3,000 (2017: £2,000), £342 (2017: £nil) of which was outstanding at the year end and paid for purchases of £2,000 (2017: £nil) with Collen & Clare Ltd of which Mr S M Sharp is a director and shareholder.

During the year, the company paid for purchases of £1,000 (2017: £nil) with Framtrade Ltd of which Mrs K Hester is a director.

The Employee Benefit Trust (EBT) held 8,827 Adnams plc 'A' shares at 31 December 2018 (2017: 8,827 'A' shares). During 2018, the EBT received dividends of £5,000 on its Adnams shares (2017: £3,000).

There is no overall controlling party of Adnams plc.

27 Pension scheme

Defined benefit pension scheme

The assets of the defined benefit pension scheme are held separately from those of the company, being invested with a fund manager. The contributions are determined by a qualified actuary on the basis of triennial valuations using the defined accrued benefit method. The most recent triennial valuation was at 1 April 2016. The assumptions that have the most significant effect on the results of the valuation are those relating to the rate of return on investments.

It was assumed in 2016 that the investment returns both pre and post retirement would be 4.5% per annum.

The most recent actuarial valuation showed that the market value of the scheme's assets was £30,299,000 and that the actuarial value of these assets was sufficient to cover 95% of the benefits that had accrued to members.

Notes to the financial statements
continued

27 Pension scheme (continued)

Defined benefit pension scheme (continued)

Some obligations to pay pensions due from the Scheme have been met by the purchase of annuities. The value of these annuities, which match exactly the pension obligation, are included in the accounts of the pension scheme. The value at 31 March 2018 was £2,039,000 (2017: £2,510,000). No annuity value has been included in the asset and liability valuations shown in the note below.

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

Valuation of the scheme has been updated to 31 December 2018 by a qualified actuary.

Financial assumptions	2018	2017
Pensionable salary growth	**N/A**	N/A
Pension escalation in payment:		
Benefits accrued prior to 1 October 1999	**4.1% pa**	4.1% pa
Benefits accrued from 1 October 1999 to 5 April 2005	**3.4% pa**	3.4% pa
Benefits accrued from 6 April 2005	**2.5% pa**	2.5% pa
Discount rate for liabilities	**2.8% pa**	2.4% pa
Inflation assumption	**3.4% pa**	3.4% pa
Pension revaluation in deferment	**2.6% pa**	2.6% pa

Demographic assumptions

Assumed life expectancy in years, on retirement at 65	2018	2017
Retiring today:		
Males	**22.5**	22.7
Females	**24.8**	24.9
Retiring in 20 years:		
Males	**23.9**	24.1
Females	**26.2**	26.3

Assets as a percentage of total plan assets	2018	2017
UK equities	**17.3%**	18.7%
Overseas equities	**30.2%**	31.7%
Corporate bonds	**10.6%**	12.3%
Government bonds	**25.3%**	23.7%
Property	**8.7%**	9.9%
Cash	**7.9%**	3.7%
Total assets	**100.0%**	100.0%

27 Pension scheme (continued)

Defined benefit pension scheme (continued)

The assets and liabilities in the scheme	Value at 31 December 2018 £000	Value at 31 December 2017 £000
Total market value of assets	34,419	36,431
Present value of scheme liabilities	(42,383)	(44,654)
Deficit in the scheme	(7,964)	(8,223)
Related deferred tax asset	1,354	1,398
Net pension liability	(6,610)	(6,825)

Actual (loss)/return on plan assets	(1,589)	3,097

Changes in the present value of the defined benefit obligation are as follows	2018 £000
Opening defined benefit obligation	44,654
Interest cost	1,061
Actuarial gains	(3,466)
GMP adjustment for past service	1,000
Benefits paid	(866)
Closing defined benefit obligation	42,383

Changes in the fair value of plan assets are as follows	2018 £000
Opening fair value of plan assets	36,431
Interest income	869
Actuarial losses	(2,495)
Contributions by employer	480
Benefits paid	(866)
Closing fair value of plan assets	34,419

The company expects to contribute £480,000 to the Adnams Pension Fund in the next accounting year. Contributions of £40,000 per month are paid. Company contributions will be reviewed following the results of the triennial valuation due as at 1st April 2019.

Analysis of other finance charge recognised in the profit and loss	2018 £000	2017 £000
Interest income	869	872
Interest cost	(1,061)	(1,123)
Net interest cost	(192)	(251)

Notes to the financial statements
continued

27 Pension scheme (continued)
Defined benefit pension scheme (continued)

Analysis of the amount recognised in other comprehensive income	2018 £000	2017 £000
(Loss)/return on plan assets (excluding amounts included in net interest cost)	**(2,495)**	2,189
Experience (losses)/gains arising on the scheme liabilities	**(72)**	253
Changes in assumptions underlying the present value of the scheme liabilities	**3,538**	(985)
Actuarial gain recognised in other comprehensive income	**971**	1,457

Defined contribution pension schemes
The company also operates defined contribution pension schemes. The assets of these schemes are held separately from those of the company in independently administered funds. During the year, the company contributed £424,000 (2017: £402,000) to the schemes (note 9).

