Stonegate Pub Company Limited

Condensed Consolidated Interim Financial Information

For the 28 weeks ended 14 April 2019

Consolidated income statement

For the 28 weeks ended 14 April 2019

		Unaudited 28 weeks ended 14 April 2019			Unaudited 28 weeks ended 8 April 2018		
	Notes	**Pre-exceptional items £000**	**Exceptional items[1] £000**	**Total £000**	Pre-exceptional items £000	Exceptional items[1] £000	Total £000
Revenue		**452,657**	**-**	**452,657**	397,479	-	397,479
Operating costs		**(388,990)**	**(20,619)**	**(409,609)**	(347,216)	257	(346,959)
Operating profit before depreciation, amortisation, impairment and loss on sale of non-current assets		**63,667**	**(20,619)**	**43,048**	50,263	257	50,520
Depreciation, amortisation and impairment		**(37,080)**	**(1,628)**	**(38,708)**	(30,257)	-	(30,257)
Loss on sale of non-current assets	7	**(325)**	**-**	**(325)**	(4,650)	-	(4,650)
Operating profit/(loss)		**26,262**	**(22,247)**	**4,015**	15,356	257	15,613
Finance income	3	**10**	**-**	**10**	36	-	36
Finance costs	4	**(22,648)**	**(816)**	**(23,464)**	(16,954)	(111)	(17,065)
Profit/(loss) before taxation		**3,624**	**(23,063)**	**(19,439)**	(1,562)	146	(1,416)
UK income tax charge		**-**	**-**	**-**	-	-	-
Profit/(loss) for the period		**3,624**	**(23,063)**	**(19,439)**	(1,562)	146	(1,416)

[1] Exceptional items are explained further in note 2.

All of the Group's operations are classed as continuing.

The notes on pages 6 to 25 form part of the condensed consolidated interim financial information.

Consolidated statement of comprehensive income

For the 28 weeks ended 14 April 2019

	Notes	**Unaudited 28 weeks ended 14 April 2019 £000**	Unaudited 28 weeks ended 8 April 2018 £000
Loss for the period		**(19,439)**	(1,416)
Items that will not be reclassified to profit or loss			
Re-measurement of defined benefit pension schemes		**-**	-
Other comprehensive loss after tax		**-**	-
Total comprehensive loss for the period		**(19,439)**	(1,416)

The notes on pages 6 to 25 form part of the condensed consolidated interim financial information.

Consolidated balance sheet

As at 14 April 2019

	Notes	**Unaudited 14 April 2019 £000**	Unaudited 8 April 2018 £000
Assets			
Non-current assets			
Property, plant and equipment	6	**547,038**	531,403
Brand	5	**4,928**	1,702
Operating leases	5	**158,713**	74,307
Goodwill	5	**137,050**	115,075
Retirement benefit surplus	13	**912**	764
		848,641	723,251
Current assets			
Inventories		**12,924**	11,886
Trade and other receivables (including £5,750,000 *(2018: £Nil)* due after more than one year)	8	**39,427**	32,502
Cash and cash equivalents		**25,143**	17,669
		77,494	62,057
Total assets		**926,135**	785,308
Liabilities			
Current liabilities			
Trade and other payables	9	**(137,422)**	(111,551)
Borrowings	10	**(15,470)**	(47,094)
		(152,892)	(158,645)
Non-current liabilities			
Borrowings	10	**(737,761)**	(590,455)
Deferred tax liabilities		**(18,393)**	(6,040)
Retirement benefit obligations	13	**(3,610)**	(10,142)
Provisions	11	**(15,468)**	(14,669)
		(775,232)	(621,306)
Total liabilities		**(928,124)**	(779,951)
Net (liabilities)/assets		**(1,989)**	5,357
Equity			
Called up share capital		**1,736**	1,685
Share premium		**97,047**	81,647
Retained earnings		**(100,772)**	(77,975)
Total equity		**(1,989)**	5,357

The notes on pages 6 to 25 form part of the condensed consolidated interim financial information.

