

ST AUSTELL BREWERY COMPANY LIMITED
Annual report and financial statements
for the 52-week period ended 31 December 2016

Registered number: 107021



St Austell Brewery Company Limited

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St Austell Brewery Company Limited

Company vision

“To be recognised by our customers as the most successful company in the drinks and hospitality sector by investing in our people, our estate and our brands.”

FINANCIAL HIGHLIGHTS

	52 weeks ended 31 December 2016	Restated 53 weeks ended 2 January 2016	*Adjusted 52 weeks ended 2 January 2016	% Change
Turnover (£000)	153,226	137,351	135,314	13.2%
Operating profit before other items (£000) +	13,961	13,518	13,284	5.2%
Earnings per share before other items (£) +	£6.06	£5.91	£5.77	5.0%
Dividends per share (£)	£1.59	£1.42	£1.42	12.0%

*In order to give a 52-week comparison to the prior period we have removed the first week of the period from the full 53-week prior period results. The variances to prior period comparatives are shown on an adjusted 52-week basis throughout the Chairman's statement, the Chief Executive's review and the strategic report.

+ Other items are defined in note 10 to the financial statements

St Austell Brewery Company Limited

Chairman's statement

I am very pleased to report another record financial performance for the St Austell Brewery in the 52-week period ended 31 December 2016.

Acquisition of the Hare it House Holdings Limited group of companies

On 30 June 2016, we acquired the Hare it House Holdings group of companies ("Bath Ales"), a successful brewing and pub group based between Bristol and Bath. This acquisition supported our strategy to strengthen and extend our presence in this important trading region. Our integration plans are already well advanced and we are very pleased with how readily the Bath Ales team have become part of the St Austell family. The former Bath Ales business contributed over £9m of turnover and £372,000 to operating profit in the period following our acquisition.

Accounting standards

This is our first annual report under the FRS102 accounting standard, and as a result we have been required to restate some prior year comparative figures that were prepared under previous UK GAAP accounting rules.

The main areas of change are in the accounting treatment of the interest rate swap which now appears on our balance sheet as an additional liability and in the accounting treatment of the defined benefit section of our pension scheme. The impact of these changes in accounting standards are set out in note 30 to the financial statements.

The Earnings per share before other items for the period to 2 January 2016 was previously reported under UK GAAP as £5.83 but has been restated under FRS 102 to £5.91.

Financial performance

Group turnover in the period increased by 13.2%¹ to £153.2m and group operating profit before other items grew by 5.2%¹ to £14.0m. Group profit before tax and other items grew by 4.8%¹ to £13.0m and group statutory profit before tax is up 14.7%¹ to £14.0m. Earnings per share before other items rose by 5.0%¹ to £6.06.

Dividend

The Board is proposing a final dividend of 90p (2 January 2016: 82p) per Ordinary Share, resulting in total dividends for the year of £1.59 (2 January 2016: £1.42) per Ordinary Share. This gives a total increase in dividends for the year of 12.0% which represents an underlying dividend cover of 3.8 times (2 January 2016: 4.1 times). The final dividend will be paid on 5 May 2017.

¹ Variances shown are on an adjusted 52-week basis, as defined in note 29 to the financial statements

St Austell Brewery Company Limited

Chairman's statement (continued)

Cash flow and financing

Underlying EBITDA* was up 5.9%¹ to £18.9m (2 January 2016: £17.8m). During the year we invested £25.9m on new capital expenditure. This included £16.7m for new acquisitions including the purchase of Bath Ales, the Pier House Hotel and Harbourside Bar in Charlestown, the Cat & Fiddle in Clyst St Mary, the Hop Pole in Bath and two residential properties that provide accommodation for staff. The remaining £9.2m was invested into our existing pub estate, our production and distribution facilities, as well as our head office and IT infrastructure.

During the period we realised proceeds from asset sales of £1.8m which included the sale of the Four Winds in Falmouth, the Mount Ambrose Inn in Redruth, the Railway Inn at Illogan and the Rodney Inn at Helston.

Our revolving credit facilities of £25m that were due to expire in January 2017 and our medium-term loan of £10m that was due to expire in October 2022 were refinanced and increased in March 2016 to provide new revolving credit facilities of £45m with an expiry date of March 2021. In June 2016 we agreed an additional £10m increase in our revolving credit facilities bringing them to £55m with an expiry date of March 2021. These facilities provided us with the funding for our acquisition of Bath Ales and give us the flexibility to support our strategic plans.

As a result of the new acquisitions our net debt increased by £16.3m to £45.4m but with the additional facilities we had headroom at the end of the year against our revolving credit facilities of £15.5m. In February 2017, we agreed to extend £30m of our revolving credit facilities for a further twelve months and so this facility now has an expiry date of March 2022.

Pensions

The deficit on the defined benefit pension scheme has increased by £9 million to £12.8 million (2 January 2016: £3.8 million). This has been driven by the assumed discount rate falling from 3.9% to 2.8% resulting in an increase in the present value of pension obligations from £46.8 million to £60.2 million. This has been partially offset by a higher than expected return on scheme assets, which has seen the fair value of the scheme assets increasing from £43.0 million to £47.3 million.

The scheme is currently undergoing its latest full triennial actuarial valuation as at 31 December 2016. The result of this valuation is expected to be known later in the year and the scheme actuary will advise on whether any change in contributions to the scheme will be necessary. It should be noted that the defined benefit section of the scheme has been closed to new entrants since June 2001. We take a long-term view of our pension commitments and these will be reviewed when the results of the triennial valuation are known. The current level of discount rate is at a historical low and this adversely affects the value of the liabilities of the scheme.

While it cannot in any way be guaranteed, the financial markets expect the discount rate to return to more normal levels in the fullness of time.

Board of Directors

The composition of the Board of Directors is kept under regular review. After 20 years with the company and having been a Non-Executive Director since 2011 we announced in October 2016 that Piers Thompson had been

¹ Variances shown are on an adjusted 52-week basis, as defined in note 29 to the financial statements

♦ EBITDA: Earnings before interest, tax, depreciation and amortisation

St Austell Brewery Company Limited

Chairman's statement (continued)

promoted to the Senior Management Team in the executive role of External Relations Director based in St. Austell. Piers has done an excellent job working with National Sales, and this experience will be particularly useful in his new role assisting our Chief Executive James Staughton with special projects, being an ambassador for the company and helping look after our relationships with internal and external customers.

I am pleased to confirm that Colin Stratton who has been Company Secretary and Finance Director (Associate) for the past 19 years has now been appointed to the Board with effect from March 2017. As company secretary, he has attended all Board and shareholder meetings since June 1998. Colin's role will not change but his appointment recognises that throughout his tenure he has proven to be an invaluable adviser to the Board on a wide range of financial and company secretarial matters.

Finally, I am pleased to announce that Steve Worrall joins the company as Retail Director to succeed Adam Luck. Steve brings over twenty years of hospitality experience having worked for Greene King, the former Scottish and Newcastle retail division, and recently the Spirit Pub company. Adam Luck will remain on the Board and retain responsibility for the Property department including overseeing acquisitions and major refurbishment projects.

Government and regulation

The Statutory Code of Practice for large pub companies (more than 500 pubs) became law on 21 July 2016. Although this does not apply to us, we, along with other smaller pub companies (owning less than 500 pubs), signed up to an updated UK Pub Industry Framework Code that covers all our leased and tenanted pubs, ensuring we maintain the fair and transparent relationship of which we are proud. We remain vigilant about possible developments in this area.

In April 2016, the Government also introduced the National Living Wage and they have already announced that this will rise annually between now and 2020. The Chancellor's budget in March 2017 has imposed a beer duty increase at 3.9% which is well above the current inflation rate of 2.6%. The implementation of the new rateable values of our premises across the South West are expected to result in an increase in overheads of £226,000 per annum. This will be partly offset in the short term by the announcement of rates relief but it needs to be understood that this has been announced as a temporary measure only. These issues, combined with the introduction of the Apprenticeship Levy in 2017, will inevitably lead to a significant increase in our cost base.

Summary

It has been an excellent year for the business and I believe the acquisition of Bath Ales will help provide a platform for the company's future growth. I can report that we have had a steady start to 2017 and I am cautiously optimistic about the year ahead.

I would like to conclude with a welcome to all our new colleagues from Bath Ales and offer my sincere thanks to everyone in the company who has worked so hard to help deliver this excellent performance in 2016.

Will Michelmore



Chairman

3 April 2017

St Austell Brewery Company Limited

Chief Executive's review

It has been an excellent and historic year for the company. The acquisition of Bath Ales at the end of June was followed in the second half of the year by significant progress in integrating its business into the group. This acquisition, combined with strong underlying growth in our core business has helped us to deliver a record financial performance in 2016.

The acquisition of Bath Ales was a logical step towards our strategic objectives of having the best pub estate and premier beer brands in the South West of England. Bath Ales operates a number of successful pubs including the Graze and Beerd retail brands, brews and packages a portfolio of respected beer brands including Gem which has a strong and loyal following, particularly in its local area. We believe these retail and beer brands complement our own product range. The acquisition also provides us with additional brewing and packaging facilities and gives access for our free trade business to serve more customers in the South West of England.

We are committed to a long-term significant investment in the Bath Ales brands, pub estate, people and brewing facilities. The first stage of this will begin in 2017 with plans to develop a new brewery at Hare House.

Our record financial performance has been achieved in a year when consumer demand to eat and drink out was impacted in the first half of the year by the forthcoming EU referendum. Since the vote to leave, I am pleased to report that we are yet to see a reduction in consumer spending.

In 2016 the UK beer market saw an overall fall of -1.0%* (2015: -1.5%). This suggests that the long-term decline in beer consumption may be levelling out and there has undoubtedly been a significant movement towards more premium products and increased consumer demand for innovative new products and styles.

Tenanted and managed pub operations

At the end of the year we operated 178 pubs and hotels (2 January 2016: 167) of which 160 are freehold (2 January 2016: 160). Of our total pubs and hotels 33 (2 January 2016: 25) were managed and 145 (2 January 2016: 142) were tenanted or leased.

The purchase of Bath Ales brought eleven new sites into the group including the Graze and Beerd retail brands. We carried out a review of their sites and we decided to transfer four sites to tenancy in the autumn of 2016.

During 2016 we have continued to pursue our strategy which seeks to adapt to changes in the market by selling smaller tenanted pubs that we believe to be commercially unsustainable in the longer term and acquiring sites that provide more access to the eating out market as well as sites that offer accommodation. Our strategy aims to ensure that all our pubs offer excellent food and beers, a friendly atmosphere and a high standard of customer service.

The focus of our acquisition strategy is to find high quality opportunities within our trading area. During the year we purchased three new outlets, of which two are operated as managed sites: the Pier House Hotel and Harbourside Bar in Charlestown and the Cat & Fiddle in Clyst St Mary. The third acquisition was the freehold

* Source BBPA Sales Volume Survey (December 2016)

St Austell Brewery Company Limited

Chief Executive's review (continued)

of the Hop Pole in Bath, the short leasehold interest of which we acquired on the purchase of the Hare it House Holdings group, and this site is now operated as a tenanted pub. The Pier House Hotel and Harbourside Bar was a long-established family business which we had known and traded with for many years. It is located on the picturesque harbour in Charlestown and offers stunning views of the port and coastline of St Austell Bay.

The Cat & Fiddle is situated in Clyst St Mary which is only a few miles from the centre of Exeter. We are currently applying for planning consent to develop the site and it is hoped that work will be carried out later in 2017. As part of this development we are intending to create a chef development kitchen which will help us address one of the biggest challenges facing our industry, namely chef recruitment and retention. We also intend to develop letting accommodation on the site.

In addition to these three acquisitions we also acquired two properties as residential accommodation for staff who work in some of our more rural sites. It is increasingly important that we are able to provide such accommodation where the cost of housing is so high as this helps to ensure that we are able to recruit sufficient staff to look after our customers. We also acquired Peel House, a three-storey period property next to the Rose & Crown in Yealmpton. During the year we converted this property into eight en-suite boutique hotel style bedrooms and we now operate this site under management. We have also acquired some additional land in front of the Port Gaverne Hotel which we believe will help us to maximise the potential of this site.

These acquisitions cost a total of £8.3m (2 January 2016: £8.6m). We have raised proceeds of £1.4m (2 January 2016: £0.5m) from the disposal of four pubs – the Rodney Inn at Helston, the Four Winds Inn in Falmouth, the Mount Ambrose Inn in Redruth and the Railway Inn at Illogan (2 January 2016: Sir Humphrey Davey).

Since the year-end we have sold the lease that we acquired in the acquisition of Bath Ales for the Beerd site in Oxford as we decided that this site was too remote for us to operate effectively.

