



PROMISING ADVANCES, *our journey continues...*

Interim Statement 2010





Profit and loss account

For 6 months to 30 June 2010

	Notes	Unaudited 6 months to 30.06.10 £000	Unaudited 6 months to 30.06.09 £000	Year to 31.12.09 £000
Turnover		23,115	23,364	51,321
Operating expenses		(22,289)	(22,442)	(48,083)
Operating profit		826	922	3,238
Profit on disposal of properties		55	38	224
Interest		(278)	(119)	(360)
Interest on pension scheme		38	41	8
Profit before taxation		641	882	3,110
Taxation	2	(205)	(291)	(754)
Profit after taxation		436	591	2,356
Earnings per share	4			
'A' Shares of 25p each, inc. property disposals (pence)		23.1	31.3	124.8
'B' Shares of £1 each, inc. property disposals (pence)		92.4	125.2	499.3
'A' Shares of 25p each, exc. property disposals (pence)		20.2	29.3	113.0
'B' Shares of £1 each, exc. property disposals (pence)		80.7	117.1	451.8

Notes

1 Basis of preparation

The interim accounts have been prepared under the accounting policies set out in the company's statutory accounts for the year ended 31 December 2009.

2 Taxation

The tax provision is calculated on operating profit at the estimated effective rate applicable for 2010. Interest is taxed at the basic rate of corporation tax. Property profits are assumed to be reinvested and the tax rolled-over.

3 Dividend

The interim dividend on ordinary shares will be £307,000 (65%) (2009: £307,000 (65%)) and will be paid on 1 October 2010 to those on the register at the close of business on 3 September 2010.

4 Earnings per share

Earnings per share is calculated by dividing the earnings available to ordinary shareholders by the issued ordinary share capital of £471,842. The earnings per share calculation is the same for basic and diluted earnings.

Chairman's report



"THE FIRST HALF OF 2010 has seen a lot of positive developments"

Jonathan Adnams
Chairman

A handwritten signature in blue ink that reads 'Jonathan Adnams'.

The first half of 2010 has seen a lot of positive developments at Adnams. Innovation has been to the fore and we report on many promising advances. Our 2010 first half operating profit was £826,000, down from the £922,000 achieved in 2009. Whilst we finished the first half with a sunny June, overall the weather was much less helpful this year and shareholders will recall the caution expressed in our 2009 accounts and at the time of our AGM in April.

We are retaining our policy for the Company's interim dividend, which is that we pay 35% of the total dividend paid in the previous year. This means an unchanged dividend of 65p per 'B' share and 16.25p per 'A' share.

The Brewing & Brands Business

The first six months of 2010 saw some very tough conditions in the UK beer market, particularly in the on-trade. Industry statistics showed cask ale volumes down by 9.1%. This is very disappointing after a relatively strong performance in 2009. Overall Adnams own volumes were down by 6.8%. Within this number we saw considerable variation, with 6% growth in our directly delivered volumes offsetting larger declines elsewhere, notably in sales to leased and tenanted pub companies. Bitburger lager had a more successful first half, with volumes growing by 3.2%.

The beer and pub industry continues to be under considerable pressure both politically and economically. The change in government will no doubt lead to some changes in approach. One welcome relief was seeing a budget without an increase in beer and wine duties. It was disappointing nonetheless that the government seems intent on continuing its predecessor's policy of increasing duty at a rate ahead of inflation. We hope that by the time of the next budget the Chancellor will have made some move towards reducing the excessively high taxpayer subsidy given to the smallest brewers.

Adnams continues to develop its beer range. Two of our recent bottled beer products, Lighthouse and Gunhill, were launched in cask form, and in May Spindrift was launched in a blue coloured bottle. We were very pleased to see Tally Ho named Champion barley wine in Camra's Champion Beer of East Anglia competition, we also saw Innovation and Adnams Bitter pick up International Beer awards.

Once again we have seen building work in the brewery. This time we have been converting the old copper house into the home for the micro-distillery that we will be installing before the end of the year. This is a very exciting project for us. We believe that we will be the only brewery in the UK distilling spirits and will be able to offer a product that we have prepared from grain to glass. We will be offering a range of hand crafted artisan spirits, gin and vodka. The Copper House Distillery is in a spectacular location with views across to the Southwold lighthouse and out to sea. We will be offering informative tours of this new facility to complement our brewery tours. Our aim is to start production from the distillery in time for products to be in the shops at Christmas.

Again our beer business held its prices into our tenanted estate and into the free trade at the start of this year. This has been very positive in a beer market where price competition has become notably fiercer and it helped drive the growth in our directly delivered business.

