



# MANAGING THROUGH VOLATILE TIMES

Adnams plc Interim Accounts 2011





# “WE DO HAVE THE VIEW THAT ADNAM'S IS HERE FOR THE LONG TERM”

Jonathan Adnams OBE  
Chairman

A handwritten signature of Jonathan Adnams in blue ink.

The first half of 2011 witnessed consumer confidence on something of a rollercoaster. It also saw some unusually good weather, particularly in April, meaning the monthly results have been quite variable. Overall we saw operating profits at a similar level to 2010, 2% down at £812,000, though profit before tax is ahead of last year. Shareholders will recall that we expressed caution at the time of our AGM in early May and we feel that was justified.

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 Beer and Pubs Business

Trends that were apparent last year have continued this, notably the difficult trading in the major tenanted and leased pub companies and growth in managed pub companies and in directly delivered free trade customers. The acquisitiveness of other brewers has also created a challenge as it generally means that we are locked out from selling to the acquired properties. Three small pub group customers have recently been bought in quick succession: Geronimo Inns, Realpubs and the Capital Pub Company. Our take home beer business, after a tough 2010, has had a good first six months, growing volumes by 17%. Overall our volumes of own beer sold grew by 2.5% and Bitburger pils volumes grew 4.4%.

The continued growth of our directly delivered beer business is particularly pleasing and reflects well on our brand, our beers and our customer service. The reality of the beer business in the UK is that consumption has been falling year by year and producer numbers have increased, with a continuing influx of tax-subsidised small brewers. Pressure on margins is an inevitable consequence. We have certainly felt this, but have fought to retain our premium position.

Our tenanted estate had a difficult 2010 and so far has enjoyed a rather better 2011. Own beer volumes were 4.5% ahead of last year and management of the estate has been stable, with few changes amongst our licensees.

We sold one pub in the first six months, the Dragoon at Colchester. The financial impact of this was reflected in the 2010 accounts as this pub was being held for sale at the last year end.

The pub industry continues to be subject to government scrutiny with further meetings of the Business Innovation and Skills Committee. Adnams has a new code of practice in place. This sets out the ways in which we will act in relation to our licensees and seeks to ensure that these are fair. Whilst a strong and clear code is important, we hope and believe that the good relations that we enjoy with our licensees is the best testimony to our acting in the right way.

---

# “THE WINE AND SHOPS BUSINESS HAS HAD A VERY STRONG FIRST SIX MONTHS IN TERMS OF TURNOVER.”

---

## Hotels

The Swan and Crown experienced some quite changeable trading during the first six months. May and June were notably tough after a strong April. We believe that current economic uncertainties may be making consumers more cautious when it comes to significant expenditure, such as hotel visits. Nonetheless, the sales for the first six months at the Swan and Crown were comparable to 2010.

Fritton House, the Victoria Hotel at Holkham and Globe Inn at Wells are now all being managed under contracts involving the owners paying us a fee for providing management services. This arrangement creates a steadier stream of income.

## Retail

The wine and shops business has had a very strong first six months in terms of turnover. Shops sales were 22% ahead of last year and, on a like-for-like basis (excluding the Norwich outlet), trading was 14% ahead. In a period when retail businesses generally have been struggling, we see this as a good result and it is the best rate of growth that we have experienced in the last five years. The bottom line was however slightly behind 2010. We have grown staff numbers in preparation for an expansion of our shops. We have been actively seeking new sites, and will be opening new shops, but we have been appropriately cautious about where we open. We did not open any new shops in the first half of the year.

We have had continuing success selling our own beer in our shops, notably sales of our five litre mini-casks. Our new distillery products have also sold well and we had a success this summer with our limoncello. A new kitchenware buyer has refocused our range and that sector has grown well too and we have been developing a new Adnams food range. We have had a less good performance from our agency business and from our wine mail order business, although web sales have grown strongly.

## Treasury, Tax and Pensions

Our bank debt at 30 June was £13.2m (30 June 2010: £12.1m). We have continued to keep the maturity of our borrowings quite short. This requires regular renewal of our facilities, but we seek to ensure that our borrowings remain at a level with which our bankers, Barclays, are happy. We are conscious that short-term interest rates are at an historic low and that we have benefitted from this fact. Whilst for now the Bank of England seems in no hurry to change their current policy, we are aware that the next interest rate move is likely to be an increase. We do not consider ourselves to be any more knowledgeable than anyone else as to when this move might take place and so our policy has been to accept prevailing interest rates and not seek to fix a longer-term rate.

Shareholders will be used to the way in which changes in market values can cause substantial swings in the position of our closed defined benefit pension scheme. The deficit of £2.7 million (net of tax) at 30 June 2010 became a small surplus at 30 June 2011.