Our annual impairment review highlighted two sites which were overvalued, the Ten Tors at Kingsteignton and the George Inn, Plympton. I am, however, pleased to report that the Molesworth Arms, Wadebridge, and the White Hart at Modbury which had suffered previous impairments have recovered to the extent that some of this previous impairment could be reversed, leading to no net impairment charge being reported (2 January 2016: £536,000).

In addition to the new pub acquisitions we have invested £5.6m (2 January 2016: £4.6m) in improving and developing our existing pubs and £1.8m (2 January 2016: £1.8m) in repairs and decorations.

In the managed estate, major developments during the year include a significant investment at the Old Custom House in Padstow where the former separate Pescadou restaurant was redeveloped and incorporated into the site as The Cally Oyster Bar and Grill. In addition we completed the development of the former Food for Thought site in Fowey that we acquired in 2015 and this opened as the Havener's Bar and Grill in July 2016. The other major development in the managed estate involved the completion of the integration of the restaurant that we acquired next to our Globe Hotel in Topsham.

In the tenanted estate we have carried out developments at a number of sites including major works at the Plume of Feathers in Portscatho, the Puffing Billy at Exton and the Blue Anchor at Fraddon.

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Chief Executive's review (continued)

Our managed estate had a very strong trading year with like-for-like total sales increasing by 5.3%¹. This growth was achieved in wet, food and accommodation sales which were up 3.5%¹, 5.2%¹ and 10.7%¹ respectively on a like-for-like basis. Total revenue in the managed estate rose by 20%¹ and it is particularly pleasing to note that for the second consecutive year all of our sites that were operated under management throughout the year achieved annual turnover in excess of £1m.

I am delighted that for the first time in the company's history one of our licensee couples, Rob and Lucy Brewer, won the prestigious British Institute of Innkeeping (BII) Licensee of the Year Award. The judges praised Rob and Lucy for going above and beyond to differentiate their offering. At our recent Estate Awards, Nic and Ruth Avery from the Harbour Hotel in Porthleven were announced as our 'Managers of the Year 2016'. They had a particularly successful year delivering significantly increased profits whilst maintaining excellent customer service.

The Samuel Jones craft ale smokehouse on Exeter Quay was named Best New Site at the prestigious national Publican Awards in March 2016. The judges praised the work that had been done to preserve the Victorian aesthetic of the 19th century former bonded warehouse. They also liked the rotating range of 18 craft and new world beers, the innovative locally-sourced menu, and the focus on training staff in beer and food matching.

In the tenanted estate, Robert and Natalie Liddicoat of the Lanivet Inn received the award of 'Tenants of the Year 2016' at our awards evening in January.

It is also very pleasing to report that the company now has two pubs in the prestigious Estrella Damm Top 50 Gastropub List. The Cornish Arms at Tavistock is number 14 on the list and it has also been awarded a Michelin Bib Gourmand. It has been joined on the list at number 23 this year by the Port Gaverne which makes it the top Cornish pub on the list. Inclusion in this list is a recognition of real consistency, innovation and quality. This award followed the Port Gaverne also being named by Pub and Bar Magazine as the Best Pub in Cornwall.

Our tenanted and leased pubs had another solid financial year in 2016 delivering total net income growth of 2.8%¹ an average EBITDA per pub growth of 3%¹. We are particularly proud that our average licensee tenure is 5.8 years (2 January 2016: 5.9 years).

In the annual M&C Allegra (MCA) Tenant Track survey our tenancies again came out on top in a number of areas. There were particularly positive comments about our ordering processes as well as praise for the support we provide our tenants and lessees with training and development. We pride ourselves on developing strong, longstanding relationships with our tenants and lessees.

Brewing and brands

Following reaching the historic milestone in 2015 of achieving annual sales of 100,000 barrels of our own production I am pleased to report that we have continued to grow our volumes. Total barrels of our own St Austell-based production sold in 2016 increased by 6.5%¹ compared to the total beer market decrease of 1%.

¹ Variances shown are on an adjusted 52-week basis, as defined in note 29 to the financial statements

St Austell Brewery Company Limited

Chief Executive's review (continued)

I reported last year that both Proper Job ale and Korev, our Cornish lager, were enjoying significant volume growth. This trend continued in 2016 with Proper Job volumes increasing by 28%¹ and Korev by 21.4%¹

Although all of our trading divisions – the Estate, Free Trade and National Sales – saw growth in sales of our own production, the biggest increase for the third consecutive year came in the national off trade market. This saw volumes grow by 25.6%¹ compared to the total off trade beer market which grew by only 0.2%*.

We have continued our investment in production facilities including four new dual purpose vessels, new hot liquor tanks and a new yeast propagation tank.

We launched our Small Batch Beer Club which has given beer lovers across the South West the opportunity to try a wide range of innovative and exciting brews. The Small Batch Brewery is able to produce 3,000 pints at a time. The Small Batch Beer Club comprises 36 hand-picked pubs from across our trading area. It is hoped that some of the beers that the Small Batch Brewery produces will one day become new mainstream brands for the future.

We have invested in new glassware for both Tribute and Korev. These have been designed as part of our move towards further premiumisation of these brands and are aimed at ensuring that these products are presented in such a way that they match the high expectations that our consumers have of them. We believe that the bespoke glass shape is fresh, innovative and technically ground-breaking.

Our policy is now to operate with two key strategic beer partners – Carlsberg UK and Heineken UK. This ensures that we have the best possible range of products available to our pub and wholesale customers. During the year we signed new five-year supply agreements with both brewers.

During the year one of rugby's brightest young stars, Cornish international rugby player Jack Nowell, became an ambassador for the company. In addition to promoting our flagship ale Tribute, Jack is keen to support the company's Charitable Trust. This has most recently led to the launch of Cousin Jack, a new seasonal ale. This product has proved to be very popular and 5p from every pint sold is being donated to the RNLI.

I reported in my review last year that Tribute had been chosen as the official ale of British Airways. This has certainly helped to raise our profile and I am delighted to confirm that Tribute is also now on board with Flybe.

Following our sponsorship of the Bristol Balloon fiesta in 2015 we decided to invest in creating our own purple Tribute hot air balloon. The balloon can be regularly seen flying across the South West of England and it has been a regular visitor at a variety of festivals and events including the internationally renowned Bristol Balloon Fiesta in August.

We have also enhanced our profile in London with seven taxis now promoting not only Tribute, but Korev and Proper Job as well. This investment reflects the fact that London is a key and growing market for our beers.

¹ Variances shown are on an adjusted 52-week basis, as defined in note 29 to the financial statements

* Source BBPA Sales Volume Survey (December 2016)

St Austell Brewery Company Limited

Chief Executive's review (continued)

During 2016 Tribute became the official beer of Cornwall Cricket. Our sponsorship helped to provide community cricket clubs with some much-needed financial support. This should help to sustain the health of the game in the county. This support of the grassroots of the game sits alongside Tribute's position as sponsor of both the Somerset County and Gloucestershire County Cricket teams. Somerset came very close to winning the County Cricket Championship in 2016 for the first time in its history, losing out to Middlesex only after a dramatic last day of action. I am though pleased to report that we have agreed to renew our sponsorship agreement with Somerset for a further four years.

The company also supports grassroots rugby in Cornwall, Devon and Somerset with Tribute being the official beer of South West Rugby. This involves sponsoring 14 different leagues and many local teams. Tribute is also the main shirt sponsor of Cornwall County Rugby who we were delighted to see retained the County Championship and once again lifted the Bill Beaumont trophy at Twickenham.

During 2016 our Cornish lager Korev became the official beer sponsor of Britain's top national surfing event, the UK Pro Surf Tour. This sponsorship saw Korev supporting UK-wide events for the top UK surfing talent. This agreement complemented our sponsorship of Luke Dillon from Newquay, who is Britain's top surfer and now one of the top 100 surfers in the world. As surfing is due to become an Olympic sport in Tokyo in 2020 the profile of the sport is undoubtedly on the rise.

Our acquisition of Bath Ales also brought with it the sponsorship of Bath Rugby, one of the leading teams in the English Premiership. Bath Gem is also the official beer of Bath Rugby and the main stand at its home ground has been renamed as the Gem stand.

In addition to sport, the company's beer brands continue to support a wide range of regional music festivals including the Eden sessions, the Looe Music Festival and the GoldCoast Oceanfest.

Following a major refurbishment at the start of the year the Hicks Bar in our visitors' centre reopened its doors with a new and extended food menu designed around locally grown and caught produce. The Hicks Bar offers visitors the opportunity to try out some of the latest specialist beers that have been produced by our Small Batch Brewery. We also opened a new and interactive Brewing Experience which enables visitors to enjoy a guided tour to find out more about the company, take part in a tutored beer sampling session and see the Small Batch Brewery in operation from a special viewing balcony. These tours have proved very popular and indeed the number of tours increased by 25.6% during 2016.

Our beers and pubs continue to win many awards but I was particularly pleased by two awards that the company received in 2016.

The first was the Western Morning News Business of the Year award. This is perhaps the most prestigious business award in Devon and Cornwall. The judges praised the company for our investment in innovation, quality assurance and people.

The second was the Investors in People (IIP) Gold standard, a prestigious nationwide attainment which puts the company in the top 7% of IIP-accredited organisations and among only 1.5% of companies across the UK. Investors in People is a national quality standard which defines good practice for improving a company's performance through its people. The Investors in People standard is the sign of a great employer, an outstanding place to work and one with a clear commitment to sustainability.

St Austell Brewery Company Limited

Chief Executive's review (continued)

Current trading

We have enjoyed a steady start to 2017 and we are confident that we have an excellent base upon which to build.

Summary

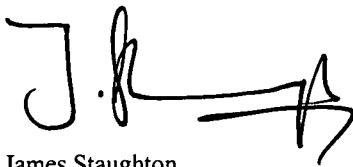
General political and economic uncertainty is likely to continue for the next few years following the result of the EU referendum and the subsequent negotiations of the terms of the UK's exit from the European Union.

We are a UK-based business that is exposed to the underlying economic climate. If the value of sterling falls this does impact our business as we import hops and a wide range of wines that are denominated in other currencies. However, a weaker pound does potentially make the UK a more attractive destination for overseas visitors and it may encourage more people to remain in the UK and holiday in the South West of England.

It is though crucial that as new trading agreements with Europe and the rest of the world are developed, we need to ensure that we can export on a competitive footing and trade as freely as possible. It is also important that, in leaving the EU, we seek to ensure that those already working in the UK have the right to remain here. We should also be able to seek international talent for those areas of skill shortages that we face.

Our strategy is to continue to invest for the long term and ensure that we remain focused on delivering wonderful distinctive experiences through great products and services, conscious innovation, measurement and the scaling of what works.

I conclude by thanking our employees and licensees for all their hard work, dedication and support over the last year.

A handwritten signature in black ink, appearing to read 'J. Staughton', with a stylized flourish at the end.

James Staughton

Chief Executive

St Austell Brewery Company Limited

Strategic report

We are an integrated regional family brewer that is proud of its heritage but recognise the importance of conscious innovation. We seek to give all our customers wonderful, distinctive experiences by providing great products and excellent service. We operate a portfolio of licensed premises across the South West of England. These occupy sites that vary from those that sit in spectacular coastal locations to those that are in the centre of the main urban centres in our region as well as many others that sit in the heart of their local communities. We operate a successful wholesale business from depots across the South West including our main facility at St Columb. We also produce a range of award-winning beer from our brewery in St Austell and now in Warmley which are sold both nationally and internationally in the on and off trade.

We operate our estate under three business models - managed, tenanted and leased. This provides us with the ability to operate flexibly and seek to ensure that we deliver best practice in each area. We are continually reviewing and assessing each establishment and will consider new ways of operating based on each individual business's requirements. We are proud of our pubs and hotels and are committed to delivering our customers with great experiences and delighting the communities that we serve.

Our production facilities underpin our strategy. The brewery in St Austell has seen significant investment over recent years to keep pace with record demand. We now have a modern, efficient brewery housed within the shell of a historic Victorian building. Our leading brands Tribute, Proper Job & Korev continue to deliver significant volumes in both the draught and packaged markets. The purchase of Bath Ales has provided additional production facilities which we are committed to investing in. We also now have Bath Gem in our beer brand portfolio which we believe will complement our other key brands. The development of the Small Batch Brewery in St Austell and the operation of the Beerd brewery in Warmley highlights our commitment to innovation in brewing. It is hoped that some of the brews that come from these shorter production runs will one day become major future brands for the company.

Our business strategy is to continue to operate in all of the market segments that we do currently and to continually strive to improve the way we operate. We have also looked to new regions to expand our trading area. We are flexible, adaptable and committed and use these qualities to continually explore new business relationships.

