



Adnams plc
Annual Report and
Accounts 2007

ADNAMS. CARBON INNOVATOR OF THE YEAR.

**A PREMIUM
BRAND
DELIVERED TO YOU
BY HANDS-ON
PEOPLE**

ROB, SALES DIRECTOR





Entering awards is an important process in self-reflection, bench-marking against others and provides a healthy scrutiny from external judges and experts. Winning, of course, adds to the pride of all associated with the company and boosts employee confidence.



Continued investment in our brand and a clear business strategy will ensure we are prepared for the constantly changing marketplace. But this is only made possible by the expertise and passion of our people throughout the business.

Financial highlights

Turnover £000
£47,368 +2.8%

2003	42,120
2004	45,193
2005	45,488
2006	46,075
2007	47,368

Operating profit £000
£4,206 +2.6%

2003	3,501
2004	3,648
2005	3,668
2006	4,101
2007	4,206

(before exceptionals)

Dividend
£1.83 +4.6%

2003	1.54
2004	1.61
2005	1.66
2006	1.75
2007	1.83

(per £1 share)

Debt levels £000
£10,980 -40.8%

2003	9,095
2004	11,013
2005	12,766
2006	18,559
2007	10,980

(including pension liability)

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CHAIRMAN'S REPORT



PREPARING FOR THE FUTURE

JONATHAN ADNAMS - EXECUTIVE CHAIRMAN

Welcome to Adnams' 2007 Annual Report & Accounts. We are a brewer and leisure retailer, proud of our celebrated brand and focused on building sustainable competitive advantage through innovation, forward thinking and premium products. Against the backdrop of a turbulent year for the drinks industry and the broader economy, I am very pleased to report on Adnams' performance in 2007. Operating profit has risen by 2.6%, turnover is up by 2.8% and net debt has reduced by 33%. Your Board is recommending a final dividend increase of 4.3%.

Market conditions

Trading conditions during 2007 were very difficult; the UK beer market was down 4%, whilst the UK wine market grew by approximately 3%. Our main trading market is the UK on-trade, where industry estimates showed a decline in beer volumes of nearly 6.5% and a decline in the wine market of 4% for the year. Contributing factors were the poor summer weather and depressed consumer confidence in the autumn following concerns over property prices and instability in financial markets.

As expected, the smoking ban introduced in July has also contributed to the decline in beer consumption and we anticipate that this will continue to impact trading in the first half of 2008. These conditions also contributed to the continued shift in consumption of alcohol from out-of-home to in-home with leading supermarkets taking a greater share of beer volumes.

The broader economic picture, both in the UK and globally, appears gloomier than it has for some while and consumer confidence will inevitably continue to suffer as a result. Tighter credit conditions make life more difficult for all businesses. The Brewing industry is facing its own particular challenges both from an increasingly active health lobby and from rapidly inflating costs as hops and barley have been in unusually short supply.

The tide of industry regulation has not abated and pubs and alcohol continue to live in the constant spotlight of government and the media.

Adnams in 2007

Against this challenging backdrop, Adnams' volumes have held firm, significantly outperforming the market. Consistent investment in the brand and business infrastructure has made for a more robust and adaptable business and provides a good foundation for growth. For instance, our timely investment in environmentally efficient infrastructure at our distribution centre and new brewery has given us real competitive advantage with greater than expected efficiency savings in the face of significant raw material increases and rising energy costs.

Completing the process of establishing our two business units of Brewing & Brands and Leisure Retail has enabled us to strengthen our management team by recruiting key people in sales and marketing. This recruitment drive in the latter part of the year has added a cost to 2007 accounts, but is fundamental to our plans for 2008. Our corporate restructuring is now complete; you will see this reflected in this year's segmented accounts.

Innovation

Innovation continues to be a key theme within our business and has led to productive partnerships with some of our main customers. Adnams Spindrift was test launched last spring in conjunction with Punch Taverns and is now well established in bars and restaurants throughout London and the South East. We are currently working with one of our major retail customers on the development of a new product with minimal environmental impact. At the time of writing, I am unable to disclose further details but can tell you that the launch will be around the time of the AGM in April.

In our retail business we continue to innovate with the evolution of our Cellar & Kitchen stores, such as the inclusion of a café bar in Saffron Walden. The relaunch of our website in the first half of last year shows great promise for wines and hotels. We look forward to our new flagship Cellar & Kitchen store opening in Southwold later this year with many of the environmental building techniques you have come to expect, following the example set by our Distribution Centre.

Investment

Further to our recent investment in new talent, we have of course for the last few years invested heavily in developing the right infrastructure, most significantly our award-winning eco-Distribution Centre and Brewhouse. Despite operating within a difficult trading environment, we are confident that these investments play a crucial part in being able to deliver long-term sustainable value to shareholders. In addition to the operational benefits of these investments, there is also real commercial value in placing your company at the forefront of the environmental agenda.

We believe in doing the right thing

In October 2007 various directors' duties were codified as parts of the Companies Act 2006 came into force. These include a duty to promote the success of the company and in doing so to have regard to the long-term consequences of decisions and the interests of a wider stakeholder group. This group includes employees, suppliers, customers, the community and the environment. As a Company we very much welcome this 'enlightened shareholder value' approach. We feel that a focus on the long-term and a concern for a wider set of interests are matters that are central to Adnams, and they will continue to be at the heart of what we do in years to come.

Trading of 'A' Shares

During the year, the Board carried out a review of the process set down in Adnams' Articles of Association for the purchase and sale of its unquoted 'A' shares, in order to ensure that the trading of 'A' shares should be as liquid and transparent as possible. As part of this review, the Board considered both processes that would work within our existing Articles of Association and others that would require us to alter our Articles of Association.

During the review, we received feedback from shareholders representing a significant majority of 'A' shares in support of retaining the existing Articles. The Board therefore sought to work within these Articles to put in place a trading facility for 'A' shares. Under this optional arrangement interested buyers and potential sellers are able to communicate, if they wish, through a nominated stockbroker.

Executive Remuneration

Adnams is a company with ambition. We believe that we have a brand name and prospects that will enable us to achieve substantial growth, despite difficult market conditions. To incentivise the achievement of our ambitious plan to more than double profits in the next five years, we have put in place a remuneration scheme that will allow bonuses to be paid to executive directors and business heads. The maximum annual bonuses amount to between 75% and 100% of salary. Nothing will be paid unless performance exceeds 91% of the target and the full bonus is entirely dependent on meeting the very challenging milestones in our five year plan. Participants will be forgoing inclusion within the existing profit-related pay scheme.

The scheme is designed to create long-term sustainable value for shareholders. It takes into account remuneration policies elsewhere, past practice within Adnams and the value that will be delivered to shareholders should the plan be achieved.

Recognition from others

Once again it is greatly pleasing to have picked up a number of awards this year. Recognition from the outside world that Adnams is doing the right thing greatly enhances our corporate reputation and we have enjoyed significant national and regional press coverage as a result. We are particularly proud of becoming the Carbon Trust's Carbon Innovator of the Year in acknowledgment of our efforts to reduce our carbon footprint across the business. To celebrate we produced Adnams Innovation – the first new beer to come out of our new brewhouse.

In November, at the National Business Awards we picked up the Corporate Social Responsibility award and have gone on to reach the European Finals. Having made our presentation to a panel of judges in Paris we await the results in early March.

Finally, to become the first company within our industry to receive the Good Corporation's Ethical Business Award yet again reinforces our belief that doing the right thing is good for the long-term health of your company. The process for this award involves surveying all stakeholder groups, which included a cross-section of our shareholders at last year's AGM.

Details of the various awards and press coverage can be found on the revamped About Us section of our website adnams.co.uk/aboutus

Our people

All of the initiatives set out above are the seed corn for tomorrow's growth but it is important to recognise that it is talented people who transform innovative ideas into commercial success. The organisation has achieved a great deal in the last 12 months despite the current adverse trading environment. In March we said goodbye to Steve Curzon, who has been Marketing Director for the past four years. Steve has been a great ambassador for Adnams and it is with our best wishes that Steve moves on, leaving the company well prepared for future growth. I trust shareholders will join me in thanking my fellow Directors and all Adnams employees for their continued passion and enthusiasm during the last year and for their commitment to delivering our ambitious plans.