There was £61,000 of outstanding contributions payable at the year end (2017: £nil).

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

	2018 £000	2017 £000
Financial assets measured at amortised cost	**8,958**	8,657
Financial liabilities measured at amortised cost	**27,203**	25,777

Financial assets includes trade debtors.

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

Borrowing facilities
At the year end borrowing facilities comprise a fixed rate 5 year loan of £5 million, a revolving credit facility of £5 million and an overdraft of £12 million. £3.3 million of these facilities were undrawn at 31 December 2018 (2017: £2.6 million). Finance is also provided through preference shares, details of which are included in note 21.

Interest rate profile
At 31 December 2018, a bank loan of £5,000,000 (2017: £5,000,000) bears interest at 2.574% (2017: 2.574%) and a further bank loan of £5,000,000 bears interest at 2.280% (2017: 1.766%).

At 31 December 2018, bank overdrafts of £8,660,000 (2017: £7,370,000) bear interest at 1.750% (2017: 1.10%) above Barclays Bank base rate which was 0.75% (2017: 0.50%).

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

Currency risk
The main currency risks of the company relate to the import of wines, the largest value of which is denominated in Euros. Annual purchases of Euros amount to about €4.0 million.

Fair values of financial assets and liabilities
There is no difference between book value and fair value in respect of the cash, bank loan and bank overdraft.

29 Share Incentive Plan and Employee Benefit Trust

Until 2017, the company used a tax-approved Share Incentive Plan (SIP) to allocate shares to employees, contingent upon company performance. The company did not issue shares for such schemes and so arranged the purchase of shares through an Employee Benefit Trust. The Employee Benefit Trust bought shares as required during the year and passed them annually to the Share Incentive Plan, at a valuation approved by the tax authorities. The shares held by the Share Incentive Plan are not consolidated in the company's accounts as they are already allocated to employees. Shares held by the Employee Benefit Trust are not yet allocated.

The unallocated shares are small in number and accordingly the company does not consolidate the Employee Benefit Trust on grounds of materiality. 8,827 shares, all of which were Adnams plc 'A' shares, were held by the Employee Benefit Trust at 31 December 2018 (2017: 8,827 shares).

2017 performance did not reach the requisite level for a share transfer to the Share Incentive Plan to occur and the scheme was suspended in 2018.

Corporate governance

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

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

The Board has three subcommittees covering Audit, Remuneration and Nominations.

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

The Remuneration Committee is chaired by N J Dulieu and the Nominations Committee is chaired by S M Sharp.

Membership of all three committees comprises the four Non-Executive Directors: N J Dulieu, M G H Heald, B F McIntyre and S M Sharp (Senior Independent Director). In addition, J P A Adnams, Chairman, is a member of the Nominations Committee.

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

To meet this responsibility, the Board relies upon:

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

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

Directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors confirm that:

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

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

By Order of the Board

E S Cantwell
Secretary

21 March 2019

Independent auditor's report

to the members of Adnams plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Adnams plc (the 'company') for the year ended 31 December 2018, which comprise the Profit and loss account, the statement of comprehensive income, the Balance sheet, the Statement of changes in equity, the Statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

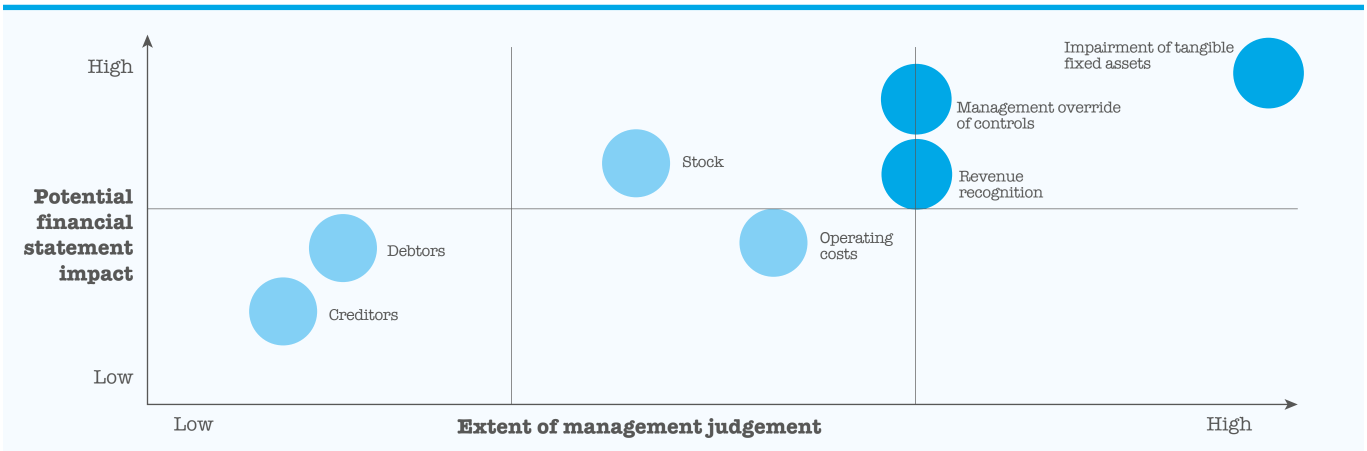
- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