Pubs and hotels highlights

- Acquired eleven new trading sites as part of the purchase of Bath Ales and three other sites including the Pier House Hotel and Harbourside Bar in Charlestown
- Major refurbishments of the Old Custom House, Padstow, the Globe in Topsham and the Plume of Feathers, Portscatho
- Opened the Haveners Bar & Grill in Fowey following extensive re-development
- Two sites in the Top 50 Gastropub List in the country
- Placed top again in the industry Tenant Track survey

Beer brand highlights

- Continued growth in beer volumes and further investment in production facilities
- Purchase of Bath Ales brought Bath Gem into the portfolio of key brands
- Focus on producing quality, consistent, award-winning beer
- Investment in new glassware to underpin premium nature of products
- Innovative development of new products from our Small Batch Brewery
- Promotion of our key brands through sponsorship and targeted investment

St Austell Brewery Company Limited

Strategic report (continued)

Sales highlights

- Record turnover and operating profits
- Exceptional sales growth particularly in the National off trade market
- Further expansion of our free trade operations with the acquisition of Bath Ales
- New long-term supply agreements signed with Carlsberg UK and Heineken UK as our key beer trading partners

People highlights

- Acquired Bath Ales and successfully integrated its operations and people into the St Austell Brewery family
- Achieved Investors in People (IIP) Gold standard
- Awarded the prestigious Western Morning News 'Business of the Year 2016'
- Refurbished the Hicks Bar in the Visitors' Centre at St Austell and launched the new interactive Brewing Experience

REVIEW OF THE BUSINESS

The company's key financial performance indicators during the year can be summarised as follows:

	31 December 2016	
	£'000	% Change
Turnover	153,226	+13.2% ¹
Operating profit before other items ²	13,961	+5.2% ¹
Profit before tax and asset sales	12,668	+6.0% ¹
Profit before tax	13,988	+14.7% ¹
Shareholders' funds	92,774	+1.4%
Net pension scheme deficit	12,810	+235.1%
Net debt	45,388	+56.0%

We consider that the two key measures of shareholder value are adjusted earnings per share and dividends per share. Our key strategic financial objective is to seek real growth in both these key measures over the medium term. The results in these two key areas are set out below:

	31 December 2016	% Change
Earnings per share before other items (£) ²	£6.06	+5.0% ¹
Dividends per share (£)	£1.59	+12.0%

The Chairman's Statement and Chief Executive's Review provide a more detailed summary of the year and an indication of future prospects.

¹ Variances shown are on an adjusted 52-week basis, as defined in note 29 to the financial statements

² Other items are defined in note 10 to the financial statements

St Austell Brewery Company Limited

Strategic report (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

The following sets out what the Board considers to be the principal risks which affect the Group at present, although it is not intended to be a comprehensive analysis of all the risks that the business may face.

STRATEGIC RISKS

<u>Specific risk area</u>	<u>Potential impact</u>	<u>Mitigation</u>
The company has a clear mission, vision and set of values that underpin its future success.	Failure to adhere to this mission and values may undermine the sustainable success of the business.	Business decisions are taken for the long-term benefit of the company. The strong family involvement in the business helps to ensure these core values are maintained.

ECONOMIC AND MARKET RISKS

<u>Specific risk area</u>	<u>Potential impact</u>	<u>Mitigation</u>
A fall in consumer confidence in the UK, particularly in light of the referendum vote to leave the EU, could adversely affect the company.	Reduced revenue and increased costs affecting profitability and lower growth rates.	Focus on service, quality and value for money. All costs are closely monitored and reviewed. Monitoring of competitor activity.
The company's trading sites are located throughout the South West of England, an area that relies significantly on visitors to drive trade.	Adverse weather and a fall in visitor numbers can have a significant impact on both revenue and profit.	Although we cannot control the weather, we aim to ensure that we are best placed to attract both locals and visitors to our sites. The purchase of Bath Ales with its less seasonal and more urban pub portfolio should help to mitigate our reliance on the vagaries of the weather.

St Austell Brewery Company Limited

Strategic report (continued)

OPERATIONAL AND PEOPLE RISKS

<u>Specific risk area</u>	<u>Potential impact</u>	<u>Mitigation</u>
The company is increasingly reliant on its information systems to operate. Any significant or prolonged failure of these systems would affect our ability to trade. The risk of a significant cyber security breach.	It may affect our ability to do business, adversely affecting both revenue and profitability. Reputational damage and financial damage from fines or compensation.	Networks are protected by firewalls and anti-virus protection systems with backup procedures in place. Business continuity plan for critical business processes in place, which is regularly reviewed and tested. Access control, password protection and IT policies and procedures in place.
We are a people business. The recruitment, retention and development of employees and licensees is crucial to our success. The Group also has a number of key staff who are important to its success. If a number of these individuals left at the same time it could impact our performance.	Reduced profitability of the company and our pub sites from the risks of being unable to recruit and retain appropriately skilled employees and licensees.	We seek to build a strong pipeline of suitable licensees and take on a number of apprentices each year. Remuneration is benchmarked both regionally and within the industry to ensure we remain competitive. We review succession plans to ensure appropriate cover for key roles.

St Austell Brewery Company Limited

Strategic report (continued)

REGULATORY RISKS

<u>Specific risk area</u>	<u>Potential impact</u>	<u>Mitigation</u>
We operate in a highly regulated sector. There is a particular risk of policy changes in the regulation of the sale or consumption of alcohol, including changes to drink-driving laws and the introduction of minimum pricing.	Regulation changes may reduce demand leading to lower revenue and profitability.	We closely monitor potential legislative developments and actively engage with Government, both directly and via trade associations, as appropriate. A number of our Directors are members of key industry bodies and committees. We have diversified our offer to include food, accommodation and coffee thereby reducing our reliance on alcohol-based revenue.
The health and safety of our employees and customers is vital. We are required to comply with health and safety legislation. The areas of most significance to us are perhaps food hygiene and fire safety.	Breaches of health and safety or food hygiene regulations tend to attract significant media attention and can lead to significant financial penalties. This could have a major impact on the reputation of the business and its profitability.	A Health and Safety Committee oversees the operation of the Group's health and safety policies and procedures. We provide regular training programmes to ensure all risks are identified and properly assessed. We report and investigate all accidents and near misses. All staff receive food hygiene training and regular audits/checks are undertaken to ensure that they are complying with the standards expected.

St Austell Brewery Company Limited

Strategic report (continued)

FINANCIAL RISKS

<u>Specific risk area</u>	<u>Potential impact</u>	<u>Mitigation</u>
Failure to maintain appropriate system of internal controls ensuring compliance with statutory obligations, including those relating to taxes.	Fraud being perpetrated against us. Damage to our reputation caused by non-compliance with statutory obligations or a material mis-statement in the reported results of the company.	Our systems of internal control incorporate segregation of duties and authority levels are in place to control expenditure. Appropriate professional advice is taken to ensure compliance with relevant statutory obligations.

CORPORATE SOCIAL RESPONSIBILITY

General

St Austell Brewery is an independent family business based in St Austell, Cornwall. We have a passion for quality and our values are important to us and are at the heart of how we operate. These values are:

- Appreciate yourself and others
- Be committed to the best customer service
- Conduct yourself with honesty and integrity
- Do challenge positively to improve things
- Enjoy and be proud of St Austell Brewery
- Never knowingly let a colleague fail

These values underpin our corporate social responsibility. We are committed to creating long-term mutually beneficial relationships with all our stakeholders.

Our communities

Our pubs and hotels have always played a key role in the heart of their local community and they continue to do so. We have our own Charitable Trust that raises money for good causes. In November, our 18th annual Celtic Beer Festival raised a record £40,000 in just one day. This brings the total raised by our Charitable Trust to over £600,000 since the trust was started in 2003.

Although the Charitable Trust does make large donations to established local charities including £15,000 to the Cornwall Air Ambulance for essential ventilator equipment it also makes smaller donations to help people from all walks of life by providing equipment such as iPads and wheelchairs for youngsters with learning difficulties and disabilities.

We also supported the Springboard Future Chef competition. Our Visitor Centre head chef Gareth Paget has mentored Anna West from Penair School in Truro to reach the national final of this event, beating tough

St Austell Brewery Company Limited

Strategic report (continued)

competition from throughout the South West of England. The Future Chef competition directly relates to the national curriculum and gives young people valuable life skills. It aims to tackle the severe skills shortage facing hospitality by inspiring 12 to 16-year-olds to develop their cooking skills and understanding of nutrition.

Our people

It is essential that we can attract, retain and develop the best people to ensure the continued success and future growth of the business.

Following an assessment by the Cornwall and Isles of Scilly Workplace Health team, the company received the Gold Award standard in the Workplace Health Award. The assessment described the company as being a very committed organisation that really cares about the health and wellbeing of its staff. This award is a county standard of good practice and a quality mark of health and wellbeing in the workplace. The company was assessed in a number of areas including creating a healthy workplace, health and safety, mental wellbeing and stress reduction.

We offer support to our workforce through the introduction of developments such as the Health Optimisation and Promotion Scheme (HOPS) delivered by our in-house Occupational Health team. The company seeks to build strong working relationships between departments and effective co-ordination and communication of its health and wellbeing programmes. This reinforces the company's strategic objective of being the employer of choice in the South West of England.

Our commitment to nurturing and developing local talent was recognised at a national level when we were awarded the Best Career Progression programme at the 2016 Springboard Awards for Excellence. These awards recognise successful initiatives designed to promote careers, attract and develop people and display best employment practices.

Our 'Brewing a Passion' training programme was highlighted for specific praise as it demonstrated a clear pipeline of progression and internal opportunities. The company's training facility, Academy 1851, delivers this training programme to both front-of-house and kitchen staff. It focuses on the key hospitality skills that are needed to succeed in the industry and is supported by a clear process which aims to deliver improved staff engagement and productivity, better staff retention and better customer service.

Full and fair consideration is given to suitable applications from disabled persons for employment, and opportunities also exist for employees who become disabled to continue in their employment or be retrained for other positions as far as is practicable.

Our customers

We are committed to operating licensed premises of the highest quality and take our responsibility to customers and their communities seriously. We consider that our pubs are an integral part of their local area providing the community with an asset that should provide a safe, friendly environment for both our customers and staff. We believe that the pub should be the centre or hub of community life and can also provide essential services beyond the usual drinks, food or entertainment. We are very proud to support Pub is The Hub, an organisation of specialist voluntary advisers for rural pubs and licensees.

St Austell Brewery Company Limited

Strategic report (continued)

It is our firm belief that the pub is the home of responsible retailing and we actively avoid discounting alcoholic drinks. We also continue to develop our Brewer and Bean coffee operation and have improved the range of soft drinks that we offer. All our pubs provide complimentary tap water on request.

We support Drinkaware, a charity that aims to promote responsible drinking and provides information on the effects of alcohol and aims to reduce alcohol misuse. Our bar staff training includes initiatives such as the Challenge 21 proof-of-age scheme to prevent under-age drinking.

All our beers are brewed with top quality ingredients and in St Austell we use water from our own local source. We pride ourselves on producing top quality, consistent products which continue to win numerous industry awards.

We make significant investments annually in sports and music festival sponsorships. Our sport sponsorships not only support the elite end of the game but just as importantly grass roots sports clubs throughout the South West of England.

Our environment

We go to great lengths to be environmentally efficient and we seek to reduce our carbon use in every area of the business as much as possible. We are proud to be playing our part in protecting our unique and beautiful environment.

Brewing cask ales has always been one of the most environmentally friendly processes; it uses simple natural ingredients of water, barley, hops and yeast and any waste material is re-used to feed local livestock and to help grow plants.

We ensure also our processes meet appropriate legislative requirements. We seek to reduce our water consumption throughout the company and encourage our customers to be water-wise where possible. We have incorporated the philosophy of 'Reduce, Reuse and Recycle' into our operations to minimise waste streams. We work with our suppliers to ensure that packaging is kept to a minimum where possible.

We seek to source local products or services where possible, to boost the local economy, reduce road miles and provide fresh produce to our customers. We take responsibility to prevent contamination or pollution of our surrounding environment. We continually promote sound environmental practice, raising staff and public awareness of our environmental activities.

During 2016 we installed new rapid electric vehicle (EV) charging stations at three of our pubs and hotels in Cornwall, the County Arms in Truro, the Holmbush Inn in St Austell and the Earl of Chatham in Lostwithiel. The installation was part of an ongoing scheme in cooperation with SSE, EcoDrive and Cornwall Council. These rapid chargers should provide a significant boost for EV users in Cornwall, allowing for quick and easy charging at accessible locations.