Outlook for 2008

Whilst we enter 2008 in a stronger position than ever, we are aware that the external economic environment continues to be volatile. This is contributing to reduced levels of consumer confidence and the prospect of a tough year ahead.

We have adopted an ambitious strategic plan under which we aim to more than double our profits over a five-year period. We believe that by building on the strength of the Adnams brand and our commitment to doing the right thing we will be able to deliver improving value for shareholders.



Jonathan Adnams Executive Chairman



Our customers tell us how much they appreciate the rich mix on offer in our Cellar & Kitchen stores – fabulous wines, interesting kitchenware, great food and incredibly knowledgeable staff. Location is key to our success as we extend our reach beyond East Anglia.

This year, for the first time, we are reporting results by business segment, a change that has been facilitated by the separation of the management of the business into Brewing & Brands and Leisure Retail during 2007. Apart from the Southwold brewery, the Brewing & Brands business has been re-located at the new distribution centre at Reydon and the Retail business is located in the Malt Store offices in Southwold. It has been our aim, as far as possible, to locate service functions within the businesses, so as to make them as responsive as we can to the needs of those businesses and their customers. Following this change central costs fell from £1.5m to £1.4m.

Building strategic advantage

Against a backdrop of challenging economic and market conditions, Jonathan has set out in his Chairman's statement a bold ambition for the company over the next five years. The Brewing & Brands business is well placed to be a major contributor to the delivery of this ambition. Competitive advantage for this business will be derived from continued investment and development of the Adnams beer brand, already highly differentiated and proving resilient through its distinctive Beer from the Coast advertising, building upon our strong environmental platform and furthering our innovative approach to new product development. These things, allied to our ability to recognise and seize opportunities ahead of the competition and to build strong mutually beneficial relationships with our key customers, are what set us apart and provide the opportunity for further market share gains. In the final quarter of the year we recruited new sales and marketing expertise in this business to provide momentum behind delivering the plan. We firmly believe the ambition in

this part of the business can be delivered through organic growth, and that the recent investment and renewal of our infrastructure, combined with the introduction of further talented people, provides the launch pad for the next stage of your company's development.

The Leisure Retail business comprises our tenanted pubs, hotels, shops and online activities and has been defined in this way as it is the point where the Adnams brand interacts directly with the consumer. Considerable work has been undertaken in developing the leisure potential of the Adnams brand by building upon our core competencies in beer and wine. Competitive advantage in this arena is derived from brand strength and our strong social and environmental approach, which we are determined to make relevant to the consumer in innovative and compelling ways. All of this is underpinned by great customer service. To bring these dimensions meaningfully to life we are increasingly working with organic and biodynamic wine producers, local food suppliers, investing in our people and ensuring refurbishments and new developments meet the highest standards of environmental performance. Cellar & Kitchen in particular manages to deliver on these increasingly important, issues and positions the company well to take advantage of our consumers' interest in drinking and eating products with authenticity, provenance and quality. With our innovative approach, we are probably the only brand developing these components together in this way, increasingly capturing the imagination of the consumer and ensuring your company is well placed to capitalise on these trends.



Top: International wine challenge
Dubbed the Oscars of the wine trade – Adnams picked up East of England Merchant of the Year and Large Independent of the Year at the International Wine Challenge in September.

Middle: Adnams Greenleaf For many years we've been publishing a 'green leaf' symbol in our Wine Lists to mark out wines that have been made in an environmentally respectful manner. You can find these wines on our website and in store.

Bottom: Café Culture Adding a café to the Cellar & Kitchen stores has been a great success. We will look to add this feature to some more stores in 2008.



Top: Events and Partnerships We continue to be at the centre of key events throughout our heartland. The Aldeburgh Food & Drink Festival, Suffolk Show and the Theatre Royal in Norwich are just a few examples.

Middle: Champion Beer Adnams Bitter is Camra's Champion Beer of East Anglia 2007. This is the first award for a beer from our new brewhouse. We hope it is the first of many!

Bottom: Meantime Securing exclusive UK distribution rights to Meantime's draught beers strengthens our portfolio of products and our relationship with our customers.

Brewing & Brands

The Brewing & Brands business comprises three distribution channels: direct free trade, where we have a direct sales relationship with and deliver to the customer on our own vehicle fleet; national on-trade, where we work with pub-owning companies and key on-trade distributors; and national off-trade where we work with most of the well-known grocery retailers.

As discussed earlier the total beer market in 2007 was weak, declining by close to 4%, mirroring almost exactly the shortfall in the on-trade cask beer market. In the off-trade, the market for our style of products grew marginally, up 0.4%. Against these challenging market conditions we outperformed the market, maintaining beer volumes at 2006 levels, but the second half of the year was much more challenging than the first – and may be an indicator of a tough year ahead. This is a particularly good achievement given that our strategy does not involve the substantial capital investment required to acquire tenanted/managed pubs in the same way that many of our peers have in recent years. Indeed, it is worth noting that Adnams is different from many of our competitors in that 93% of our beer production is sold in outlets where people have a wide choice of other brands. This speaks volumes for the saliency of the brand and quality of our products. The major investments in the Brewing & Brands business in the last few years, notably the construction of the Distribution Centre and the replacement of the majority of our brewery equipment have added to our costs and depressed 2007 earnings from this business (£1.7m against £1.8m in 2006). However, we are confident of strong future returns. In the latter part of 2007, as our new brewstream became operative, we were starting to achieve significant savings in materials, labour, energy and repairs. The recent exceptional increases in the prices of malt and hops have meant that the efficiency savings from our new equipment are greater than we had predicted.

Leisure Retail

The tenanted pub operation remained resilient in the face of the smoking ban, reduced consumer confidence and two fewer pubs in the estate. Considerable work has been undertaken in tenant recruitment and ensuring the brand is understood and deployed in compelling ways throughout the tenanted business. We feel this work contributed to our solid performance and leaves us well placed for 2008. Beer volumes were lower in tenanted pubs, in line with the market. Hotels performed strongly with high occupancy levels throughout the year and a high level of repeat custom. This is a particularly good performance in light of the dismal summer weather. During the year the Crown won Les Routiers Hotel of the Year (Central and Eastern England) and the Swan was chosen as Hotel of the Year at the East of England Tourism Awards.

The total UK wine market has a heavy bias towards the off-trade and grew by 3% in volume and 4% in value, indicating consumers are trading up to better quality wines. This trend augurs well for us as we expand our network of stores. In the shops and online business the year has been one of development as we have geared up to deliver further growth. We opened five new stores in Stamford, Harleston, Saffron Walden, Hadleigh and Holt, with the final three all opened in November. This meant that we incurred many of the upfront costs, including recruitment, training and shop fitting, without securing the benefits. The Cellar & Kitchen store concept is proving a winning combination with its exciting range of wines (many of them exclusive to Adnams), interesting kitchenware and thoughtfully selected foodstuffs. We look forward to a further five store openings in 2008.