Our Retail business spends over three million Euros on wine each year, as well as buying wine from elsewhere in the world. Again our policy is to accept the prevailing exchange rate and not to fix a longer-term rate. The Sterling/Euro exchange rate has remained at unattractive levels compared to those prevailing a few years ago and this has placed pressure on wine margins, especially as we have particular strength in European wines.

The long-running tax dispute that we have had regarding allowances on our distribution centre at Reydon has finally come to an end. We were able to achieve some additional allowances as a result of arguing our case. We nonetheless have been denied allowances on the majority of the building costs involved. We continue to believe that government policy in this area is misconceived. The granting of allowances for energy-intensive plant and the denial of allowances for buildings which replace the need for such plant cannot be a sensible policy for a government which claims to have a green agenda. Settlement of the final costs of the Reydon building remains unresolved.

## The Future

Volatile consumer sentiment is a worry for any business when planning for the future. Currently we sense consumer concern and a reluctance to commit, particularly for larger spends. Whether and for how long this will continue is not something that we can easily judge. We do however have the view that Adnams is here for the long term and we will act and invest on that basis.

**Jonathan Adnams OBE**  
Chairman

## Profit and loss account

For six months to 30 June 2011

	Notes	Unaudited 6 months to 30 June 2011 £000	Unaudited 6 months to 30 June 2010 £000	Year to 31 Dec 2010 £000
<b>Turnover</b>		<b>24,509</b>	<b>23,115</b>	<b>50,912</b>
Operating expenses		(23,697)	(22,289)	(47,724)
<b>Operating profit</b>		<b>812</b>	<b>826</b>	<b>3,188</b>
Profit on disposal of properties		–	55	98
Interest		(182)	(278)	(457)
Other finance income/(charge) on pension scheme		70	38	(11)
<b>Profit on ordinary activities before taxation</b>		<b>700</b>	<b>641</b>	<b>2,818</b>
Tax on profit on ordinary activities	2	(238)	(205)	(664)
<b>Profit for the financial period/year</b>		<b>462</b>	<b>436</b>	<b>2,154</b>
<b>Earnings per share</b>	4			
'A' Shares of 25p each, Inc. property disposals (pence)		24.5	23.1	114.1
'B' Shares of £1 each, Inc. property disposals (pence)		97.9	92.4	456.5
'A' Shares of 25p each, Exc. property disposals (pence)		24.5	20.2	108.9
'B' Shares of £1 each, Exc. property disposals (pence)		97.9	80.7	435.7

## Notes

### 1 Basis of preparation

The interim accounts, which have not been audited, have been prepared under the accounting policies set out in the company's statutory accounts for the year ended 31 December 2010.

### 2 Taxation

The taxation charge is based on the estimated tax rate for the year. 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%) (2010: £307,000 (65%)) and will be paid on 3 October 2011 to those on the register at the close of business on 2 September 2011.

### 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.

## Balance sheet

As at 30 June 2011

	Unaudited 30 June 2011 £000	Unaudited 30 June 2010 £000	31 Dec 2010 £000
<b>Fixed assets</b>			
Tangible assets	37,199	36,649	37,334
Investments	163	141	136
	<b>37,362</b>	<b>36,790</b>	<b>37,470</b>
<b>Current assets</b>			
Stocks	4,863	4,197	4,230
Debtors	6,499	5,976	5,957
Cash at bank and in hand	15	19	19
	<b>11,377</b>	<b>10,192</b>	<b>10,206</b>
<b>Creditors: amounts falling due within one year</b>	<b>(21,038)</b>	<b>(20,259)</b>	<b>(19,545)</b>
<b>Net current liabilities</b>	<b>(9,661)</b>	<b>(10,067)</b>	<b>(9,339)</b>
<b>Total assets less current liabilities</b>	<b>27,701</b>	<b>26,723</b>	<b>28,131</b>
<b>Creditors: amounts falling due after more than one year</b>	<b>(309)</b>	<b>(293)</b>	<b>(288)</b>
<b>Provision for liabilities</b>	<b>(878)</b>	<b>(871)</b>	<b>(898)</b>
	<b>(1,187)</b>	<b>(1,164)</b>	<b>(1,186)</b>
<b>Net assets excluding pension asset/(liability)</b>	<b>26,514</b>	<b>25,559</b>	<b>26,945</b>
Pension asset/(liability)	76	(2,682)	(1,868)
<b>Net assets including pension asset/(liability)</b>	<b>26,590</b>	<b>22,877</b>	<b>25,077</b>
<b>Capital and reserves</b>			
Called up share capital	472	472	472
Share premium	144	144	144
Profit and loss account	25,974	22,261	24,461
<b>Equity shareholders' funds</b>	<b>26,590</b>	<b>22,877</b>	<b>25,077</b>