St Austell Brewery Company Limited

Strategic report (continued)

CORPORATE GOVERNANCE

The Board

The Board currently comprises the Non-Executive Chairman, the Chief Executive, three further Executive Directors and three Non- Executive Directors.

The offices of Chairman and Chief Executive are separate and distinct and the divisions of responsibility between them have been clearly established, set out in writing and agreed by the Board.

The Board has a formal schedule of matters that are reserved for its consideration. This identifies those decisions that are to be taken by the Board or delegated to management. The Board governs through its executive management and board committees. The Chairman of each committee reports to the Board on proceedings of committee meetings.

The Board meets formally at least five times a year and meetings typically cover a two-day period. The Board also holds telephone meetings to discuss matters between face-to-face meetings throughout the year. The Board is responsible to the shareholders for the performance and long-term success of the company. Its role includes reviewing long-term objectives, commercial strategy and the company's overall funding strategy. The Board also approves the annual budget and financial statements. It authorises acquisitions, disposals and other major capital investments. The Board is responsible for overseeing the company's systems of internal control, governance and risk management.

A one-day joint strategy meeting between the Board and the Senior Management Team is held annually in September.

Board papers are circulated six days prior to each Board or committee meeting to ensure that directors have adequate time to review them before the meeting.

The Board conducts an annual evaluation of its own performance. The training needs of the Board and its committees are reviewed and each Director is responsible for ensuring that they remain up to date in their skills and knowledge of the company.

The Directors disclose all actual and potential conflicts of interest prior to their appointment. They are then subject to an ongoing review and annual declaration. All Directors are aware that the disclosure and authorisation of any potential conflict situation does not detract from their requirement to notify the Board separately of an actual or potential conflict in relation to a proposed transaction by the company.

Committees of the Board

Nomination

The Nomination Committee is chaired by Will Michelmore and comprises Jonathan Neame, Gerard Barnes, and Kevin Georgel. Piers Thompson stepped down from this committee on becoming an Executive Director during

St Austell Brewery Company Limited

Strategic report (continued)

2016. The committee is responsible for reviewing the structure, size and composition of the Board. It also identifies prospective candidates for directors for consideration and appointment by the Board. The committee also has responsibility for considering the company's succession plans for Board membership and determining the skills, knowledge and experience that will be required.

Audit and Risk

The Audit and Risk Committee is chaired by Gerard Barnes and also comprises Jonathan Neame and Kevin Georgel. Piers Thompson stepped down from this committee on becoming an Executive Director during 2016. The Finance Director and external auditor attend its meetings by invitation. The Committee is responsible for overseeing the external audit relationship. It also reviews the full-year results, monitors the internal controls and oversees the company's risk management plans.

Remuneration

The Remuneration Committee is chaired by Will Michelmores and also comprises Jonathan Neame, Gerard Barnes and Kevin Georgel. The committee is responsible for determining, on behalf of the Board, the remuneration packages of the Executive Directors.

The remuneration of the Non-Executive Directors is decided by the Board. The Remuneration Committee is also responsible for approving the bonus targets and payments for the Senior Management Team. In coming to these decisions, the Remuneration Committee considers the overall performance of the company as well as the individual Directors and Senior Management Team. The company seeks to ensure that remuneration packages for both the Executive Directors and Senior Management Team are comparable with companies of a similar size and complexity. The remuneration packages are designed to attract, retain and motivate the Executive Directors and Senior Management Team in the business.

Senior Management Team

The Senior Management Team (SMT) is responsible for delivering the operational plans that underpin the company's strategic objectives. The SMT is chaired by the Chief Executive and comprises Adam Luck (Estate Director), Piers Thompson (External Relations Director), Colin Stratton (Finance Director), Ian Blunt (Sales and Distribution Director - Associate), Martin Breeding (National Sales Director - Associate), Roger Ryman (Production Director - Associate), Jeremy Mitchell (Marketing and Communications Director - Associate), and Jackie Scarfe (People Director - Associate). The SMT meets regularly but holds formal monthly meetings to review operating performance and discuss progress against operational plans. It has delegated authority from the Board to deal with operational matters.

Internal control

The Board has overall responsibility for the company's risk management framework and systems of internal control and for reviewing their effectiveness. The system is designed to provide reasonable but not absolute assurance against material misstatements of loss.

Communication with shareholders

The Board considers that there should be open dialogue with the company's shareholders. Information is provided to shareholders in the interim and annual financial statements. All shareholders are encouraged to attend the Annual General Meeting (AGM) as this is an important way in which the company communicates with its shareholders. At the AGM the Chairman, Chief Executive, Estate Director and Finance Director provide further details on the company's progress against its strategic objectives, as well as giving an updated report on the

St Austell Brewery Company Limited

Strategic report (continued)

company's ongoing trading performance. Shareholders have the opportunity to ask the Board questions during the meeting.

The company maintains a website to provide up-to-date detailed information on the company's operations and brands.

Board Directors – table of independence, attendance and committee membership

	Independent	Board	Nomination Committee	Audit and Risk Committee	Remuneration Committee
Executive Directors					
James Staughton	No	10/10	-	-	-
Adam Luck	No	10/10	-	-	-
Piers Thompson (from October 2016)	No	1/1	-	-	-
Non-Executive Directors					
Will Michelmores	No	10/10	3/3	-	3/3
Gerard Barnes	No	10/10	3/3	5/5	3/3
Kevin Georgel	Yes	10/10	3/3	5/5	3/3
Jonathan Neame	Yes	10/10	3/3	5/5	3/3
Piers Thompson (until October 2016)	No	9/9	2/2	3/3	-

Jonathan Neame has been on the Board since 2002. He is considered to be the Senior Independent Non-Executive Director. The Board considers that despite this long period of service he has remained independent in both character and judgement. The Board further considers that his performance has been very effective and he has demonstrated strong commitment to the role. His responsibilities as Senior Independent Director include supporting the Chairman and being available as a direct contact for shareholders if required.

Approved by the Board of Directors
and signed on behalf of the Board.



C J Stratton
Company Secretary

St Austell Brewery Company Limited

Directors' report

The directors present their annual report and the audited financial statements for the 52 weeks ended 31 December 2016. Certain information regarding principal risks, employee matters and future prospects has been included within the Strategic Report.

DIVIDENDS

An interim dividend of 69p (2 January 2016: 60p) was paid on the ordinary shares on 21 October 2016. The directors recommend a final dividend of 90p be paid on the ordinary shares (2 January 2016: 82p).

GOING CONCERN

The company meets its day-to-day working capital requirements through a £5 million overdraft facility which is repayable on demand. The company's medium-term debt is financed by two revolving credit facilities of £27.5 million and £30m. The revolving credit facility for £30m has been extended by a further year since the balance sheet date. As a result the revolving credit facility for £27.5m is due for renewal in March 2021 whereas the facility for £30m is due for renewal in March 2022. The revolving credit facilities may be extended for a further year in March 2018 providing the consent of both the company and the debt facility provider is given.

The current economic conditions create uncertainty in the foreseeable future, particularly over (a) the level of demand for the company's products; (b) the level of interest rates as they affect the company's borrowing costs; and (c) the availability of bank finance.

The directors are of the opinion that the company's forecasts and projections, which take account of reasonable possible changes in trading performance, show that the company should be able to operate within its agreed level of borrowing facilities and comply with its financial covenants.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to consider it is appropriate to prepare the annual report and accounts on a going concern basis.

DIRECTORS

The directors, who served throughout the year and subsequently up to the date of this report, were as follows:

W F Michelmores (Chairman)

S J Staughton (Chief Executive)

T A Luck

J B Neame

G H Barnes

P M Thompson

K R Georgel

C J Stratton (appointed 10th March 2017)

St Austell Brewery Company Limited

Directors' report (continued)

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

Each of the persons who is a director at the date of approval of this report confirms that:

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

AUDITOR

Deloitte LLP has expressed its willingness to continue in office and a resolution to reappoint the firm as the company's auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board



C J Stratton

Company Secretary

St Austell Brewery Company Limited

Directors' responsibilities statement

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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

St Austell Brewery Company Limited

Independent auditor's report to the members of St Austell Brewery Company Limited

We have audited the financial statements of St Austell Brewery Company Limited for the 52-week period ended 31 December 2016 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Cash Flow Statement and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the 52-week period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

St Austell Brewery Company Limited

Independent auditor's report to the members of St Austell Brewery Company Limited (continued)

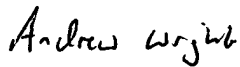
Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



Andrew Wright FCA (Senior statutory auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Bristol

3 April 2017

St Austell Brewery Company Limited

Consolidated profit and loss account

For the 52-week period ended 31 December 2016

	Note	52 weeks ended 31 December 2016			53 weeks ended 2 January 2016		
		Before other items* £'000	Other items £'000	Total £'000	Before other items* £'000	Other items £'000	Total £'000
Turnover	3	153,226	-	153,226	137,351	-	137,351
Cost of sales		(89,506)	-	(89,506)	(80,827)	-	(80,827)
Gross profit		63,720	-	63,720	56,524	-	56,524
Distribution expenses		(6,364)	-	(6,364)	(5,720)	-	(5,720)
Administrative expenses		(43,395)	-	(43,395)	(37,286)	(536)	(37,822)
Operating profit		13,961	-	13,961	13,518	(536)	12,982
Profit on sale of tangible fixed assets		-	1,320	1,320	-	242	242
Profit on ordinary activities before interest and taxation		13,961	1,320	15,281	13,518	(294)	13,224
Interest receivable and similar income	4	44	-	44	42	-	42
Interest payable and similar charges	4	(1,021)	(170)	(1,191)	(938)	317	(621)
Other finance income on pension scheme	4	-	(146)	(146)	-	(217)	(217)
Profit on ordinary activities before taxation	5	12,984	1,004	13,988	12,622	(194)	12,428
Tax on profit on ordinary activities	8	(2,725)	-	(2,725)	(2,630)	-	(2,630)
Profit for the financial period		10,259	1,004	11,263	9,992	(194)	9,798
Earnings per share		£6.06	£0.60	£6.66	£5.91	(£0.12)	£5.79

All results relate to continuing activities.

*Other items are analysed in note 10.

St Austell Brewery Company Limited

Consolidated statement of comprehensive income

For the 52-week period ended 31 December 2016

	Note	52 weeks ended 31 December 2016 £'000	53 weeks ended 2 January 2016 £'000
Profit for the financial period		11,263	9,798
Remeasurement of net defined benefit liability	26	(8,981)	1,769
Tax relating to components of other comprehensive income	20	1,528	(369)
Other comprehensive (expense) / income		(7,453)	1,400
Total comprehensive income		3,810	11,198

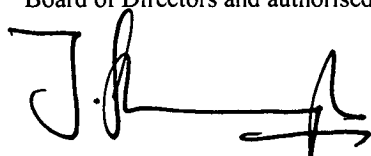
St Austell Brewery Company Limited

Consolidated balance sheet

At 31 December 2016

	Note	At 31 December 2016 £'000	At 2 January 2016 £'000
Fixed assets			
Goodwill	11	2,012	67
Intangible assets	11	4,725	-
Tangible assets	12	138,235	122,550
		<u>144,972</u>	<u>122,617</u>
Current assets			
Stocks	15	7,902	7,168
Debtors			
– due within one year	16	20,033	13,559
– due after one year	16	1,926	1,757
Cash at bank and in hand		620	517
		<u>30,481</u>	<u>23,001</u>
Creditors: Amounts falling due within one year	17	<u>(23,930)</u>	<u>(21,350)</u>
Net current assets		<u>6,551</u>	<u>1,651</u>
Total assets less current liabilities		151,523	124,268
Creditors: Amounts falling due after more than one year	18	(45,939)	(28,869)
Provisions for liabilities	20	-	(57)
Net pension liability	26	<u>(12,810)</u>	<u>(3,823)</u>
Net assets		<u>92,774</u>	<u>91,519</u>
Capital and reserves			
Called-up share capital	23	1,692	1,692
Capital redemption reserve		1,108	1,108
Profit and loss account		89,974	88,719
Shareholders' funds		<u>92,774</u>	<u>91,519</u>

The financial statements of St Austell Brewery Company Limited, registered number 107021, were approved by the Board of Directors and authorised for issue on 3 April 2017. They were signed on its behalf by:



S J Staughton
Chief Executive

St Austell Brewery Company Limited

Company balance sheet

At 31 December 2016

	Note	At 31 December 2016 £'000	Restated At 2 January 2016 £'000
Fixed assets			
Goodwill	11	2,012	67
Intangible assets	11	4,725	-
Tangible assets	12	138,235	118,891
Investments	13	1,506	-
		<u>146,478</u>	<u>118,958</u>
Current assets			
Stocks	15	7,902	7,168
Debtors			
– due within one year	16	20,033	17,218
– due after one year	16	1,926	1,757
Cash at bank and in hand		620	517
		<u>30,481</u>	<u>26,660</u>
Creditors: Amounts falling due within one year	17	<u>(25,600)</u>	<u>(21,350)</u>
Net current assets		<u>4,881</u>	<u>5,310</u>
Total assets less current liabilities		<u>151,359</u>	<u>124,268</u>
Creditors: Amounts falling due after more than one year	18	(45,939)	(28,869)
Provisions for liabilities	20	-	(57)
Net pension liability	26	<u>(12,810)</u>	<u>(3,823)</u>
Net assets		<u><u>92,610</u></u>	<u><u>91,519</u></u>
Capital and reserves			
Called-up share capital	23	1,692	1,692
Capital redemption reserve		1,108	1,108
Profit and loss account		89,810	88,719
Shareholders' funds		<u><u>92,610</u></u>	<u><u>91,519</u></u>

The Company has taken the exemption under section 409 of the Companies Act 2006 not to prepare a profit and loss account. The Company reported a profit for the financial period ended 31 December 2016 of £11,099,000 (2 January 2016: £9,798,000).