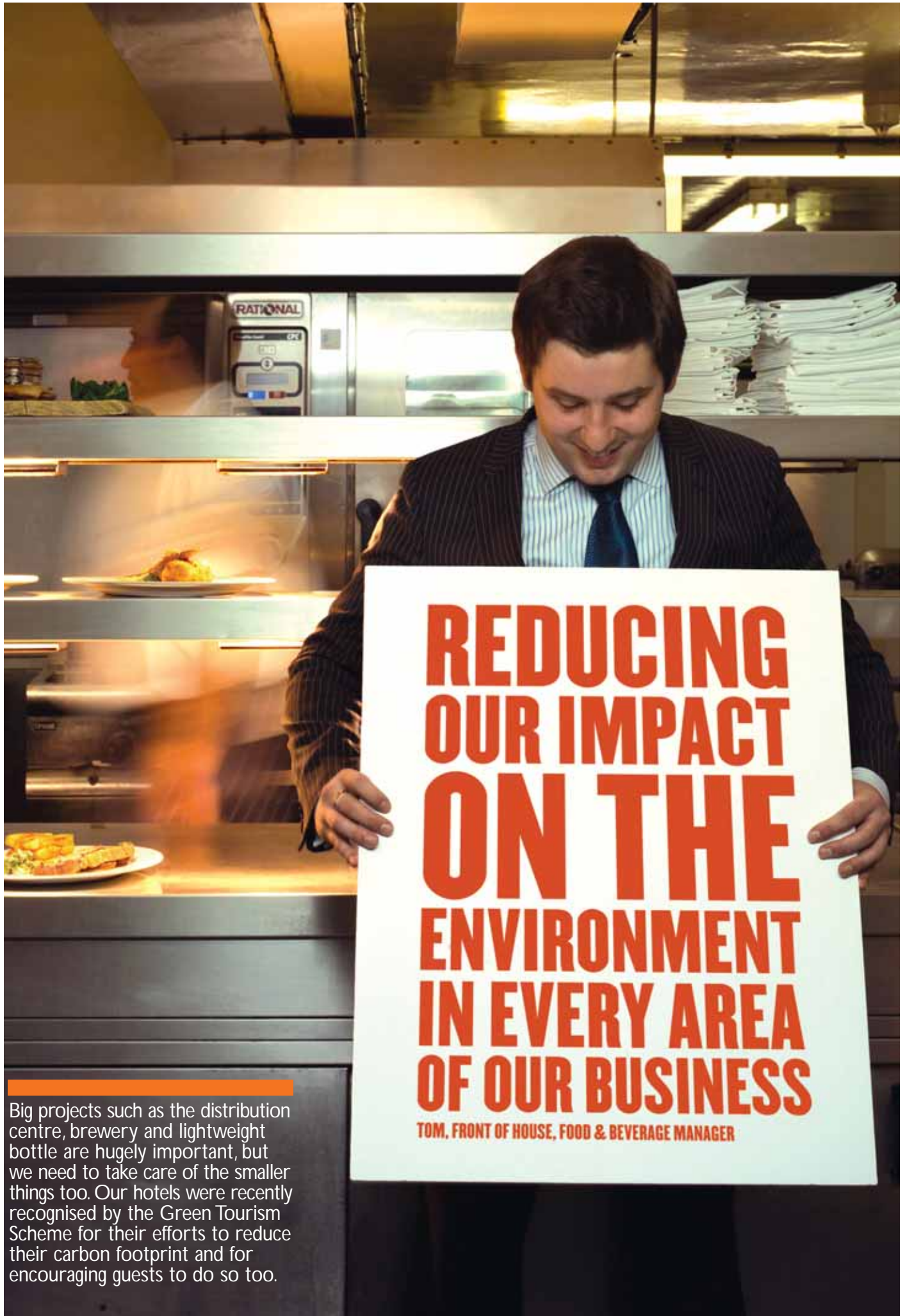
The Retail business showed a stronger performance with earnings up at £3.9m against £3.8m in 2006.

We want to make it easy for all our customers to do business with us. Extended opening hours for retail and trade, significant investment online, all backed up by excellent customer service keeps our customers happy and ready to return, time after time.

A woman wearing glasses and a headset is smiling and holding a large white sign. The sign has bold red text that reads: 'RETAIL, TRADE, ONLINE. WE'VE GOT ALL ROUTES TO MARKET COVERED'. Below this, in smaller red text, it says 'SAM, TELEPHONE ACCOUNT MANAGER'. The background shows a modern office interior with a wooden ceiling and large windows.

**RETAIL, TRADE,
ONLINE.
WE'VE GOT
ALL ROUTES TO MARKET
COVERED**

SAM, TELEPHONE ACCOUNT MANAGER



**REDUCING
OUR IMPACT
ON THE
ENVIRONMENT
IN EVERY AREA
OF OUR BUSINESS**

TOM, FRONT OF HOUSE, FOOD & BEVERAGE MANAGER

Big projects such as the distribution centre, brewery and lightweight bottle are hugely important, but we need to take care of the smaller things too. Our hotels were recently recognised by the Green Tourism Scheme for their efforts to reduce their carbon footprint and for encouraging guests to do so too.

Finance commentary

Property

A number of disposals were made during the year. Most notable was the sale of part of the old Southwold distribution site, which was vacated when the new facility at Reydon was occupied in 2006. This site has been divided into two, part was sold to Hopkins Homes for residential development and part will be redeveloped by Adnams as a new Cellar & Kitchen store during 2008.

In the tenanted estate we sold two pubs: the Prince Albert, Lowestoft, and the Vine, Norwich. We also sold Ye Olde Wine Shoppe (Bury Cottage) in Aldeburgh and the stables building in Southwold. Total gains from property sales amounted to £3.9m in 2007, against £0.4m in 2006. Towards the year-end we put a package of nine pubs on the market. Initial interest from buyers has been frustrated by the onset of tougher credit conditions. We hope to complete the sale later this year.

We noted in our interim report that agreeing the final settlement for the construction of the Reydon Distribution Centre has been a somewhat protracted process and it is not yet settled, but we remain hopeful that negotiations will be concluded soon.

Borrowings

The achievement of £4.5m of sale proceeds for property has helped to reduce our borrowings, which stand at £10.9m at the year-end, down from £16.3m a year earlier. This represents a 33% reduction in debt and a 55% improvement in gearing. In 2007 our interest cover was 5.1 times profit, in line with 5.3 times in 2006. We consider this level to be reasonably modest and it affords us a degree of flexibility for future investment. Interest costs amounted to £0.9m. Again the company is in a position of showing net interest received on a pension deficit but this number is a notional one.

Tax

The company's tax rate in 2007 is 8.7%. The primary reason for this low rate is that tax will be deferred on the £3.9m of property gains, as the proceeds have been or will be reinvested in other property. A further reduction of 7.6% in the tax rate results, ironically, from the abolition of industrial buildings allowances. This abolition will raise the longer-term rate of tax payable, but the impact in 2007 is a lower tax rate as the accumulated deferred tax asset on these buildings is reversed.



Top: Institute of Director's East of England Business Woman of the Year Those of you who know our Operations Director, Karen Hester, will echo our pride in her achievement. Karen has been short-listed for the Veuve Cliquot National Finals. Find out the latest at adnams.co.uk/aboutus

Middle: Distribution Centre one year on We moved into the Distribution Centre in September 2006. Latest figures report that compared to our old warehouse we are using 58% less gas and 67% less electricity per square metre.

Bottom: Adnams Innovation Adnams Innovation was the first new beer to come out of the new brewhouse and was a real test to see what our new kit could do. It is the perfect beer to celebrate innovation at Adnams.

Financial highlights

	2003	2004	2005	2006	2007	Variance**
Operating profit (before exceptionals, £000)	3,501	3,648	3,668	4,101	4,206	2.6%
ROCE (percentage)*	16.5%	16.0%	14.6%	12.4%	11.8%	-4.9%
Gearing (book value)	22.9%	35.3%	68.7%	97.3%	44.1%	-54.7%
Net Debt (£000)	3,940	4,320	10,214	16,301	10,909	-33.1%
Interest Cover****	16.8	15.6	9.1	5.3	5.1	-3.5%
Ord Dividend (per £1 share)***	£1.54	£1.61	£1.66	£1.75	£1.83	4.6%

* The return on capital is based on the operating line and capital employed, including debt

** % variance between 2006 and 2007

*** Including proposed final dividend for 2007

**** Excluding exceptional items and interest on pension deficit



Top: Brewer of the Year

Dr Mike Powell-Evans is a hero to many and this year Mike was recognised as Brewer of the Year by his fans at the British Guild of Beer Writers.

