



CHAIRMAN'S STATEMENT



Results

We saw many positive developments, notably 7% growth in our own beer volumes and our spirits volumes were up by 60% in the first six months of the year. Turnover grew by 7% although our first half operating profit was behind that achieved in 2015. This was as anticipated and included in our AGM statement. We have noted in previous years that as our profits arise more in the second half of the year, the first half result can be quite volatile.

The main reasons for the lower first half result were the expansion of our shop and managed house retail operations, where earnings tend to be stronger in the second half of the year, the increased investment that we have made in marketing and the decline in the Sterling exchange rate.

Income from asset sales was much higher this year at £1.4m, comfortably ahead of last year's £407,000. Last year's income arose from selling three pubs whilst in this half year there was one pub sold, but most of the income came from the sale of our UK distribution rights for Lagunitas beer. These rights were sold to Heineken following Heineken's acquisition of a major stake in the Lagunitas business.

Dividend

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. As we flagged in our 2015 accounts this means that we will be increasing the dividend on our "B" shares by 4p and on our "A" shares by 1p to 76p per share and 19p per share respectively, a 5.6% increase.

The Adnams Beer Business

The fact that we have been able to push our own beer volumes ahead in the last few years in the face of a fiercely competitive market is a great credit to our sales and

marketing work and in particular to our success in reading market trends and producing beers that appeal to consumer tastes. Adnams Ghost Ship continues to be the beer that leads our sales growth, but a number of our smaller products have seen good success too. We have seen a marked shift in our production towards bottled, canned and kegged beers and although cask beer is still the vital mainstay of what we produce, its proportion of the whole has fallen. This trend supports the major £7 million investment that we are making in our brewery, which should be complete a year from now. This will give us additional capacity together with the flexibility to make the wider range of beer styles that are now being demanded.

Industry data suggests that the beer market grew by 0.4% in the first half of 2016 and against that benchmark we performed very well. We saw good growth in our directly delivered business in both East Anglia and London and notably strong growth in our sales to supermarkets and other take home outlets. In the National trade we performed well with most customers, though two important managed pub company customers saw declines. We have commented before that these customers can switch substantial volumes between suppliers at short notice which creates inevitable volatility. Our export business had a relatively slow start to the year, but we are hopeful of a stronger second half performance as we continue to build our overseas distribution network.

Over the last three years Adnams has been the distributor for the leading US craft brewer, Lagunitas. Lagunitas beers have sold very well in the UK market and Adnams has enjoyed considerable success in promoting these beers. Last September Heineken formed a joint venture with Lagunitas and following subsequent discussions Adnams agreed to sell its UK distribution rights to Heineken. The effective date for this agreement was 1st July 2016 and

as the contractual commitment was made before that date, the profit from the sale is reflected in these results. In future Heineken will sell Lagunitas beers to Adnams so that we can continue to supply our directly delivered customers, but there will of course be some reduction in future earnings from this source.

The Adnams Copper House Distillery

The major extension to our distillery opened early in the year giving us towards three times more capacity. We continue to see very strong growth in our spirits sales led by Copper House Gin which has been selling strongly across all channels. The additional capacity is allowing us to lay down more whisky, a process that slackened in the second half of last year as we had to devote capacity to the immediate demand for gin.

The Adnams Pubs and Hotels

Our managed business, comprising the Swan and Crown in Southwold, the White Horse at Blakeney, the Ship at Levington and more recently the Plough at Wangford, produced results ahead of 2015. We were slightly behind our expectations given the lost income in 2015 resulting from temporary closure for refurbishments at the Swan and the White Horse. Relatively poor weather conditions during key trading periods did not help and some extra costs were incurred as we have sought to put the right teams in place at each property.

In our 2015 accounts and at the AGM we talked about our ambitions for the Swan. This hotel occupies a key position in Southwold and is perhaps the most public face of Adnams. We believe that it can be much stronger, more integrated with Adnams and more relevant to today's customer with a substantial redevelopment and refocussing. We are planning to spend around £4 million on this development and subject to necessary consents this should take place in the first half of 2017.

The leased and tenanted part of the business has seen the impact of having fewer pubs as we have sold a number of smaller outlets in recent years, but underlying trading has been good with like-for-like results ahead of last year and an overall result only a little behind that of a year ago. The pub sold in the first half of this year was The Cherry Tree at Harleston. Two other pubs are on the market: The King's Head, Southwold and the Lord Nelson, Ipswich. Shareholders will be aware that the King's Head has been closed for some while and given its Southwold location we have tried particularly hard to see it pass to a supportive buyer. To this end we spoke to a number of community groups over an extended period. Sadly, these discussions came to nothing, and the property is for sale with consent for mixed retail and residential use. We hope that it will sell in the near future, though there are no firm offers at the time of writing.

The Adnams Shops

Our shops have continued to trade well, though the first half result in 2016 has been reduced by the weakness of Sterling, which raises the price of imported wine. Having opened a shop in Bury St Edmunds last autumn we recently opened a smaller outlet in Felixstowe. All our shops make their profits in the second half of the year and so more openings tend to reduce first half profits. This too has had an impact in 2016. Our shops have been a great success in helping to display our brand to a wider audience and in boosting the growth in our beers and spirits and we plan to gradually extend our presence over the next few years.