The financial statements of St Austell Brewery Company Limited, registered number 107021, were approved by the Board of Directors and authorised for issue on 3 April 2017. They were signed on its behalf by:

S J Staughton
Chief Executive



St Austell Brewery Company Limited

Consolidated statement of changes in equity

At 31 December 2016

	Called-up share capital £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total £'000
At 27 December 2014 as previously stated	1,692	1,108	82,091	84,891
Changes on transition to FRS 102 (see note 30)			(2,371)	(2,371)
At 28 December 2014 as restated	1,692	1,108	79,720	82,520
Profit for the financial period	-	-	9,798	9,798
Remeasurement of net defined benefit liability	-	-	1,769	1,769
Tax relating to items of other comprehensive income	-	-	(369)	(369)
Total comprehensive income	-	-	11,198	11,198
Dividends paid on equity shares	-	-	(2,199)	(2,199)
At 2 January 2016	1,692	1,108	88,719	91,519
Profit for the financial period	-	-	11,263	11,263
Remeasurement of net defined benefit liability	-	-	(8,981)	(8,981)
Tax relating to items of other comprehensive income	-	-	1,528	1,528
Total comprehensive income	-	-	3,810	3,810
Dividends paid on equity shares	-	-	(2,555)	(2,555)
At 31 December 2016	1,692	1,108	89,974	92,774

St Austell Brewery Company Limited

Company statement of changes in equity

At 31 December 2016

	Called-up share capital £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total £'000
At 27 December 2014 as previously stated	1,692	1,108	82,091	84,891
Changes on transition to FRS 102 (see note 30)			(2,371)	(2,371)
At 28 December 2014 as restated	1,692	1,108	79,720	82,520
Profit for the financial period	-	-	9,798	9,798
Remeasurement of net defined benefit liability	-	-	1,769	1,769
Tax relating to items of other comprehensive income	-	-	(369)	(369)
Total comprehensive income	-	-	11,198	11,198
Dividends paid on equity shares	-	-	(2,199)	(2,199)
At 2 January 2016	1,692	1,108	88,719	91,519
Profit for the financial period	-	-	11,099	11,099
Remeasurement of net defined benefit liability	-	-	(8,981)	(8,981)
Tax relating to items of other comprehensive income	-	-	1,528	1,528
Total comprehensive income	-	-	3,646	3,646
Dividends paid on equity shares	-	-	(2,555)	(2,555)
At 31 December 2016	1,692	1,108	89,810	92,610

St Austell Brewery Company Limited

Consolidated cash flow statement

For the 52-week period ended 31 December 2016

		52 weeks ended 31 December 2016 £'000	53 weeks ended 2 January 2016 £'000
	Note		
Net cash flows from operating activities	24	11,570	14,904
Cash flows from investing activities			
Interest received		44	42
Interest paid		(1,021)	(933)
Preference dividends paid		(4)	(5)
Acquisition of subsidiary		(7,410)	(1)
Debt inherited on acquisition		(1,046)	-
Proceeds from sale of tangible assets		1,801	914
Purchase of tangible assets and intangible assets		(17,467)	(16,553)
Net cash flows from investing activities		(25,103)	(16,536)
Cash flows from financing activities			
Dividends paid		(2,555)	(2,199)
Drawdown of borrowings		50,500	4,500
Repayment of borrowings		(50,500)	-
Repayments of obligations under finance lease		(88)	(5)
Increase in revolving credit facilities		17,000	-
Net cash inflow from financing		14,357	2,296
Net increase in cash and cash equivalents		824	664
Cash and cash equivalents at beginning of period		(4,064)	(4,728)
Cash and cash equivalents at end of period		(3,240)	(4,064)
Reconciliation to cash at bank and in hand			
Cash at bank and in hand		620	517
Cash equivalents		(3,860)	(4,581)
Cash and cash equivalents		(3,240)	(4,064)
Analysis in change of debt			

	2 January 2016 £'000	Cash flows £'000	31 December 2016 £'000
Cash at bank and in hand	517	103	620
Bank overdraft	(4,581)	721	(3,860)
	(4,064)	824	(3,240)
Revolving credit facilities	(25,000)	(17,000)	(42,000)
Finance lease obligations	(1)	(147)	(148)
Debt due	(29,065)	(16,323)	(45,388)

St Austell Brewery Company Limited

Notes to the financial statements

For the 52-week period ended 31 December 2016

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the period and to the preceding period.

a. General information and basis of accounting

The Group is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 69. The nature of the group's operations and its principal activities are set out in the strategic report on pages 11 to 21.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The prior period financial statements were restated for material adjustments on adoption of FRS 102 in the current period. For more information see note 30.

The functional currency of St Austell Brewery Company Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates. The consolidated financial statements are also presented in pounds sterling.

St Austell Brewery Company Limited meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate financial statements, which are presented alongside the consolidated financial statements. Exemptions have been taken in relation to financial instruments, presentation of a cash flow statement and remuneration of key personnel.

b. Basis of consolidation

The Group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to the nearest Saturday to 31 December each period. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed.

Business combinations are accounted for under the purchase method. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation. In accordance with Section 35 of FRS 102, Section 19 of FRS 102 has not been applied in these financial statements in respect of business combinations effected prior to the date of transition.

c. Going concern

The directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

d. Intangible assets

(i) Goodwill

Goodwill is the difference between the cost of an acquired entity (including public houses) and the aggregate of the fair value of that entity's identifiable assets and liabilities.

Goodwill arising on acquisitions is capitalised in the balance sheet at cost and is amortised over its estimated useful life of between three and ten years.

St Austell Brewery Company Limited

Notes to the financial statements

For the 52-week period ended 31 December 2016

1. Accounting policies (continued)

(ii) Acquired Brands

Brands that have been acquired are non-monetary assets which are without physical substance but are separately identifiable. They satisfy a recognition criteria and are initially measured at cost, based on the future discounted cash flows generated from the brand. They are capitalised in the balance sheet at cost and are amortised in a straight line over their useful estimated life of twenty years. We do not capitalise internally generated brands.

e. Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land and assets in the course of construction, at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life, as follows:

Freehold buildings	over 50 years
Long and short leasehold land and buildings	over the lease term
Plant, machinery and furniture	over 3 to 15 years

The carrying value of tangible fixed assets is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

f. Investments

Investments held as fixed assets are stated at cost less provision for impairment.

g. Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

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 Group after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

- (a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.
- (b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.

St Austell Brewery Company Limited

Notes to the financial statements

For the 52-week period ended 31 December 2016

g. Financial instruments (continued)

- (c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).
- (d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- (e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.
- (f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

With the exception of some hedging instruments, other debt instruments not meeting these conditions are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(ii) Investments

In the Company balance sheet, investments in subsidiaries are measured at cost less impairment.

(iii) Equity instruments

Equity instruments issued by the Group are recorded at the fair value of cash or other resources received or receivable, net of direct issue costs.

(iv) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

(v) Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately.

St Austell Brewery Company Limited

Notes to the financial statements

For the 52-week period ended 31 December 2016

1. Accounting policies (continued)

h. Stocks

Stocks are stated at the lower of cost and net realisable value. Cost represents materials, direct labour and appropriate production overheads. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion or disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

i. Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

(i) Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

The recoverable amount of goodwill is derived from measurement of the present value of the future cash flows of the cash-generating units (CGU) of which the goodwill is a part. Any impairment loss in respect of a CGU is allocated first to the goodwill attached to that CGU, and then to other assets within that CGU on a pro-rata basis.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. Where a reversal of impairment occurs in respect of a CGU, the reversal is applied first to the assets (other than goodwill) of the CGU on a pro-rata basis and then to any goodwill allocated to that CGU.

(ii) Financial assets

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

St Austell Brewery Company Limited

Notes to the financial statements

For the 52-week period ended 31 December 2016

1. Accounting policies (continued)

j. Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

k. Turnover

Turnover is recognised to the extent that the company obtains the right to consideration in exchange for its performance, which is normally at the point of delivery. Turnover is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes.

l. Employee benefits

The company operates a defined benefit pension scheme, which requires contributions to be made to a separately administered fund. The regular cost of providing retirement benefits to employees during the period is charged to operating profit in the period. The full cost of providing amendments to benefits in respect of past service is also charged to operating profit in the period. The expected return on the assets of the scheme during the period based on the market value of scheme assets at the start of the financial period is included within other finance income. This also includes a charge representing the expected increase in liabilities of the scheme during the period, arising from the liabilities of the scheme being one year closer to payment. Differences between actual and expected returns on assets during the period are recognised in the statement of comprehensive income in the period, together with differences from changes in assumptions.

The net deficit on the defined benefit pension scheme is reported on the balance sheet within the pension liability.

The company also operates a defined contribution pension scheme. The amount charged to the profit and loss account in respect of pension costs represents the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid in the period are shown either as accruals or prepayments in the balance sheet.

m. Foreign currency

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

n. Leases

Assets obtained under finance leases and hire purchase contracts are capitalised at their fair value on acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

St Austell Brewery Company Limited

Notes to the financial statements

For the 52-week period ended 31 December 2016

1. Accounting policies (continued)

o. Research and development

Research and development expenditure is charged to the profit and loss account as incurred.

p. Related party transactions

The Company has taken advantage of the exemption granted by paragraph 33-1A of FRS 102 not to disclose transactions with wholly-owned group companies.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

a. Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

b. Bad debt exposure

We estimate and reserve for our bad debt exposure based on our experience with past due accounts and collectability, the ageing of accounts receivable and our analysis of customer data. Bad debt expense is classified within administrative expenses in the profit and loss account.

c. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value.

The recoverable amount is based on a calculation of value in use based upon the budget for the forthcoming financial period, as approved by the Board. The calculation of value in use is sensitive to the achievement in growth rate, the budgeted cash flows and the discount rate. The calculation is also dependent on sales volumes and gross margins in the managed estate and the rent projection in the tenanted estate.

St Austell Brewery Company Limited

Notes to the financial statements

For the 52-week period ended 31 December 2016

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

Detailed impairment calculations have been conducted for the period with key assumptions being based on management and historical knowledge. Management have considered a sensitivity analysis in the key assumptions of the value in use calculation specifically surrounding the discount rate used. The current assumptions use a discount rate of 6.64% (2 January 2016: 6.92%). The results of the impairment calculation will not result in any impairment to goodwill.

d. Impairment of fixed assets

The Group considers each trading unit to be a cash-generating unit (CGU) which are reviewed annually for indicators of impairment. When assessing impairment, the carrying amount is compared to the recoverable value amount.

If the asset values of the CGUs exceed the value in use then an impairment is required, the key assumptions used in the value in use calculations are the same as those detailed above.

During the 52 weeks ended 31 December 2016 a net impairment of £nil was recognised in the profit and loss account. Impairment of two CGUs (The Ten Tors, Kingsteignton and The George, Plympton) of £148,000 was recognised where their asset values exceeded their value in use. The impairment loss was due to the adverse performance of the two pubs. Following an improvement in performance two sites which were previously impaired have had reversals (Molesworth Arms, Wadebridge and White Hart, Modbury) of £148,000 recognised on the profit and loss account.

During the period the group acquired Hare it House Limited. As part of the accounting for this business combination a valuation exercise was performed in relation to the acquired brands. These valuations are based on the expected future cash flows arising from these brands over their expected useful lives discounted back using an appropriate discount rate. The total value of the acquired brands recognised in the period is £4,847,000.