Middle: Coastal Cleans

They seem to get bigger every year with more volunteers and unfortunately more litter. The Adnams Coastal Cleans attract a wide range of people from across the region. Come and join us on the next one!

Bottom: New look Web

Our new-look website makes it easier for customers to order online. The latest update is the About Us section where you will find all our latest news and views adnams.co.uk/aboutus

Pension

The triennial pension scheme valuation took place with effect from 1 April 2007. There had been substantial changes since the previous valuation, notably the closure of the scheme to future accrual and the contribution of a £4.25m lump sum during 2005. The 2007 valuation showed a much more positive picture than we saw in 2004. The deficit had fallen from £7.0m to £1.4m with the funding level being 94%, compared to 63%. Key assumptions are reported in the pensions note and mortality estimates were kept up-to-date at this valuation.

The pensions value for accounting purposes shows a small deficit as at 31 December 2007. The deficit has fallen from £3.2m in 2006 to £0.1m in 2007. It needs to be noted however that the deficit is sensitive to market movements and that 50% of assets were invested in equities as at 31 December 2007.

The final winding-up of the Employee Trust occurred during the year and all current pension provision is now provided through a defined contribution scheme open to all staff, including directors.

Treasury Policies

In 2007 we maintained our policy of not hedging interest rate and foreign exchange risks, though we keep this policy under review. Our position continues to be that such hedging acts more to defer than to remove such risks and that the costs of a hedging policy justify themselves only when the risks are sufficiently large as to threaten some part of the company's operations. The company has policies and procedures in place aimed at minimising losses from the credit risks that arise when payments are due to the company from third parties.

Dividend Policy

Our proposal for the final dividend for 2007 is a 4.3% increase from 117% to 122%. The full year dividend increase would then be 4.6%. The increase exceeds inflation, but reflects appropriate caution given the difficult trading conditions at the present time.

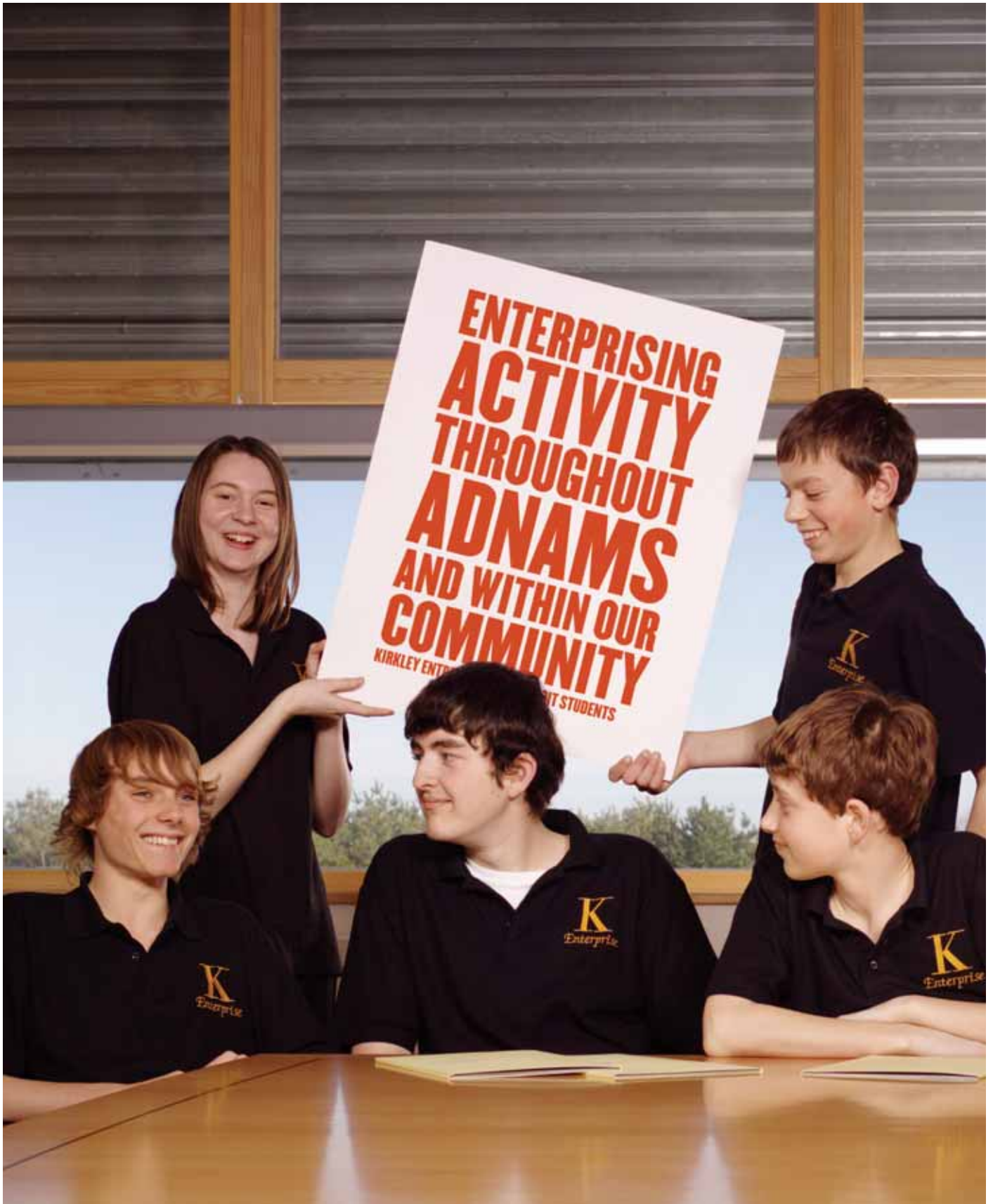
In line with previous years we aim to pay an interim dividend which is 35% of the total dividend paid in the prior year. Barring unforeseen circumstances, we expect the 2008 interim dividend to be 64% (64p per 'B' share and 16p per 'A' share).

Auditors

Ernst & Young have been the auditors of Adnams PLC for many years. During 2007 we undertook a re-tendering of the company's audit. Our aim was to ensure that we had the best service at the most competitive price. We asked six firms to tender. The firms ranged from 'the big four' auditors (including Ernst & Young) through medium sized firms, to those who are smaller and more local. We were delighted by the quality of response that we received and the keenness of the firms concerned to work with us. After careful assessment of the responses the Audit Committee and Board agreed to invite Grant Thornton UK LLP to act as auditors and regretfully accepted the resignation of Ernst & Young. Grant Thornton has undertaken the audit of these accounts and a resolution to reappoint them will be put forward at the AGM.

Andy Wood Managing Director

Stephen Pugh Finance Director



Our culture at Adnams means that working with Kirkley High School's Entrepreneurial Spirit students gives us a chance to show that you don't have to set up your own business to be enterprising. We're now in our fifth year of working with the

school and this has extended to working with Enterprise Lowestoft, supporting enterprise education throughout the region. Developing long-term relationships such as this means we can make a real contribution to the future of our communities.

Left to right: Bradley, Emma, Reece, Adam (seated) and Patrick (standing).

Report of the Directors

For the year ended 31 December 2007

Business activities and development

The Chairman's Statement and Business Review on pages 2 to 13 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.

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

Trading results and dividends

	£000
Company profit on ordinary activities after taxation	6,809
Dividends to ordinary shareholders	
Final 117% (paid 30 April 2007)	552
Interim 61% (paid 1 October 2007)	288
Retained profits	5,969

Proposed final dividend of £576,000 (122%) to be paid 28 April 2008.

Principal risks and uncertainties

The company's principal risks and uncertainties, particularly around the financial risks and treasury policy are detailed within the business review on pages 5 to 13.

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 existing properties for use in its activities for the foreseeable future.

Directors

The Directors who held office at 31 December 2007 and their beneficial interests in the share capital of the company at the beginning and end of the Financial Year, are shown below.