Our online shop continues to grow and help us to reach a customer base beyond those near to our physical stores. Our Wine Club has seen encouraging new membership.

Marketing

Our main focus in recent years has been on event sponsorship and this has continued in 2016 with a notable new sponsorship of the University Boat Races. This has given us more of a focus in London and provided good television coverage. We are also sponsoring major cycling events including the Tour of Britain and Women's Tour. Beyond these major sporting occasions, we are sponsors at Newmarket Racecourse and support many local teams and events. The University Boat Race sponsorship and associated promotions has added to our costs this year and this has had some impact on the first half results.

Treasury, Tax and Pensions

Our bank debt at 30th June was £10.8m (30th June 2015: £9.4m), an increase from our year end debt levels of £8.9m. The main reason for the increase is the investment programme that we have pursued in the brewery and distillery.

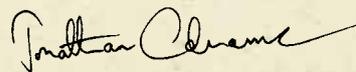
Our previous three-year facility agreement with Barclays expired in February and we were pleased to replace it with a £15 million facility that Barclays provided after a competitive tender. £5 million of this facility has been taken as a five-year loan at a fixed rate.

Shareholders will be used to the way in which changes in market values can cause swings in the position of our closed defined benefit pension scheme. The £9.7million deficit at 30th June 2015, fell to £3.2m at 31st December and this has moved to £6.4m at 30th June 2016. 1st April 2016 is a triennial valuation date for the Scheme and the results of this are expected to be available in time for our full year accounts.

As noted above, the Sterling:Euro exchange rate was less favourable to us in the first half of 2016 with weaker Sterling making wine imports more expensive. Purchases of Euros have on average been about 6% more costly this year.

The Future

The vote for the UK to leave the European Union has of course created additional economic uncertainty. It has had the immediate impact of making Sterling weaker and further raising the costs of imported wines. More important will be the overall impact on the economy. Further initial impacts included lower interest rates, which helps Adnams as a borrower, where rates have not been fixed, though lower rates will also increase the value of our pension liabilities. Despite this turbulence we will maintain our eye on the longer term, we need to invest to maintain and grow the Company and our plans to do this remain unchanged.



Jonathan Adnams OBE
Chairman

PROFIT AND LOSS ACCOUNT

For six months to 30 June 2016

	Notes	Unaudited 6 months to 30 June 2016 £000	Unaudited 6 months to 30 June 2015 £000	12 months to 31 December 2015 £000
Turnover		31,219	29,139	65,698
Operating expenses		(30,595)	(28,177)	(61,605)
Operating profit		624	962	4,093
Profit on disposal of assets		1,419	407	625
Profit on ordinary activities before interest and taxation		2,043	1,369	4,718
Interest		(118)	(134)	(268)
Other finance charge on pension scheme		(65)	(195)	(382)
Profit on ordinary activities before taxation		1,860	1,040	4,068
Tax on profit on ordinary activities	2	(367)	(238)	(839)
Profit for the financial year		1,493	802	3,229
Earnings per share	4			
'A' Shares of 25p each, Inc. asset disposals		79.1p	42.5p	171.1 p
'B' Shares of £1 each, Inc. asset disposals		316.4p	169.9p	684.3p
'A' Shares of 25p each, Exc. asset disposals		17.7p	25.2p	138.8p
'B' Shares of £1 each, Exc. asset disposals		70.7p	100.8p	555.3p

Notes

1 Basis of preparation

The interim accounts, which have not been audited, have been prepared under the accounting standard, FRS102. The 2015 full year accounts were audited.

2 Taxation

The taxation charge is based on the estimated tax rate for the year. Profit on sale of assets includes property profits which are assumed to be reinvested and the tax rolled-over, but tax will be payable on the profit from sale of distribution rights.

3 Dividend

The interim dividend on ordinary shares will be £359,000 (76%) (2015: £340,000 (72%)) and will be paid on 3 October 2016 to those on the register at the close of business on 8 September 2016.

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 2016

	Unaudited 30 June 2016 £000	Unaudited 30 June 2015 £000	31 December 2015 £000
Fixed assets			
Tangible assets	39,149	36,818	38,545
Investments	50	5	-
	39,199	36,823	38,545
Current assets			
Stocks	6,634	6,389	6,377
Debtors	9,742	6,960	7,587
Cash at bank and in hand	21	18	17
	16,397	13,367	13,981
Creditors: amounts falling due within one year	(15,451)	(17,694)	(18,024)
Net current assets/(liabilities)	946	(4,327)	(4,043)
Total assets less current liabilities	40,145	32,496	34,502
Creditors: amounts falling due after more than one year	(5,225)	(240)	(223)
Provision for liabilities	(390)	-	(990)
	(5,615)	(240)	(1,213)
Net assets excluding pension liability	34,530	32,256	33,289
Pension liability	(6,381)	(9,665)	(3,225)
Net assets including pension liability	28,149	22,591	30,064
Capital and reserves			
Called up share capital	472	472	472
Share premium	144	144	144
Profit and loss account	27,533	21,975	29,448
Equity shareholders' funds	28,149	22,591	30,064