St Austell Brewery Company Limited

Notes to the financial statements

For the 52-week period ended 31 December 2016

3. Turnover

An analysis of the Group's turnover by class of business is set out below.

	52 weeks ended 31 December 2016 £'000	53 weeks ended 2 January 2016 £'000
Turnover:		
Regional brewer	153,226	137,351

An analysis of the Group's turnover by geographical market is set out below.

	52 weeks ended 31 December 2016 £'000	53 weeks ended 2 January 2016 £'000
Turnover:		
UK	152,694	136,929
Rest of the world	532	422
	<u>153,226</u>	<u>137,351</u>

An analysis of the Group's turnover is as follows:

	52 weeks ended 31 December 2016 £'000	53 weeks ended 2 January 2016 £'000
Sale of goods	148,317	132,687
Rental income	4,909	4,664
	<u>153,226</u>	<u>137,351</u>

Turnover represents sales net of discounts, rent receivable and services rendered from continued trading activities, excluding value added tax. The directors consider that the business carried on by the company is that of a fully integrated regional brewer and that this constitutes one class of business.

St Austell Brewery Company Limited

Notes to the financial statements

For the 52-week period ended 31 December 2016

4. Finance costs (net)

Investment income

	52 weeks ended 31 December 2016 £'000	53 weeks ended 2 January 2016 £'000
Other interest receivable and similar income	44	42

Interest payable and similar charges

	52 weeks ended 31 December 2016 £'000	53 weeks ended 2 January 2016 £'000
Bank loans and overdrafts	1,008	924
5% Cumulative preference share dividends	4	5
Other loans	9	9
Fair value movement of interest rate swap (see note 22)	170	(317)
	1,191	621

Other finance costs on pension scheme

	52 weeks ended 31 December 2016 £'000	53 weeks ended 2 January 2016 £'000
Net interest on defined benefit liability (see note 26)	146	217

St Austell Brewery Company Limited

Notes to the financial statements

For the 52-week period ended 31 December 2016

5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	52 weeks ended 31 December 2016 £'000	53 weeks ended 2 January 2016 £'000
Depreciation of tangible fixed assets (note 12)	4,696	3,939
Impairment of tangible fixed assets	148	536
Reversal of past impairment losses on tangible fixed assets	(148)	-
Amortisation of goodwill (note 11)	142	90
Amortisation of other intangible assets (note 11)	122	-
Operating lease rentals	712	398
Cost of stock recognised as an expense	(85,182)	(78,908)

The Group annually assesses the performance of its pubs' forecasted future profits to derive a carrying value figure. The impairment of tangible fixed assets in the period arose due to adverse performance in two pubs from the estate.

The reversal of past impairment losses arises from the same process mentioned above however, there is an improved performance of two pubs since the previous review.

Impairments and reversal of impairments of tangible fixed assets are included in administrative expenses.

Amortisation of intangible assets is included in administrative expenses.

The analysis of the auditor's remuneration is as follows:

	52 weeks ended 31 December 2016 £'000	53 weeks ended 2 January 2016 £'000
Fees payable to the Group's auditor and its associates for the audit of the Group's annual accounts	82	35
Total audit fees	82	35
Taxation compliance services	24	6
Other taxation advisory services	-	6
Corporate finance services – Acquisition assistance	248	-
Controls and systems advice	226	-
Other non-audit services	8	50
Total non-audit fees	506	62

No services were provided pursuant to contingent fee arrangements.

Of these fees £248,000 were capitalised as part of the value of the investment acquired in the year.

St Austell Brewery Company Limited

Notes to the financial statements

For the 52-week period ended 31 December 2016

6. Staff numbers and costs

The average monthly number of employees (including executive directors) was:

	52 weeks ended 31 December 2016 Number	53 weeks ended 2 January 2016 Number
Brewery and depots	389	340
Hotel and public houses	992	830
	<u>1,381</u>	<u>1,170</u>

Their aggregate remuneration comprised:

	52 weeks ended 31 December 2016 £'000	53 weeks ended 2 January 2016 £'000
Wages and salaries	24,887	20,818
Social security costs	2,010	1,665
Other pension costs (see note 26)	827	871
	<u>27,724</u>	<u>23,354</u>

'Other pension costs' includes only those items included within operating costs. Items reported elsewhere have been excluded.

St Austell Brewery Company Limited

Notes to the financial statements

For the 52-week period ended 31 December 2016

7. Directors' remuneration and transactions

	52 weeks ended 31 December 2016 £'000	53 weeks ended 2 January 2016 £'000
Directors' remuneration		
Emoluments	647	592
Company contributions to defined benefit pension scheme	20	52
	<u>667</u>	<u>644</u>
	Number	Number
The number of directors who:		
Are active members of the defined benefit pension scheme	1	3
Are deferred members of the defined benefit pension scheme	1	-
Are pension members of the defined benefit pension scheme	1	-
	<u>1</u>	<u>-</u>
	52 weeks ended 31 December 2016 £'000	53 weeks ended 2 January 2016 £'000
Remuneration of the highest paid director:		
Salary	185	165
Salary in lieu of pension contribution	26	-
Bonus	19	25
Benefits in kind	12	10
Pensions contributions	6	25
	<u>248</u>	<u>225</u>

The highest paid director is a deferred member of the Company's defined benefit pension scheme and had accrued entitlements of £88,637 per annum under the scheme at the end of the year. There is no accrued lump sum.

Directors' advances, credits and guarantees

Details of transactions with directors during the period are disclosed in note 27.

St Austell Brewery Company Limited

Notes to the financial statements

For the 52-week period ended 31 December 2016

8. Tax on profit on ordinary activities

The tax charge comprises:

	52 weeks ended 31 December 2016 £'000	53 weeks ended 2 January 2016 £'000
Current tax on profit on ordinary activities		
UK corporation tax	2,663	2,516
Adjustments in respect of prior periods	-	(37)
Total current tax	2,663	2,479
Deferred tax		
Origination and reversal of timing differences	78	149
Adjustment in respect of prior periods	1	39
Effect of changes in tax rate	(17)	(37)
Total deferred tax (see note 20)	62	151
Total tax on profit on ordinary activities	2,725	2,630

The standard rate of tax applied to reported profit on ordinary activities is 20.00 per cent (2 January 2016: 20.25 per cent). The applicable tax rate has changed following the substantive enactment of the Finance Act 2015. During the year beginning 1 January 2017, the net reversal of deferred tax assets and liabilities is expected to be nil.

There is no expiry date on timing differences, unused tax losses or tax credits.

St Austell Brewery Company Limited

Notes to the financial statements

For the 52-week period ended 31 December 2016

8. Tax on profit on ordinary activities (continued)

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	52 weeks ended 31 December 2016 £'000	53 weeks ended 2 January 2016 £'000
Group profit on ordinary activities before tax	13,988	12,428
Tax on Group profit on ordinary activities at standard UK corporation tax rate of 20.00 per cent (2 January 2016: 20.25 per cent)	2,797	2,516
Effects of:		
- Expenses not deductible for tax purposes	207	203
- Income not taxable in determining taxable profit	(263)	(54)
- Tax rate changes	(17)	(37)
- Adjustments to tax charge in respect of prior periods	1	2
Group total tax charge for period	2,725	2,630

The company is aware of the proposed, phased reduction in corporation tax rates to 17% by 2020 but is not aware of any other factors that will materially affect the future tax charge.

St Austell Brewery Company Limited

Notes to the financial statements

For the 52-week period ended 31 December 2016

9. Dividends on equity shares

	52 weeks ended 31 December 2016 £'000	53 weeks ended 2 January 2016 £'000
Interim dividend paid of 69p per ordinary share (2 January 2016: 60p)	1,168	1,014
Proposed final dividend of 90p per ordinary share (2 January 2016: 82p)	1,523	1,388
	<u>2,691</u>	<u>2,402</u>

The proposed final dividend is subject to approval by the shareholders and has not been included as a liability in these financial statements.

10. Other items

	52 weeks ended 31 December 2016 £'000	Restated 53 weeks ended 2 January 2016 £'000
Administrative costs – net impairment of tangible fixed assets (note 12)	-	(536)
Profit on sale of tangible fixed assets	1,320	242
Interest payable and similar charges – fair value movement in swap	(170)	317
Other finance income on pension scheme (note 26)	(146)	(217)
Total other items	<u>1,004</u>	<u>(194)</u>

St Austell Brewery Company Limited

Notes to the financial statements

For the 52-week period ended 31 December 2016

11. Intangible fixed assets

	Group			Company		
	Brands £'000	Goodwill £'000	Total £'000	Brands £'000	Goodwill £'000	Total £'000
Cost						
At 3 January 2016	-	1,302	1,302	-	1,302	1,302
Additions	4,847	2,087	6,934	4,725	1,982	6,707
At 31 December 2016	4,847	3,389	8,236	4,725	3,284	8,009
Amortisation						
At 3 January 2016	-	1,235	1,235	-	1,235	1,235
Charge for the period	122	142	264	-	37	37
At 31 December 2016	122	1,377	1,499	-	1,272	1,272
Net book value						
At 31 December 2016	4,725	2,012	6,737	4,725	2,012	6,737
At 2 January 2016	-	67	67	-	67	67

The net book value and remaining useful life of each brand considered material to the group are shown in the table below.

Intangible asset	Net book value £'000	Estimated remaining useful life
Gem	3,299	19.5
Bath Ales	1,426	19.5

St Austell Brewery Company Limited

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For the 52-week period ended 31 December 2016

12. Tangible fixed assets

Group	Freehold £'000	Long leasehold £'000	Short leasehold £'000	Plant, machinery and furniture £'000	Assets in the course of construction £'000	Total £'000
Cost or valuation						
At 3 January 2016	103,301	5,056	716	48,531	304	157,908
Additions	11,139	-	32	4,739	1,557	17,467
Acquisitions	90	-	2,157	1,147	-	3,394
Disposals	(300)	-	-	(526)	-	(826)
Transfers	103	-	-	86	(189)	-
At 31 December 2016	<u>114,333</u>	<u>5,056</u>	<u>2,905</u>	<u>53,977</u>	<u>1,672</u>	<u>177,943</u>
Depreciation						
At 3 January 2016	5,598	299	364	29,097	-	35,358
Charge for the period	413	136	106	4,041	-	4,696
Disposals	(14)	-	-	(332)	-	(346)
At 31 December 2016	<u>5,997</u>	<u>435</u>	<u>470</u>	<u>32,806</u>	<u>-</u>	<u>39,708</u>
Net book value						
At 31 December 2016	<u>108,336</u>	<u>4,621</u>	<u>2,435</u>	<u>21,171</u>	<u>1,672</u>	<u>138,235</u>
At 2 January 2016	<u>97,703</u>	<u>4,757</u>	<u>352</u>	<u>19,434</u>	<u>304</u>	<u>122,550</u>

Included within Freehold is land at a cost of £34,790,000 (2 January 2016: £31,323,000) which is not depreciated.

Included in the net book value above are assets held under finance leases as follows:

	31 December 2016 £'000	2 January 2016 £'000
Plant, machinery and furniture	148	3

The depreciation charge for fixed assets held under finance leases was £88,641 (2 January 2016: £9,321).

St Austell Brewery Company Limited

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For the 52-week period ended 31 December 2016

12. Tangible fixed assets (continued)

Company	Freehold £'000	Long leasehold £'000	Short leasehold £'000	Plant, machinery and furniture £'000	Assets in the course of construction £'000	Total £'000
Cost or valuation						
At 3 January 2016 -						
Restated	99,704	5,056	716	48,461	304	154,241
Additions	14,735	-	32	4,810	1,557	21,134
Disposals	(300)	-	-	(453)	-	(753)
Acquisitions	87	-	2,083	943	-	3,113
Transfers	103	-	-	86	(189)	-
At 31 December 2016	<u>114,329</u>	<u>5,056</u>	<u>2,831</u>	<u>53,847</u>	<u>1,672</u>	<u>177,735</u>
Depreciation						
At 3 January 2016	5,590	299	364	29,097	-	35,350
Charge for the period	417	136	32	3,906	-	4,491
Disposals	(14)	-	-	(327)	-	(341)
At 31 December 2016	<u>5,993</u>	<u>435</u>	<u>396</u>	<u>32,676</u>	<u>-</u>	<u>39,500</u>
Net book value						
At 31 December 2016	<u>108,336</u>	<u>4,621</u>	<u>2,435</u>	<u>21,171</u>	<u>1,672</u>	<u>138,235</u>
At 2 January 2016	<u>94,114</u>	<u>4,757</u>	<u>352</u>	<u>19,364</u>	<u>304</u>	<u>118,891</u>

Included within Freehold is land at a cost of £34,790,000 (2 January 2016: £31,323,000) which is not depreciated.