S P D Loftus and S C Pugh retire by rotation and being eligible offer themselves for re-election.

Directors' interests	'A' Ordinary 25p		'B' Ordinary £1	
	2007	2006	2007	2006
J P A Adnams	168,953	163,632	3,263	3,263
S D Curzon	481	385	–	–
W B Kendall*	2,644	2,644	–	–
S P D Loftus*	51,339	51,339	–	–
R J Nicholson* (retired 31 May 2007)	400	400	–	–
S C Pugh	1,309	1,192	–	–
S M Sharp* (appointed 1 June 2007)	304	–	–	–
A C Wood	4,680	4,558	–	–

* Denotes non-executive Director at 31 December 2007.

The company has a Share Incentive Plan (SIP) in which the Executive Directors are eligible to participate.

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 the management matters of interest and subjects affecting day to day operations. Most employees, including Executive Directors, benefit from the company's success through a profit sharing scheme, through incentive schemes linked to achievement of key performance indicators and through a share incentive plan which distributes shares to employees during their period of service with the company.

Health welfare and development of employees

For many years Adnams has operated schemes for the welfare and benefit of employees. As well as 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 & 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. We are proud achievers of the Investors in People award.

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 for its independence as a regional family brewer.

Charitable donations

Adnams is committed to giving not less than 1% of its annual profits to charitable causes. Charitable donations during the year amount to £40,000 (2006: £39,000).

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 2007, the company had an average of 22 days (2006: 20 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 1985. 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 auditors

In so far as the Directors are aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

Ernst & Young LLP resigned as auditors on 27 November 2007. Grant Thornton UK LLP were appointed in their place. Grant Thornton UK LLP offer themselves for reappointment as auditor in accordance with section 385 of the Companies Act 1985.

By Order of the Board
S C Pugh
Secretary
20 March 2008

Notice of meeting

Notice is hereby given that the One Hundred and Eighteenth Annual General Meeting will be held at St. Edmunds Hall, Southwold on the 28 April 2008 at 12 o'clock noon for the following purposes:

1. To consider the Accounts and Directors' report
2. To declare a final dividend
3. To re-elect the Directors retiring by rotation namely S P D Loftus and S C Pugh
4. To re-appoint Grant Thornton UK LLP as Auditor
5. To authorise the Directors to fix the remuneration of the Auditor
6. To transact any other business

A member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote

By Order of the Board

S C Pugh
Secretary
20 March 2008

Registered Office
Sole Bay Brewery, Southwold, Suffolk, IP18 6JW
Registered Number 31114

Profit and loss account

For the year ended 31 December 2007

	Notes	2007 £000	2006 £000
Turnover	1	47,368	46,075
Operating Expenses	2	(43,162)	(41,974)
Operating Profit		4,206	4,101
Profit on disposal of properties	5	3,943	360
Interest receivable	7	86	8
Interest payable	8	(915)	(788)
Other finance income on pension scheme	26	135	114
Profit on Ordinary Activities before Taxation		7,455	3,795
Tax on Profit on Ordinary Activities	9	(646)	(1,153)
Profit for the financial year after taxation		6,809	2,642
Earnings per Share Basic and Diluted	11		
'A' Shares of 25p each		360.8p	140.0p
'B' Shares of £1 each		1,443.1p	559.9p

All amounts relate to continuing activities.

Statement of total recognised gains and losses

For the year ended 31 December 2007

	Notes	2007 £000	2006 £000
Profit for the financial year		6,809	2,642
Actuarial gain on pension scheme	26	2,802	75
Movement on deferred tax relating to actuarial gain		(785)	(23)
Total recognised gains and losses relating to the year		8,826	2,694

Balance sheet

As at 31 December 2007

	Notes	2007 £000	2006 £000
Fixed assets			
Tangible Assets	12	33,819	33,145
Investments and Loans	13	217	146
		34,036	33,291
Current assets			
Stocks	14	3,515	2,912
Debtors	15	6,173	6,770
Cash at bank and in hand		10	21
		9,698	9,703
Creditors: amounts falling due within one year	16	(17,626)	(22,250)
Net current liabilities		(7,928)	(12,547)
Total assets: less current liabilities		26,108	20,744
Creditors: amounts falling due after more than one year	17	(286)	(293)
Provision for liabilities and charges	18	(1,005)	(1,433)
		(1,291)	(1,726)
Net assets excluding pension liabilities		24,817	19,018
Pension Liability	26	(71)	(2,258)
Net assets including pension liabilities		24,746	16,760
Capital and reserve			
Called up Share Capital	19	472	472
Share Premium	20	144	144
Profit & Loss Account	20	24,130	16,144
		24,746	16,760

The financial statements were approved by the Board of Directors on 20 March 2008 and signed on its behalf by:

S C Pugh
Director

Cash flow statement

For the year ended 31 December 2007

	Notes	2007 £000	2006 £000
Net cash inflow from operating activities	22	6,361	5,049
Returns on investments and servicing of finance			
Interest Received		86	8
Interest Paid		(738)	(786)
		(652)	(778)
Taxation			
Corporation Tax paid		(1,449)	(563)
Corporation Tax received		983	–
		(466)	(563)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(3,466)	(9,807)
Receipts from sales of tangible fixed assets		4,533	725
Payments to acquire investments		(151)	(60)
Receipts from investments/ deposits		73	140
		989	(9,002)
Equity dividends paid		(840)	(793)
Net cash inflow/(outflow)		5,392	(6,087)
Financing – new loans		–	8,000
Increase in cash		5,392	1,913
Reconciliation of net cash flow to movement in net debt			
Increase in cash	23	5,392	1,913
Cash inflow from increase in loans	23	–	(8,000)
Movement in net debt	23	5,392	(6,087)
Net Debt at 1 January		(16,301)	(10,214)
Net debt at 31 December	23	(10,909)	(16,301)

Statement of accounting policies

Basis of Preparation

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards. The policies remain unchanged from the prior year.

Turnover

Turnover is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on despatch of the goods; or on provision of services. Rental income received from the tied estate properties is recognised in the period in which it arises.

Tangible Fixed Assets

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% to 4% p.a.
Leasehold property	
– long lease	2% p.a.
– short lease	period of lease
Plant, equipment, fixtures and fittings and motor vehicles	8% to 25% p.a.

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

Impairment Reviews

In accordance with FRS 11, 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) returns are forecast and compared to the carrying value of the assets. Any shortfall is recognised as an impairment loss.

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 stocks includes relevant production and storage expenses. Net realisable value is based on estimated selling price less any further costs expected.

Deferred Taxation

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 with the following exceptions:

- Provision is made for tax on gains on disposal of fixed assets only to the extent that at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only when the replacement assets are sold;
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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.

Foreign Currencies

Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions and any differences arising are taken to the profit and loss account.

Statement of accounting policies continued**Pension Costs – Defined Benefit Scheme**

The service cost of providing defined benefit pension entitlements to employees during the year is charged to operating profit. This scheme closed to future accrual on 30 June 2005. The cost of providing amendments to benefits in respect of past service is also charged to operating profit. The expected return on the assets of the scheme during the year based on the market value of scheme assets at the start of the financial year is included within interest on pension deficit. This also includes a charge representing the expected increase in liabilities of the scheme during the year, arising from the liabilities of the scheme being one year closer to payment. Differences between actual and expected returns on assets during the year are recognised in the statement of total recognised gains and losses, together with differences from changes in assumptions. The deficit on the defined benefit pension scheme is reported on the balance sheet, net of related deferred tax. Additional information is included in note 26.

Pension Costs – Defined Contribution Scheme

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

Leasing

Total rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term taking into account any rent free periods.

Fixed asset investments

Fixed asset investments are stated at historic cost and include unlisted investments and trade loans to customers. The carrying values of the fixed asset investments are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable.

Dividends

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

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.