BEER

Sole Bay Beer. Created in celebration of 350 years of brewing on the site of the Adnams brewery, Sole Bay is brewed in the style of a sparkling Belgian beer. Its striking 750ml bottle within a presentation tin, makes it ideal for celebrations or as a gift. At a tasty 10% abv, this is definitely a beer we recommend that you share.

The Tenanted Estate

It is easy to forget, whilst writing this commentary on a warm day after several weeks of good weather, just how tough conditions were for most of the first half of this year. Our pub base, with its strong rural core, found trading especially tough in the first few months. Nonetheless, we have a very strong and supportive base of licensees and we have been working with them to continue the success of this core part of the Adnams business.

We sold one pub in the first six months, which was the Horse & Dray in Norwich.

The pub industry has been working towards writing new codes of conduct, which lay down the relationship between landlords and tenants. We believe that in our case those relationships have always been clear and strong, but we too have written a new code and are seeking its accreditation by the relevant industry bodies.

Hotels & Managed Houses

The local hotels businesses felt the full impact of the long hard winter and spring. The Swan had a relatively good performance compared to last year, as it was able to trade for the full six months from its newly refurbished lighthouse rooms. It has also benefited from the refurbishment of the public rooms on the ground floor and we are very pleased to be able to report that it has recently been awarded 4 star status with the AA.

A notable initiative in the first six months was that we started a collaboration with the Holkham Estate, one of East Anglia's most famous estates and owner of the property housing the Adnams Cellar&Kitchen at Holkham. We have assumed management of the Victoria Hotel at Holkham and of the Globe pub at Wells-next-the-Sea. This arrangement involves Adnams providing management services for a fee linked to sales and profits.

Diary

Dates for the diary. In 2005 we adopted 1km of Southwold beach and every September we join forces with the Marine Conservation's BeachWatch scheme. Over the years several of you have joined us for the clean up (and of course the pint of Adnams and fish & chips afterwards!). This year the Adnams Coastal Clean takes place on 18 September. Would you like to join us? The more energetic of you may want to take part in our 10k race in November – keep an eye on the website for details.

Wine & Shops

We opened our first out of Southwold Cellar&Kitchen shop five years ago when we started trading at Holkham. We've had a mixed experience with these stores. The format has been widely praised and has gained some great fans, including recently being listed in *The Times* top ten wine shops in the UK. Some shops however have not yet met our expectations and so far the overall performance of the shops has not justified the central costs of a wine and retail operation. Nonetheless, we believe that this business has great potential and has had positive impacts on other parts of our operations. In May we were very pleased to welcome Martin Wilkinson as head of the business. Martin joins us with first class retail credentials and we believe that he will do an excellent job in helping us to move this business forward.

Alongside growing our shops business we will be focussing on our traditional strength in identifying high quality and good value wines from producers whose values match our own.

Treasury, Tax, Pensions & Property

Our bank debt started the year at £12.9m and was £12.1m at the half year. The lending market has become a little easier recently and we should benefit from slightly lower margins in the second half of the year.

Capital expenditure in the first half was £972,000, which encompassed the work at the Swan Hotel, work on our pubs and in our brewery, distillery and distribution centre and we will be starting a cask replacement programme in the second half of the year. We report again that the final cost of the Reydon distribution centre has not yet been agreed.

Adnams Bio Energy has constructed the anaerobic digester at Reydon and has identified inputs sufficient to fill the digester's capacity. We will report in more detail on this project in our full year accounts.

award

Green Award for Adnams Hotels. In addition to the fantastic news that The Swan had achieved its fourth AA star, the Adnams hotels were recently awarded Silver status in the Green Tourism Scheme. Having accomplished Bronze status in 2008, our Hotels Green Team has worked incredibly hard to make the upgrade. Reaching Gold is next on their list!

Our defined benefit pension fund closed to all accrual in 2005, but management of its assets and liabilities is still an important task. The triennial valuation of the fund is taking place at present and its results will be known later in the year.

We have written in our last two reports about the tax dispute with HMRC around their unwillingness to grant allowances on our distribution centre at Reydon. Sadly they have remained intransigent on this matter, despite the clear inequity of being denied allowances because we chose to build in an environmentally friendly manner. We are nonetheless continuing to argue our case.

The Future

There is no doubt that the beer industry is going through tough times, with strong competition and declining demand. The economy is in a highly uncertain state. We know that cutbacks are happening and will continue, we know that VAT will increase; we do not know whether this will presage a revival or a renewed decline.

Adnams prides itself on its long-term focus. We have built a reputation for doing the right thing, we are continuing to invest and build and we believe that this will bring us success, whatever the challenges we may face.

Jonathan Adnams
Chairman