- Overall materiality: £225,000;
- The key audit matter identified is impairment of tangible fixed assets; and
- Our audit approach was a risk based substantive audit incorporating control testing. There were no changes in the scope of the audit from the prior year other than the inclusion of testing of operational effectiveness of controls over revenue recognition for significant revenue streams.

Key audit matters

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



Key audit matters (continued)

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

Independent auditor's report
continued

Key Audit Matter	How the matter was addressed in the audit
Impairment of tangible fixed assets	
At 31 December 2018 the company had £20.5m of property in respect of its managed inns and tied estate, and £1.3m of property in respect of retail outlets. During the year the company recognised a £755k impairment loss in respect of its managed inns and tied estate, and a £11k impairment loss in respect of its retail outlets. Financial Reporting Standard (FRS) 102 requires management to test assets for impairment where potential indicators for impairment are identified. The assessment of impairment of the company's tangible fixed assets includes key assumptions that are subject to significant estimation uncertainty, such as forecast trading performance by property and the discount rate applied. The amount of impairment loss recognised is an estimate made by the company with reference to valuations provided by management's external expert. We therefore identified impairment of tangible fixed assets as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: – Assessing the appropriateness of the accounting policy for impairment and evidencing its accurate implementation by management; – Assessing the methodology applied with respect to the requirements of the applicable financial reporting framework; – Evaluating the competence, capabilities and objectivity of management's expert; – Testing the calculations prepared by management by: – Confirming the arithmetic accuracy of the calculations; – Comparing historical data used where relevant to source data; – Challenge assumptions included in management's forecasts by assessing the consistency of these with other relevant information; and – Assessing the reasonableness of the discount rates applied by reference to the company's weighted average cost of capital. The company's accounting policy on impairment of tangible fixed assets is shown in note 4 to the financial statements and related disclosures are included in note 14.
	Key observations
	Based on our audit work, we concluded that the methodology applied by management for impairment testing to be in accordance with the applicable financial reporting framework, and the underlying assumptions to be reasonable. We consider that the company's disclosures in notes 4 and 14 to be appropriate. We found no errors in the calculations.

Our application of materiality
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our work and in evaluating the results of that work. For the year ended 31 December 2018 we have determined materiality for the audit of the financial statements as a whole to be £225,000.

Our determination of materiality was based on consideration of a number of benchmarks which we believe to be of importance to the users of the financial statements, most notably the operating profit before highlighted items. This benchmark is considered particularly important due to the significant level of user focus on these figures in assessing the company's future prospects and in assessing the controllable aspects of the company's performance during the year. The level of materiality was not determined by the application of a specific measurement percentage to any single benchmark we considered, rather; the appropriate amount of materiality was determined to be £225,000 based on a review of the financial statements and this amount was evaluated for appropriateness by reference to a range of key benchmarks and key performance indicators.

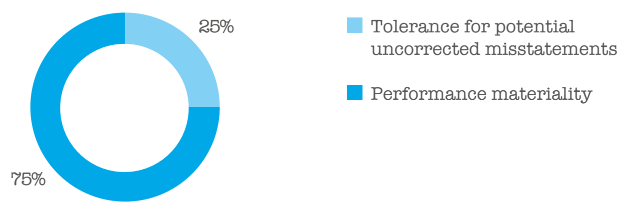
Materiality for the current year is higher than the level that we determined for the year ended 31 December 2017 (£143,000) to reflect the increased level of turnover achieved in the current year. In 2017 a specific measurement percentage was applied to profit on ordinary activities before interest and taxation less highlighted items.

On considering the impact of increasing determined materiality on the key performance indicators it was determined that £225,000 was an appropriate amount.

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

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

Overall materiality



We also determine a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.

We determined the threshold at which we will communicate misstatements to the audit committee to be £11,250. In addition we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit
Our audit approach was based on a thorough understanding of the company's business and is risk based. We have taken into account the size and risk profile of the company, any changes in the business and other factors when determining the level of work to be performed.

We have undertaken a full scope audit of the company based on the materiality assessed above. The audit work completed focused on the risk areas identified. There were no changes in the scope of the audit from the prior year other than the inclusion of testing of operational effectiveness of controls over revenue recognition for significant revenue streams. We identified key controls over revenue recognition and tested a sample of transactions to ensure the controls operated as documented.

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

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

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 are unmodified
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors for the financial statements
As explained more fully in the directors' responsibilities statement set out on page 47, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

David Newstead
Senior Statutory Auditor

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

21 March 2019

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