Share Incentive Plan and Employee Benefit Trust

For many years the company has encouraged employee participation through incentive schemes under which shares are allocated to employees. Throughout 2006 and 2007, the company used a tax-approved Share Incentive Plan for this purpose. The company does not issue shares for such schemes and so has to arrange the purchase of shares. It does this through an Employee Benefit Trust. The Employee Benefit Trust buys shares as required during the year and passes 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 a mixture of those already earned by employees, and which are awaiting transfer to the Share Incentive Plan, and those 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.

Notes to the accounts

For the year ended 31 December 2007

1. Turnover

Represents the fair value (excluding VAT) for sales (net of discounts), rents, commissions and royalties in the United Kingdom.

2. Operating expenses	2007 £000	2006 £000
Raw materials, consumables and duty	24,630	23,776
Change in stock of finished goods and work in progress	(576)	127
Staff costs (see note 4)	7,832	7,704
SIP Scheme for employees (note 28)	68	80
Depreciation	2,308	1,889
(Profit)/loss on routine disposal of plant and vehicles	(46)	6
Auditors' remuneration – Audit services	31	41
– Audit of pension schemes	–	7
– Taxation services	20	3
– Valuation service	–	20
– Other services	–	2
Operating lease rent – Land and buildings	259	226
Defined benefit scheme costs (note 26)	24	(25)
Foreign exchange loss/(gain)	7	(50)
Other operating costs	8,605	8,168
	43,162	41,974

3. Segmental analysis

The company's business segments are Adnams Brewing & Brands, which comprises brewing and distribution of beer and other products and Adnams Retail which comprises tenanted pubs, the Swan and Crown Hotels and Cellar & Kitchen stores together with home delivery and web sales.

	Brewing & Brands		Retail		Central Management		Total	
	2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000	2007 £000	2006 £000
Total sales	27,886	27,606	19,599	18,596	179	174	47,664	46,376
Inter-segment sales	(296)	(301)					(296)	(301)
Sales to third parties	27,590	27,305	19,599	18,596	179	174	47,368	46,075
Operating expenses	(25,928)	(25,537)	(15,663)	(14,773)	(1,571)	(1,664)	(43,162)	(41,974)
Operating Profit	1,662	1,768	3,936	3,823	(1,392)	(1,490)	4,206	4,101
Profit on disposal of properties					3,943	360	3,943	360
Interest receivable					86	8	86	8
Interest payable					(915)	(788)	(915)	(788)
Other finance income on pension scheme					135	114	135	114
Profit on Ordinary Activities before Taxation	1,662	1,768	3,936	3,823	1,857	(1,796)	7,455	3,795
Net assets employed	19,858	20,306	18,142	16,827	(13,254)	(20,373)	24,746	16,760

4. Staff costs	2007 £000	2006 £000
Wages and salaries	6,745	6,626
Social Security costs	672	655
Other pension costs (note 26)	415	423
	7,832	7,704

The average monthly number of persons employed by the company, including Executive Directors, was as follows:

	Number	Number
Trading	26	25
Customer Services	66	63
Production	27	27
Wine/Shops	41	25
Hotels	105	114
Corporate Services	36	36
	301	290
Total number of part-time workers included in above:	63	55

5. Profit on disposal of properties	2007 £000	2006 £000
Profit on sale of properties	3,943	360

The effect on the current tax charge for the year of the above items is nil.

6. Directors' remuneration	2007 £000	2006 £000
Fees	78	63
Basic salaries	560	637
Benefits	3	5
Car allowance	52	59
Performance related pay	25	31
	718	795

	Salaries and fees £000	Benefits £000	Car allowance £000	Performance related bonus £000	2007 £000	2006 £000
S P D Loftus	26	–	–	–	26	124
J P A Adnams	171	–	13	7	191	182
R J Nicholson	11	–	–	–	11	25
A C Wood	160	1	13	7	181	167
S C Pugh	126	1	13	6	146	141
S D Curzon	103	1	13	5	122	118
D M Woodhall CBE	–	–	–	–	–	13
S M Sharp	15	–	–	–	15	–
W B Kendall	26	–	–	–	26	25
	638	3	52	25	718	795

All bonus payments in the year relate to existing arrangements. No amounts have been paid out under the new senior management and Director scheme.

6. Directors' remuneration continued

J P A Adnams and A C Wood 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:

	31 Dec 2007 £	Accumulated total accrued pension at 31 Dec 2006 £
J P A Adnams	75,048	72,450
A C Wood	22,088	21,334

Accumulated total accrued pension normally represents scheme service to retirement, but for 31 December 2007 this figure reflects the scheme closure in June 2005.

The transfer value of the highest paid Directors' accrued benefits in the defined benefit pension scheme amounted to £974,000 (2006: £800,000).

The following contributions were paid to the Adnams defined contribution pension scheme in respect of the Directors:

	2007 £	2006 £
J P A Adnams	18,763	17,600
S D Curzon	10,337	9,875
S C Pugh	12,613	12,050
A C Wood	17,627	16,115

The company has an approved Share Incentive Plan in which the Executive Directors participated. Allocated shares, which are included in Directors' Interests in the Report of the Directors, were as follows:

	2007 'A' shares	2006 'A' shares
J P A Adnams	147	171
S D Curzon	96	95
S P D Loftus	–	171
S C Pugh	117	139
A C Wood	122	145

There were no share option arrangements in place.

7. Interest receivable	2007 £000	2006 £000
Trade Loans	13	8
Corporation tax interest	73	–
	86	8

8. Interest payable	2007 £000	2006 £000
Bank Loans and Overdraft	913	774
Other	–	12
Preference share dividends paid: 3.85% cumulative £10 shares	1	1
Preference share dividends paid: 4.9% non-cumulative £5	1	1
	915	788

9. Taxation	2007 £000	2006 £000
The charge based on the profit for the year comprises:		
UK Corporation Tax @ 30%	919	642
Tax over provided in prior years	–	(956)
Total Current Tax	919	(314)
Deferred Taxation (see note 18)		
Origination and reversal of timing differences (ACA and other)	135	408
Pension cost relief in excess of pension cost charge	155	103
Removal of IBAs from deferred tax	(563)	–
Adjustment in respect of prior periods	–	956
	(273)	1,467
Tax on profit on ordinary activities	646	1,153

Factors affecting the current tax charge

The tax assessed on the profit on ordinary activities for the year is lower (2006 – lower) than the standard rate of corporation tax in the UK of 30%. The differences are reconciled below:

Profit on ordinary activities before tax	7,455	3,795
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 – 30%)	2,237	1,139
Disallowed expenses and non-taxable income	165	13
IBAs received with no balancing charge	(92)	–
Capital allowances in excess of depreciation	(209)	(393)
Rollover relief claimed on property disposal	(1,183)	–
Other timing differences	1	(117)
Adjustment relating to prior years	–	(956)
Current tax charge/(credit) for the period	919	(314)

Factors that may affect future tax charges

No provision has been made for deferred tax on gains recognised on the sale of properties where potential gains will be rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided for the year is £4,057,000 (2006: £535,000). At present it is not envisaged that any tax will become payable in the foreseeable future.

10. Dividends	2007 £000	2006 £000
Equity dividends on Ordinary Shares		
Interim Paid 1 October 2007 61% (2006: 2 October 2006 58%)	288	274
Final Paid 30 April 2007 117% (2006: 24 April 2006 110%)	552	519
	840	793

The Directors propose a final dividend of £1.22 per £1 nominal share (totalling £576,000) for the year ended 31 December 2007. The dividend will be submitted for formal approval at the Annual General Meeting, to be held on 28 April 2008. This dividend has not been accounted for within the current year financial statements as it has yet to be approved.

11. Earnings per share	2007 £000	2006 £000
'A' Ordinary shares	360.8p	140.0p
'B' Ordinary shares	1,443.1p	559.9p

Basic and diluted earnings per share for 'A' Ordinary shares are calculated by dividing the earnings available for 'A' Ordinary shareholders of £2,684,000 (2006: £1,041,000) by the number of issued 25p 'A' Ordinary shares (note 19): 744,000 (2006: 744,000).