Included in the net book value above are assets held under finance leases as follows:

	31 December 2016 £'000	2 January 2016 £'000
Plant, machinery and furniture	148	3

The depreciation charge for fixed assets held under finance leases was £88,641 (2 January 2016: £9,000).

Restatement

The Company balance sheet for the period ended 2 January 2016 has been restated. During this previous period a tangible fixed asset worth £3,667,000 was reported as an asset of the company, however its ownership was with St Austell Brewery Property Company Limited. The opening position of fixed assets has been adjusted by the cost of the asset and the accumulated depreciation of £8,000. This has resulted in a change to the opening net book value of freehold properties of £3,659,000 in the company. During the period ended 31 December 2016 this asset has been recognised as an addition to the fixed assets of the company, however the group remains unchanged.

St Austell Brewery Company Limited

Notes to the financial statements

For the 52-week period ended 31 December 2016

13. Fixed asset investments

Principal Group investments

The parent Company and the Group have investments in the following subsidiary undertakings, associates and other significant investments.

	Country of incorporation or principal business address	Principal activity	Holding	%
Subsidiary undertakings				
Great Western Hotel (Newquay) Limited+	UK	Dormant	Ordinary shares	100
Walter Hicks Limited+	UK	Dormant	Ordinary shares	100
Drinklink Limited+	UK	Dormant	Ordinary shares	100
The Cornish Embassy Limited+	UK	Dormant	Ordinary shares	100
St Austell Brewery Property Company Limited+	UK	Rental	Ordinary shares	100
Real Beer Company Limited+	UK	Dormant	Ordinary shares	100
Bath Ales Limited	UK	Brewer	Ordinary shares	100
Graze Too Limited	UK	Pub Co	Ordinary shares	100
Hare and Now Limited	UK	Pub Co	Ordinary shares	100
Hare it House Holdings Limited+	UK	Holding	Ordinary shares	100

+ Held directly by St Austell Brewery Company Limited.

All the subsidiary undertakings have the same registered address as the company. For details of the registered address, refer to the back page.

Under s479A of the Companies Act 2006, St Austell Brewery Property Company Limited (registered number 09744354) is exempt from the requirements of the act relating to audit of individual accounts. St Austell Brewery Company Limited has guaranteed the liabilities of St Austell Brewery Property Company Limited.

Subsidiary undertakings - Company

	£'000
Cost	
At 3 January 2016	-
Additions (see note 14)	7,410
Recycle brands and goodwill on hive-up of trade and assets	(6,707)
Deferred tax on hive up of brands	803
	<u>1,506</u>
Provisions for impairment	
At 2 January 2016 and 31 December 2016	-
	<u>1,506</u>
Carrying value - Company	
	<u>1,506</u>

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For the 52-week period ended 31 December 2016

14. Acquisition of subsidiary undertaking

On 30 June 2016 the Company acquired 100 per cent of the issued share capital of Hare it House Holdings Limited, a company whose primary activity is brewing and bottling and the operation of bars, restaurants and public houses. The fair value of the total consideration was £7,410,000.

The acquisition has been accounted for under the acquisition method. The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the Group:

	Book value £'000	Fair value adjustments £'000	Fair value to Group £'000
Fixed assets			
Intangible	-	4,847	4,847
Tangible	3,651	(257)	3,394
Current assets			
Stocks	619	-	619
Debtors	1,930	(130)	1,800
Cash	373	-	373
Total assets	6,573	4,460	11,033
Creditors			
Bank loans	1,184	-	1,184
Obligations under hire purchase agreements	236	-	236
Trade creditors	1,660	-	1,660
Accruals	1,702	-	1,702
Provisions			
Taxation	104	-	104
Deferred tax	-	824	824
Total liabilities	4,886	824	5,710
Net assets	1,687	3,636	5,323
Goodwill			2,087
			7,410
Satisfied by			
Cash			7,000
Professional costs			410
			7,410

In the period ended 31 December 2016, turnover of £9,014,000 and profit of £372,000 was included in the consolidated profit and loss account in respect of Hare it House Holdings Limited and its subsidiary companies since the acquisition date.

On 31 December 2016 Bath Ales Limited, Graze Too Limited and Hare and Now Limited were hived up into St Austell Brewery Company Limited.

The useful economic life of the acquired goodwill has been determined to be ten years. This period has been used due to this being the expected time frame in which the benefits of the related synergies between the two businesses will be felt.

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For the 52-week period ended 31 December 2016

15. Stocks

	Group		Company	
	At 31 December 2016 £'000	At 2 January 2016 £'000	At 31 December 2016 £'000	At 2 January 2016 £'000
Raw materials and consumables	1,178	1,024	1,178	1,024
Work in progress	142	105	142	105
Finished goods and goods for resale	6,582	6,039	6,582	6,039
	<u>7,902</u>	<u>7,168</u>	<u>7,902</u>	<u>7,168</u>

In the opinion of the directors there is no material difference between the balance sheet value of stocks and their replacement cost.

16. Debtors

	Group		Company	
	At 31 December 2016 £'000	At 2 January 2016 £'000	At 31 December 2016 £'000	Restated At 2 January 2016 £'000
Amounts falling due within one year:				
Trade debtors	15,676	11,196	15,676	11,196
Other debtors	542	57	542	57
Amounts owed by group undertakings	-	-	-	3,659
Prepayments and accrued income	3,815	2,306	3,815	2,306
	<u>20,033</u>	<u>13,559</u>	<u>20,033</u>	<u>17,218</u>
Amounts falling due after more than one year:				
Trade loans	1,050	1,358	1,050	1,358
Other debtors	418	399	418	399
Deferred tax asset	458	-	458	-
	<u>1,926</u>	<u>1,757</u>	<u>1,926</u>	<u>1,757</u>

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For the 52-week period ended 31 December 2016

17. Creditors – amounts falling due within one year

	Group		Company	
	At 31 December 2016 £'000	At 2 January 2016 £'000	At 31 December 2016 £'000	At 2 January 2016 £'000
Bank loans and overdrafts (see note 18)	3,860	4,581	3,860	4,581
Obligations under finance leases and hire purchase contracts (see note 19)	148	1	148	1
Trade creditors	8,581	6,980	8,581	6,980
Amounts owed to Group undertakings	-	-	1,694	2
Corporation tax	1,318	1,129	1,294	1,127
Other taxation and social security	2,952	2,502	2,952	2,502
Accruals and deferred income	7,071	6,157	7,071	6,157
	23,930	21,350	25,600	21,350

18. Creditors – amounts falling due after more than one year

	Group		Company	
	At 31 December 2016 £'000	At 2 January 2016 £'000	At 31 December 2016 £'000	Restated At 2 January 2016 £'000
Bank loans	42,000	25,000	42,000	25,000
Tenants' deposits	1,047	1,123	1,047	1,123
Interest rate swap	2,816	2,646	2,816	2,646
5% preference shares of £1 each	76	100	76	100
	45,939	28,869	45,939	28,869

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For the 52-week period ended 31 December 2016

18. Creditors – amounts falling due after more than one year (continued)

Borrowings are repayable as follows:

	Group		Company	
	At 31 December 2016 £'000	At 2 January 2016 £'000	At 31 December 2016 £'000	At 2 January 2016 £'000
Bank / revolving credit facility expiry				
Between two and five years	42,000	25,000	42,000	25,000
	<u>42,000</u>	<u>25,000</u>	<u>42,000</u>	<u>25,000</u>
On demand or within one year	-	-	-	-
	<u>42,000</u>	<u>25,000</u>	<u>42,000</u>	<u>25,000</u>
	<u><u>42,000</u></u>	<u><u>25,000</u></u>	<u><u>42,000</u></u>	<u><u>25,000</u></u>

The rates of interest payable on the revolving credit facilities are at a rate above LIBOR depending on the leverage ratio of the company.

19. Obligations under finance leases and hire purchase contracts

	Group		Company	
	At 31 December 2016 £'000	At 2 January 2016 £'000	At 31 December 2016 £'000	At 2 January 2016 £'000
Amounts payable				
Within one year	90	1	90	1
Between one and two years	44	-	44	-
Between two and five years	14	-	14	-
	<u>148</u>	<u>1</u>	<u>148</u>	<u>1</u>
	<u><u>148</u></u>	<u><u>1</u></u>	<u><u>148</u></u>	<u><u>1</u></u>

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For the 52-week period ended 31 December 2016

20. Provisions for liabilities

	Group £'000	Company £'000
Deferred taxation		
At 3 January 2016, as previously reported	1,221	1,221
FRS 102 adjustment interest rate SWAP	(476)	(476)
FRS 102 adjustment pension scheme	(688)	(688)
Restated amount under FRS 102	57	57
Charged to profit and loss account	61	82
Adjustment in respect of prior periods	1	1
Pension deferred tax movement	(1,528)	(1,528)
Acquisition of subsidiary undertaking	110	-
Deferred tax on hive-up of subsidiary	17	127
Non-goodwill intangibles	824	803
At 31 December 2016	(458)	(458)

Deferred tax is provided as follows:

	At 31 December 2016 £'000	Restated At 2 January 2016 £'000
Group		
Accelerated capital allowances	1,390	1,298
Short-term timing differences	(68)	(77)
Derivative contracts	(405)	(476)
Non-goodwill intangibles	803	-
Deferred tax on pension scheme	(2,178)	(688)
Provision for deferred tax	(458)	57
Company		
Accelerated capital allowances	1,390	1,298
Short-term timing differences	(68)	(77)
Derivative contracts	(405)	(476)
Non-goodwill intangibles	803	-
Deferred tax on pension scheme	(2,178)	(688)
Provision for deferred tax	(458)	57

Deferred tax assets and liabilities are offset only where the Group has a legally enforceable right to do so and where the assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity or another entity within the group.

St Austell Brewery Company Limited

Notes to the financial statements

For the 52-week period ended 31 December 2016

21. Financial instruments

The carrying values of the Group and Company's financial assets and liabilities are summarised by category below:

	Group	
	At 31 December	At 2 January
	2016	2016
	£'000	£'000
Financial assets		
Debt instruments measured at amortised cost		
Long-term loans receivable (see note 16)	1,050	1,358
Measured at undiscounted amount receivable		
Trade and other debtors (see note 16)	16,216	11,253
	<u>17,266</u>	<u>12,611</u>
Financial liabilities		
Measured at amortised cost		
Loans payable (see note 18)	42,000	25,000
Cumulative preference shares (see note 18)	76	100
Obligations under finance leases (see note 19)	148	1
Measured at undiscounted amount payable		
Bank overdraft (see note 17)	3,860	4,581
Trade and other creditors (see note 17)	16,711	14,380
	<u>62,795</u>	<u>44,062</u>

The Group's income, expense, gains and losses in respect of financial instruments are summarised below:

	Group	
	At 31 December	At 2 January
	2016	2016
	£'000	£'000
Interest income and expense		
Total interest income for financial assets at amortised cost	44	42
Total interest expense for financial liabilities at amortised cost	(1,021)	(938)
	<u></u>	<u></u>
Fair value gains and losses		
On financial assets (including listed investments) measured at fair value through profit or (loss)	(170)	317
	<u></u>	<u></u>

St Austell Brewery Company Limited

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22. Derivative financial instruments

Interest rate swap contracts – Group and Company

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

	Average contract fixed interest rate		Notional principal value		Fair value	
	At 31 December 2016 %	At 2 January 2016 %	At 31 December 2016 £'000	At 2 January 2016 £'000	At 31 December 2016 £'000	At 2 January 2016 £'000
Over five years	5.56%	5.56%	10,000	10,000	2,816	2,646

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is three months' LIBOR. The Group will settle the difference between the fixed and floating interest rate on a net basis.

23. Called-up share capital and reserves

	At 31 December 2016 £'000	At 2 January 2016 £
Allotted, called-up and fully-paid Ordinary shares of £1 each	1,692	1,692
5% redeemable preference shares of £1 each	76	100

The Company has one class of ordinary shares which carry no right to fixed income.

The preference shares carry the right to a fixed cumulative preferential dividend of 5%. On a winding up of the company, the preference shareholders have a right to receive, in priority to payments to ordinary shareholders, £1 per share plus any accrued dividend. The amount is included in other creditors.

The preference shares carry no votes at meetings unless the dividend thereon is six months or more in arrears or the business of the meeting includes a resolution for the winding up of the company, reducing its share capital or altering the Articles to affect their rights, in which event each holder will be entitled to one vote on a show of hands or one vote per share on a poll.

On 19 January 2016 the company purchased and cancelled 24,215 preference shares for a consideration of £24,215.

