

24<sup>th</sup> April 2009

Dear Adnams Shareholder,

### **Letter from the Guinness Peat Group (GPG)**

You may recently have received a letter from GPG raising a number of issues. Some of the points they make are inaccurate, others a matter of interpretation with which we strongly disagree.

In particular we should like to emphasise that the Board is committed, above all else, to the long-term interests of all shareholders, with whom we stay closely in touch. Approximately 300 shareholders have visited the company since this time last year, and we have two more open days planned for this year.

It is also worth noting that the Board is well balanced. Two out of three of the non-Executive Directors have extensive experience outside Adnams and are unconnected with the major shareholding families, and the same is true for the executive Directors.

Our more particular comments on GPG's letter are as follows:

#### **Strategy and Performance**

GPG seem to believe that Adnams should restrict itself to brewing and pub ownership within East Anglia. They criticise the brewing and distribution investments that we have made, although this process started some four or five years before they started buying shares (which they did incidentally in full knowledge of the share structure that they now oppose). They criticise expansion and our retailing strategy and the fact that we sell outside East Anglia.

The Board believes that its strategy is soundly based; Adnams has succeeded in building a successful brand which is respected well beyond East Anglia's borders. Our London beer trade in particular has been successful for many years. We have had a profitable Cellar&Kitchen Store in Southwold for over twenty years and we believe that the expansion of the Cellar&Kitchen outlets is well founded though we have halted further store openings in the current climate. As with any such developments, the returns on investment take time, but we are encouraged by progress to date.

The beer market has become increasingly competitive in recent years. We have seen the re-emergence of large brewer pub-owners and a huge expansion in the number of microbrewers, something that has been particularly notable in East Anglia. A "traditional" strategy in these circumstances would have been inappropriate for Adnams, although we very much believe that first rate pubs remain desirable acquisitions and we seized the opportunity last month to buy three of Suffolk's finest pubs. GPG criticise us for seeking out "opportunities" – we would expect most shareholders to criticise us if we didn't.

The investments that we have made, as we have always said, have been for the long term. That is the nature of what we as a company do. We believe that our strategy is focussed on the future and on maximising long-term value for all shareholders. The failings of a short-term approach to shareholder value have been only too graphically demonstrated in recent times.

We acknowledge disappointment in the financial result for 2008. Clearly, economic conditions contributed towards 2008 being a difficult year. Many pubs were struggling across the UK and beer sales continued to decline nationwide. We accept nonetheless that our timing was poor in gearing up our cost base for expansion at the end of 2007 and that unwinding some of this cost did depress our results in 2008. This does not however alter our confidence in our long-term strategy.

### **The Relative Price of Adnams "A" and "B" Shares**

GPG suggest that Adnams "A" shares are sold at a significant discount to the market price for "B" shares. This has not been true since we reorganised dealing arrangements for "A" shares last year, following shareholder consultation. Both classes of share now trade at roughly similar prices, per £ of equity capital.

## The Adnams Share Structure

As regards GPG's proposed conversion of "A" shares to "B" shares, the Board continues to believe that since this involves changes to the rights attaching to the Company's shares it remains a matter for agreement among shareholders. In order to proceed, such a change would require the separate approvals of each of the "A" share and "B" share classes in General Meeting.

The Board last year consulted major shareholders to establish whether GPG's proposals, or any similar proposal, would be likely to attract the necessary support to proceed. The feedback we received was there was strong support for retaining the existing "A" share rights and minimal appetite for a change to the Articles governing them. We are not aware of any change to that position.

GPG have invited you to write to them with your views and you should of course feel free to do so. It would be helpful if you could also keep us informed of your views. This is, however, the third year running in which GPG has raised this issue. Whilst the Board welcomes constructive shareholder engagement, it is unwilling to spend shareholders' time and money pursuing the special interest agendas of specific shareholders which it does not believe command wider support.

As you will be aware, our AGM takes place next Monday and I very much look forward to seeing many of you on that day.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Jonathan Adnams', written in a cursive style.

Jonathan Adnams OBE  
Chairman