Basic and diluted earnings per share for 'B' Ordinary shares are calculated by dividing the earnings available for 'B' Ordinary shareholders of £4,125,000 (2006: £1,601,000) by the number of issued £1 'B' Ordinary shares (note 19): 285,842 (2006: 285,842).

I2. Tangible fixed assets	Freehold and leasehold land and buildings £000	Plant, equipment fixtures and fittings and motor vehicles £000	Total £000
Cost			
At 1 January 2007	24,421	23,052	47,473
Additions	841	2,625	3,466
Transfer between categories	596	(596)	–
Disposals at cost	(406)	(1,376)	(1,782)
At 31 December 2007	25,452	23,705	49,157
Depreciation			
At 1 January 2007	2,345	11,983	14,328
Provided in the year	485	1,823	2,308
Disposals	(3)	(1,295)	(1,298)
At 31 December 2007	2,827	12,511	15,338
Net book value at 31 December 2007	22,625	11,194	33,819
Net book value at 31 December 2006	22,076	11,069	33,145

The transfer between categories relates to the final categorisation of the distribution centre once all information was available. At 31 December 2007 £180,000 (2006: £3,297,000) of assets were in the course of construction.

	2007 £000	2006 £000
The cost of Land and Buildings comprises:		
Freehold Land	2,385	2,471
Freehold Buildings	22,027	20,962
Long Leasehold	373	321
Short Leasehold	667	667
	25,452	24,421

The company carries out an annual impairment review of its pub estate in line with the accounting policy disclosed on page 19. This is assessed by comparing the carrying value of pubs to the value in use or if necessary fair value. As at 31 December 2007 and 31 December 2006, no impairment losses were recognised.

I3. Fixed asset investments	2007 £000	2006 £000
Unlisted investments at cost and net book value	101	1
Trade Loans	116	145
Total Investment	217	146

The £100,000 addition in the year in investments relates to 10,000 £10 nominal value shares in Century Projects Limited, registered address 18, Bedford Row, London, EC1R 4EQ.

Unlisted investments

In the opinion of the Directors the value of these investments is not less than book value.

13. Fixed asset investments continued

Trade loans	2007 £000	2006 £000
Cost		
At 1 January	145	220
Loans advanced during the year	44	65
Repayments	(73)	(140)
At 31 December	116	145

Further details on trade loans are contained in note 27.

14. Stocks	2007 £000	2006 £000
Raw materials	290	263
Work in progress	56	43
Finished goods and goods for resale	3,169	2,606
	3,515	2,912

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

15. Debtors	2007 £000	2006 £000
Trade Debtors	4,811	5,467
Prepayments	960	448
Corporation Tax	402	855
	6,173	6,770

16. Creditors: amounts falling due within one year	2007 £000	2006 £000
Bank Overdraft and Loans	10,919	16,322
Trade Creditors	3,122	3,341
Taxation & Social Security	1,324	960
Other Creditors	98	167
Accruals	2,163	1,460
	17,626	22,250

The bank overdraft and loan are unsecured.

17. Creditors: amounts falling due after more than one year	2007 £000	2006 £000
Tenants' Deposits	240	247
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
	286	293

See note 19 for full details of these preference shares.

	2007 Provided £000	2007 Full Potential Liability £000	2006 Provided £000	2006 Full Potential Liability £000
18. Provision for liabilities and charges				
Deferred taxation				
Accelerated Capital Allowances	1,028	1,028	1,456	1,456
Other timing differences	(23)	(23)	(23)	(23)
Chargeable Gains	–	4,057	–	535
Deferred tax excluding that relating to pension liability	1,005	5,062	1,433	1,968
Deferred tax on pension scheme deficit (note 26)	(28)	(28)	(968)	(968)
Total provision for deferred tax	977	5,034	465	1,000
Movement in the provision				
At 1 January 2007	1,433			
Reduction in brought forward provision arising from change in future tax rates	(96)			
Deferred tax credit to the profit & loss account	(332)			
31 December 2007	1,005			
Deferred tax asset relating to pension deficit				
At 1 January 2007	968			
Reduction in brought forward provision arising from change in future tax rates	(64)			
Deferred tax charge in the profit & loss account	(91)			
Deferred tax charged to the STRGL	(785)			
31 December 2007	28			

Of the deferred tax liability of £977,000 (2006: liability £465,000), £28,000 (2006: £968,000) has been deducted in arriving at the net pension liability on the balance sheet (note 26).

The Finance Act 2007 abolished most balancing charges and allowances for Industrial Buildings Allowances (IBAs) where the disposal is on or after 21 March 2007. As a result timing differences in respect of IBAs are no longer recognised and this gave rise to a deferred tax reversal during the year of £563,000.

	2007 £000	Authorised 2006 £000	Allotted, Called Up and Fully Paid 2007 £000	2006 £000
19. Share Capital				
Ordinary Shares				
'A' of 25p each (744,000 shares)	186	186	186	186
'B' of £1 each (285,842 shares)	288	288	286	286
Called up share capital	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.

	Share Capital £000	Share Premium Account £000	Profit and Loss Account £000	Total £000
20. Reserves				
1 January 2007	472	144	16,144	16,760
Profit for the year	–	–	6,809	6,809
Actuarial gain on pension scheme (note 26)	–	–	2,802	2,802
Movement on deferred tax relating to pension scheme (note 18)	–	–	(785)	(785)
Dividends	–	–	(840)	(840)
31 December 2007	472	144	24,130	24,746
Pension deficit			71	
Profit and loss reserve excluding pension liability			24,201	

All reserves relate to equity

	2007 £000	2006 £000
21. Reconciliation of shareholders' funds		
Profit for the year	6,809	2,642
Dividends	(840)	(793)
Actuarial gain on pension scheme (note 26)	2,802	75
Movement on deferred tax relating to pension scheme (note 18)	(785)	(23)
Net addition to shareholders' funds	7,986	1,901
Opening shareholders' funds	16,760	14,859
Closing shareholders' funds	24,746	16,760

	2007 £000	2006 £000
22. Net cash inflow from operating activities		
Operating profit	4,206	4,101
Depreciation charges	2,308	1,889
Profit on sales of fixed asset disposals	(46)	–
Difference between pension charge and cash contributions	(190)	(231)
(Increase)/decrease in stock	(603)	73
Decrease/(increase) in debtors	144	(562)
Increase/(decrease) in creditors	542	(221)
	6,361	5,049

	At 1 Jan 2007 £000	Cash Flow £000	At 31 Dec 2007 £000
23. Analysis of net debt			
Cash at bank and in hand	21	(11)	10
Bank overdraft	(8,322)	5,403	(2,919)
Increase in cash		5,392	
Bank loan	(8,000)	–	(8,000)
Net debt	(16,301)	5,392	(10,909)

24. Capital commitments and contingent liabilities	2007 £000	2006 £000
Contracted for	1,264	900

The amount for 2007 reflects capital commitments for the C&K store in Southwold (prior year commitment relates to new brewstream).

The final settlement for the construction of the Reydon Distribution Centre has not yet been agreed.

Operating lease commitments	2007 Land & Buildings £000	2006 Land & Buildings £000
On Leases expiring:		
Within one year	44	51
In 2-5 years	–	–
In over 5 years	299	254
	343	305

At the year-end Barclays Bank held a bond guarantee on behalf of Adnams plc with Her Majesty's Revenue and Customs for £720,000 (2006: £720,000).

25. Related party transactions

During the year the company carried out trading activities with the following Directors and/or organisations in which Directors have an interest.

Nicholsons: £130,000 (2006: £89,000) of which R J Nicholson is a partner. £11,000 (2006: £25,000) of these amounts are included within salaries and fees in note 6. Enil was outstanding at 31 December 2007 (2006: £20,000).

Mr D M Woodhall CBE: Enil (2006: £8,000) for property consulting services. This amount is included within salaries and fees in note 6. Enil was outstanding at 31 December 2007 (2006: Enil).