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24. Cash flow statement

Reconciliation of operating profit to cash generated by operations:

	52 weeks ended 31 December 2016 £'000	53 weeks ended 2 January 2016 £'000
Operating profit	13,961	12,982
Adjustment for:		
Impairment loss on property, plant and equipment	-	536
Depreciation and amortisation	4,960	4,029
Operating cash flow before movement in working capital	18,921	17,547
Increase in stocks	(115)	(855)
(Increase) / decrease in debtors	(4,355)	279
(Decrease) / increase in creditors	(270)	658
Adjustment for pension funding	(140)	(160)
Corporation tax paid	(2,471)	(2,565)
Cash generated by operations	11,570	14,904

St Austell Brewery Company Limited

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For the 52-week period ended 31 December 2016

25. Financial commitments

Capital commitments are as follows:

	Group		Company	
	At 31 December 2016 £'000	At 2 January 2016 £'000	At 31 December 2016 £'000	At 2 January 2016 £'000
Contracted for but not provided for	2,346	1,128	2,346	1,128

Total future minimum lease payments under non-cancellable operating leases are as follows:

	At 31 December 2016 Land and buildings £'000	At 2 January 2016 Land and buildings £'000
Group and Company		
- within one year	1,031	385
- between one and five years	3,775	1,307
- after five years	12,460	3,665
	17,266	5,357

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For the 52-week period ended 31 December 2016

26. Retirement benefit schemes

Defined contribution schemes

The pension schemes referred to in this note relate to both the company and the group.

The Group operates a pension scheme for the benefit of employees at the brewery and depots and for managed house managers.

The defined benefit section of the scheme was closed to new members from 30 June 2001. On 1 March 2002, the group set up a separate defined contribution section of the scheme to cater for new employees.

The assets of the defined contribution section of the scheme are held in separate trustee-administered funds. Contributions made by the company during the period amounted to £369,635 (53 weeks ended 2 January 2016: £315,364). There are no unpaid contributions by the group at either period-end.

The Group offers workplace pensions to all employees who are not members of the defined contribution stakeholder pension plans. The Group offers these pensions through the People's Pension.

Defined benefit schemes

The defined benefit section of the scheme is funded by the payment of contributions to a separately administered trust fund. The contributions are determined by an independent qualified actuary on the basis of triennial valuations using the projected unit method. The last full actuarial valuation was carried out as at 31 December 2013.

In accordance with the advice of the actuary following the results of the 2013 valuation, the contributions of the company have been made at 16.8% of pensionable earnings; the employee contributions rate remained at 7% of pensionable salary during the period.

	At 31 December 2016	At 2 January 2016
Key assumptions used:	%	%
Discount rate	2.80	3.90
Future pension increases	3.00	3.00
Inflation	2.55	3.10

Mortality assumptions

Investigations have been carried out within the past three years into the mortality experience of the Group's defined benefit schemes. These investigations concluded that the current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

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For the 52-week period ended 31 December 2016

26. Retirement benefit schemes (continued)

	At 31 December 2016 years	At 2 January 2016 years
Retiring today:		
Males	87.2	87.2
Females	89.3	89.6
Retiring in 20 years:		
Males	88.5	88.6
Females	90.8	91.1

Amounts recognised in the profit and loss account in respect of these defined benefit schemes are as follows:

	At 31 December 2016 £'000	At 2 January 2016 £'000
Current service cost	(532)	(556)
Net interest cost	(146)	(217)
	<u>(678)</u>	<u>(773)</u>
Recognised in other comprehensive income	(8,981)	1,769
Total cost relating to defined benefit scheme	<u>(9,659)</u>	<u>996</u>

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	At 31 December 2016 £'000	At 2 January 2016 £'000
Present value of defined benefit obligations	(60,157)	(46,835)
Fair value of scheme assets	47,347	43,012
Net liability recognised in the balance sheet	<u>(12,810)</u>	<u>(3,823)</u>

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26. Retirement benefit schemes (continued)

Movements in the present value of defined benefit obligations were as follows:

	At 31 December 2016 £'000	At 2 January 2016 £'000
At the start of the period	46,835	46,458
Service cost	532	556
Interest cost	1,802	1,766
Actuarial gains and losses	12,544	(881)
Contributions from scheme participants	155	173
Benefits paid	(1,711)	(1,237)
At the end of the period	<u>60,157</u>	<u>46,835</u>

Movements in the fair value of scheme assets were as follows:

	At 31 December 2016 £'000	At 2 January 2016 £'000
At the start of the period	43,012	40,923
Interest income	1,656	1,549
Return on plan assets (excluding amounts included in net interest cost)	3,563	888
Contributions from the employer	672	716
Contributions from scheme participants	155	173
Benefits paid	(1,711)	(1,237)
At the end of the period	<u>47,347</u>	<u>43,012</u>

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26. Retirement benefit schemes (continued)

The analysis of the scheme assets at the balance sheet date was as follows:

	Fair value of assets	
	At 31 December 2016 £'000	At 2 January 2016 £'000
Equity instruments	24,542	20,995
Bonds	9,232	8,234
Property	2,729	2,661
Target return	10,680	10,735
Value of insurance annuities	84	85
Cash	80	302
	<u>47,347</u>	<u>43,012</u>

27. Related party transactions

During the period, the Group purchased goods in the normal course of business from Shepherd Neame Limited for £129,000 (2 January 2016: £141,000). During the period the Group sold goods in the normal course of business to Shepherd Neame Limited for £5,000 (2 January 2016: £19,000). J B Neame is a director of St Austell Brewery Company Limited and a director of Shepherd Neame Limited.

During the period the Group purchased services in the normal course of business from Michelmores LLP for £194,000 (2 January 2016: £56,000). W F Michelmores is a director of St Austell Brewery Company Limited and a partner of Michelmores LLP.

During the period the Group sold goods in the normal course of business to Admiral Taverns Limited for £69,000 (2 January 2016: £85,000). K R Georgel is a director of St Austell Brewery Company Limited and a director of Admiral Taverns Limited.

The price charged was the normal market price in the case of each transaction. At the balance sheet date, the amount due to Shepherd Neame Limited was £5,000 (2 January 2016: £18,000) and the amount due to Michelmores LLP was £nil (2 January 2016: £nil). At the balance sheet date, the amount due from Shepherd Neame Limited was £nil (2 January 2016: £1,000) and the amount due from Admiral Taverns Limited was £18,000 (2 January 2016: £6,000).

28. Controlling party

Due to the number of shareholders there is no ultimate controlling party.

St Austell Brewery Company Limited

Notes to the financial statements

For the 52-week period ended 31 December 2016

29. 52 week comparative

	52 weeks ended 31 December 2016	53 weeks ended 2 January 2016	*Restated 52 weeks ended 2 January 2016	52 week % Change
Turnover (£000)	153,226	137,351	135,314	13.2%
Operating profit before other items (£000)	13,961	13,518	13,284	5.1%
Earnings per share before other items (£)	£6.06	£5.91	£5.77	5.0%
Dividends per share (£)	£1.59	£1.42	£1.42	12.0%

*In order to give a 52-week comparison to the prior period we have removed the first week of the prior period from the full 53-week period results.

30. Explanation of transition to FRS 102

This is the first year that the Group has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the 53-week period ended 2 January 2016 and the date of transition to FRS 102 was therefore 28 December 2014. Because of adopting FRS 102, a number of accounting policies have changed to comply with that standard.

a. Reconciliation of equity

	<u>Group</u>		<u>Company</u>	
	At 2 January 2016 £'000	At 27 December 2014 £'000	At 2 January 2016 £'000	At 27 December 2014 £'000
Equity reported under previous UKGAAP	93,690	84,891	93,683	84,891
Adjustments to equity on transition to FRS 102				
1 Fair value to profit and loss for interest rate swap	(2,646)	(2,963)	(2,646)	(2,963)
2 Deferred tax on interest rate swap	475	592	475	592
Equity reported under FRS 102	91,519	82,520	91,512	82,520

St Austell Brewery Company Limited

Notes to the financial statements

For the 52-week period ended 31 December 2016

30. Explanation of transition to FRS 102 (continued)

b. Reconciliation of profit

	Group	Company
	£'000	£'000
Profit for the financial period 53 weeks ending 2 January 2016 under previous UK GAAP	10,461	10,461
1 Fair value to profit and loss for interest swap	317	317
2 Deferred tax on interest rate swap	(117)	(117)
3 Expected return on assets valuation in pension scheme	(1,115)	(1,115)
4 Deferred tax on pension	252	252
Profit for the financial period 53 weeks ending 2 January 2016 under FRS 102	9,798	9,798

Notes to the reconciliations 2016

1. St Austell Brewery Company Limited was not previously required to recognise derivative financial instruments on the balance sheet. Instead the effects of the derivative were recognised in the profit or loss account when the instruments were settled. Derivative financial instruments are classified as 'other financial instruments' in FRS 102 and are recognised as a financial asset or a financial liability, at fair value. Consequently, a financial liability of £2,963,000 was recognised in the opening balance sheet on 28 December 2014. Derivatives are measured to fair value with gains or (losses) from changes in fair value recognised in the profit or loss account. The effect on profit for the 53-week period ended 2 January 2016 is an increase of £317,000.
2. The change in accounting standards of derivatives, noted above, has also led to an adjustment in the balance sheet and the deferred tax asset. This is due to the temporary differences between the values in these accounts and the tax carrying values. For the period-ended 27 December 2014 an asset of £592,000 was recognised in the balance sheet. For the period-ended 2 January 2016 an asset of £476,000 was recognised in the balance sheet. The movement in this asset has led to a deferred tax gain of £135,000 which has been recognised in the prior period profit and loss account.
3. Under FRS 102, the assumption for the expected return on assets is removed. Instead interest is calculated, as measured by applying the discount rate to the surplus or deficit, both as at the start of the accounting period, taking into account contributions and benefit payments during the period. As a result, there is an increased charge to the profit and loss account of £1,115,000. This is offset by an increased actuarial gain of £1,115,000 in the statement of comprehensive income.
4. As a result of adjustment note 3 there is a corresponding movement of deferred tax between the profit and loss account and the statement of comprehensive income. This leads to a decrease in the tax charge in the profit and loss account of £252,000 with an equal and opposite movement seen in the statement of comprehensive income.

31. Post balance sheet events

In February 2017, we agreed to extend £30 million of our revolving credit facilities for a further twelve months and so this facility now has an expiry date of March 2022.

In February 2017, we entered a new interest rate swap agreement with Barclays Bank plc covering £15 million of notional principal debt until January 2027 at an average contract fixed interest rate of 1.327%.

St Austell Brewery Company Limited

Five Year Summary

For the 52-week period ended 31 December 2016

	52 weeks ended 31 December 2016 £'000	Restated 53 weeks ended 2 January 2016 £'000	52 weeks ended 27 December 2014 £'000	52 weeks ended 28 December 2013 £'000	52 weeks ended 29 December 2012 £'000
Turnover	153,226	137,351	125,354	116,562	106,009
Operating profit before other items	13,961	13,518	12,349	10,745	10,492
Net interest	(977)	(896)	(911)	(977)	(931)
Other items*	1,004	(194)	1,009	665	789
Profit before taxation	13,988	12,428	12,447	10,433	10,350
Taxation	(2,725)	(2,630)	(2,773)	(2,439)	(2,659)
Profit after taxation	11,263	9,798	9,674	7,994	7,691
Dividends per share Interim and final	159p	142p	115p	100p	95p
Dividend cover	4.2	4.1	5.0	4.7	4.8
Dividend cover (excl. other items**)	3.8	4.2	4.5	4.3	4.3
Earnings per share	£6.66	£5.79	£5.72	£4.72	£4.54
Earnings per share (excl. other items**)	£6.06	£5.91	£5.12	£4.33	£4.08
Net debt (£ million)	45.4	29.1	25.2	27.4	29.5
Capital expenditure (£ million)	25.9	16.6	9.7	7.6	13.7
Shareholders' funds (£ million)	92.8	91.5	84.9	78.9	70.6
Net pension scheme deficit (£ million)	12.8	3.8	4.4	3.2	5.6
Average number of employees	1,381	1,170	1,068	1,043	1,010

* Other items includes only those items within profit before taxation

** Other items includes all other items within the profit and loss account

The periods ended 31 December 2016 and 2 January 2016 are reported under the new financial framework, FRS 102. All other periods are reported under the old framework, UK GAAP.

St Austell Brewery Company Limited

Officers and professional advisers

For the 52-week period ended 31 December 2016

DIRECTORS

W F Michelmore (Chairman)
S J Staughton (Chief Executive)
T A Luck
J B Neame
G H Barnes
P M Thompson
K R Georgel
C J Stratton (appointed 10 March 2017)

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C J Stratton
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