Mr W B Kendall: £21,000 (2006: £21,000) for consultancy services. These amounts are included within salaries and fees in note 6. £6,000 was outstanding at 31 December 2007 (2006: £6,000).

Mr S P D Loftus: Enil (2006: £10,000) for advisory services.

The Employee Benefit Trust (EBT) held 9,496 Adnams PLC 'A' shares at 31 December 2007 (2006: 9,922 'A' shares). During 2007 the EBT received dividends of £5,000 on its Adnams shares (2006: £4,000).

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

26. 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 valuation was at 1 April 2007. 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 that the pre-retirement investment returns would be 6.5% per annum and that post-retirement returns would be 5% per annum.

The most recent actuarial valuation showed that the market value of the scheme's assets was £20,105,000 and that the actuarial value of these assets was sufficient to cover 94% of the benefits that have accrued to members.

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

26. Pension scheme continued

The disclosures required by FRS17 are set out below.

Valuation of the scheme has been updated to 31 December 2007 by a qualified actuary in order to assess the following:

The major assumptions used by the actuary were (in nominal terms)

	Valuation at 31 Dec 2007	Valuation at 31 Dec 2006	Valuation at 31 Dec 2005
Pensionable salary growth	N/A	N/A	4.3%pa
Pension escalation in payment:			
Benefits accrued prior to 1 October 1999	4.0%pa	4.0%pa	4.0%pa
Benefits accrued after 1 October 1999	3.4%pa	3.2%pa	2.8%pa
Discount rate for liabilities	5.9%pa	5.1%pa	4.8%pa
Inflation assumption	3.4%pa	3.2%pa	2.8%pa
Pension revaluation in deferment	3.4%pa	3.2%pa	2.8%pa

The assets and liabilities of the scheme and the expected rate of return were:

	Expected return for 2008	Value at 31 Dec 2007 £000	Expected return for 2007	Value at 31 Dec 2006 £000	Expected return for 2006	Value at 31 Dec 2005 £000
Equities	8.0%	10,767	7.75%	10,605	8.0%	10,203
Bonds	5.5%	7,763	5.0%	6,636	5.0%	5,849
Property	7.0%	1,269	7.0%	1,600	7.0%	1,457
Cash	5.0%	1,616	4.5%	1,152	4.75%	3,282
Total market value of assets		21,415		19,993		20,791
Present value of scheme liabilities		(21,514)		(23,219)		(24,437)
Deficit in the scheme		(99)		(3,226)		(3,646)
Related deferred tax asset		28		968		1,094
Net pension liability		(71)		(2,258)		(2,552)

Analysis of the amount charged to operating profit

	For year to 31 Dec 2007 £000	For year to 31 Dec 2006 £000
Current service cost	(24)	(26)
Past Service cost – in respect of enhanced commutation benefits	–	(530)
– on expected increased commutations on retirement	–	581
Total operating (charge)/income	(24)	25

The projected unit valuation method has been used to arrive at the above service cost. To produce a stable future contribution rate this valuation method assumes that the average age of the scheme membership will remain broadly constant in future due to a flow of new entrants to the scheme. As the scheme is closed to new members this will not be the case and the costs of benefits accruing, as a percentage of salaries, will be expected to increase over time.

26. Pension scheme continued

	For year to 31 Dec 2007	For year to 31 Dec 2006 £000
Analysis of the amount included as other finance income		
£000		
Expected return on pension scheme assets	1,319	1,287
Interest on pension scheme liabilities	(1,184)	(1,173)
Other finance income	135	114
Analysis of the amount recognised in the statement of		
Total recognised gains and losses (STRGL)		
Actual return less expected return on pension assets	67	349
Experience gains/(losses) arising on the scheme liabilities	25	(41)
Changes in assumptions underlying the present value of the scheme liabilities	2,710	(233)
Actuarial gain recognised in STRGL	2,802	75
Movement in deficit during the year		
Deficit in scheme at beginning of the year	(3,226)	(3,646)
Movements in year:		
– Current service cost	(24)	(26)
– Contributions paid by the employer	214	206
– Past service – in respect of enhanced commutation benefits	–	(530)
– on expected increased commutations on retirement	–	581
– Other finance income	135	114
– Actuarial gain	2,802	75
Deficit in scheme at the end of the year	(99)	(3,226)

History of experience gains and losses	2007	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets amount £000	67	349	1,678	204	981
% of scheme assets	<1%	2%	8%	2%	8%
Experience gains and losses on scheme liabilities amount £000	25	(41)	(335)	(420)	67
% of present value of scheme liabilities	<1%	(<1%)	(1%)	(2%)	<1%
Total amount recognised in STRGL amount £000	2,802	75	(783)	(1,979)	(1,898)
% of present value of scheme liabilities	13%	<1%	(3%)	(9%)	(10%)

Defined contribution scheme

The company also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. During the year the company contributed £415,000 (2006: £423,000) to the scheme. There was £50,000 outstanding at the year end (2006: £nil). This amount is included within accruals in note 16.

27. Financial Instruments

The company's financial instruments comprise a bank loan, trade loans to customers, 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 have not been included in the following disclosures.

Details of the company's policies in respect of borrowings, treasury management, interest rate and liquidity risk are included within the business review.

Financial assets

The company funds certain free trade customers with loans. Amounts at the balance sheet date are disclosed in note 13 to the accounts. The maturity profile of these assets is £33,000 (2006: £55,000) recoverable within one year and £75,000 (2006: £71,000) recoverable within one to five years. The balance is due after five years.

Of these loans £34,000 (2006: £73,000) is expected to be repaid in cash and £82,000 (2006: £72,000) is expected to be repaid by discounts. The level of discounts awarded and the interest charged depends on the trading performance of each customer against set targets.

Interest rate profile

Bank loans of £8,000,000 (2006: £8,000,000) bear interest at 7.66% at 31 December 2007 (2006: 6.2825%). This rate is fixed for part of the year and then reverts to a variable rate on a month to month basis.

Bank overdrafts of £2,919,000 (2006: £8,322,000) bear interest at 1% above Barclays Bank base rate which was 5.5% at 31 December 2007. (2006: 1% above Barclays Bank base rate of 5%).

Fair values of financial assets and liabilities

Trade loans are financial assets carried at book value. It is not practicable for the company to estimate the fair value of these loans with sufficient reliability given the cash flows are based upon improved sales revenues in future years. There is no difference between book value and fair value in respect of the cash, bank loan and bank overdraft.

28. Share Incentive Plan

The Adnams Share Incentive Plan (SIP) is open to all employees with 18 months service at the award date. A free award of shares based upon profitability of the company is made based upon employees' salary and capped at a maximum of £3,000 per person. The awarded shares are held in trust for five years with dividends accruing to employees during this period. Leavers before this time do not necessarily lose their right to these shares. In the opinion of the Directors the 2007 and 2006 share awards vest unconditionally at the balance sheet date and the total value of free shares awarded under the SIP scheme for 2007 and 2006 is disclosed in note 2 to the accounts. These amounts also represent the year end liability and are included within accruals in note 16.

Shares are transferred to the SIP at an annual value approved by Her Majesty's Revenue and Customs share valuation team.

Report of the Independent Auditor

to the members of Adnams plc

We have audited the financial statements (the 'financial statements') of Adnams plc for the year ended 31 December 2007 which comprise the principal accounting policies, the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement and notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement and the Business Review and the Corporate Governance Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the company financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Grant Thornton UK LLP
Registered Auditor
Chartered Accountants
Norwich
20 March 2008

Corporate governance

Standards

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

The workings of the Board and its committees

During 2007 the Board comprised four Executive Directors and three 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.

An Audit Committee has been appointed, which consists of the Non-Executive Directors and 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 same Non-Executive Directors form the Remuneration 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.

Going concern

The Directors have a 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.

Directors' responsibilities in respect of the accounts

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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 are responsible for the maintenance 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.

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