Consolidated statement of changes in equity

As at 14 April 2019

	Unaudited Share capital £000	Unaudited Share premium £000	Unaudited Retained earnings £000	Unaudited Total equity £000
Total equity at 30 September 2018	**1,685**	**81,647**	**(81,333)**	**1,999**
Total comprehensive income/(losses):				
Loss for the period	-	-	(19,439)	(19,439)
Share issue	51	15,400	-	15,451
Total comprehensive profits/(losses) for the period	51	15,400	(19,439)	(3,988)
Total equity at 14 April 2019	**1,736**	**97,047**	**(100,772)**	**(1,989)**
Total equity at 24 September 2017	**1,685**	**81,647**	**(76,559)**	**6,773**
Total comprehensive losses:				
Loss for the period	-	-	(1,416)	(1,416)
Total comprehensive losses for the period	-	-	(1,416)	(1,416)
Total equity at 8 April 2018	**1,685**	**81,647**	**(77,975)**	**5,357**

Consolidated cash flow statement

For the 28 weeks ended 14 April 2019

	Unaudited 28 weeks ended 14 April 2019 £000	Unaudited 28 weeks ended 8 April 2018 £000
Cash flows from operating activities		
Loss for the period	**(19,439)**	(1,416)
Adjustments for:		
-Depreciation, amortisation and impairment	**38,708**	30,257
-Loss on sale of non-current assets	**325**	4,650
-Net finance costs	**23,454**	17,029
-UK income tax charge	**-**	-
	43,048	50,520
Changes in:		
-Inventories	**(261)**	(438)
-Receivables	**(7,764)**	(237)
-Payables	**9,939**	(17,654)
-Difference between pension charge and cash contributions	**(426)**	(71)
Cash generated from operating activities	**44,536**	32,120
Interest paid	**(17,723)**	(14,852)
Net cash flow from operating activities	**26,813**	17,268
Cash flows from investing activities		
Purchase of property, plant and equipment	**(45,356)**	(43,538)
Net proceeds from sale of property, plant and equipment	**(23)**	4,794
Payments for business acquisitions	**(57,606)**	(3,114)
Net cash acquired with trading sites	**3,407**	-
Net cash flow from investing activities	**(99,578)**	(41,858)
Cash flows from financing activities		
Issue of share capital	**15,451**	-
Advance of borrowings	**200,723**	26,000
Repayment of borrowings	**(145,741)**	-
Financing costs	**(3,546)**	(386)
Net cash flow from financing activities	**66,887**	25,614
Net (decrease)/increase in cash and cash equivalents	**(5,878)**	1,024
Opening cash and cash equivalents	**15,551**	3,551
Closing cash and cash equivalents	**9,673**	4,575

Notes to the financial statements

For the 28 weeks ended 14 April 2019

1 Accounting policies

Stonegate Pub Company Limited (the "Company") is governed by Cayman Island Company Law.

The condensed consolidated interim financial information consolidates those of the Company and its subsidiaries (together referred to as the "Group"). The condensed consolidated interim financial information has been prepared in accordance with Companies Law (2013 Revision) of the Cayman Islands. As the Cayman Islands do not have prescribed accounting standards, the Group has elected to prepare the condensed consolidated interim financial information in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), as allowed under Cayman Island Company Law.

The results for the current and comparative period are unaudited.

No parent company information is presented in the condensed consolidated interim financial information, Companies Law (2013 Revision) in the Cayman Islands does not require such information to be presented. The parent company information has been prepared under FRS 102.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in the condensed consolidated interim financial information.

1.1 Measurement convention

The condensed consolidated interim financial information is prepared on the historical cost basis with the exception of derivative financial instruments which are measured at fair value. Non-current assets and disposal Groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

1.2 Going concern

The financial position of the Group is set out in the Consolidated Balance Sheet on page 3 which shows net liabilities of £1,989,000 (2018: £5,357,000 net assets).

During the current period the Group has experienced a net cash outflow of £5,878,000 driven by the acquisitions of eleven further sites from A3D2 Limited, three sites from Balls Brothers (Emporium) Limited, three sites from Tank and Paddle Limited and the entire share capital of Bar Fever Limited details of which are set out in notes 5 and 7 (2018: cash inflow of £1,024,000).

The Group met its day-to-day working capital requirements through its standard trading cycle of cash generation and its £50,000,000 combined overdraft and revolving credit facility. The Directors consider that this is a normal feature of trading in this industry. Customers pay by cash resulting in minimal credit risk and the Group takes advantage of supplier credit terms. Therefore the Group typically operates with net current liabilities (current period net current liabilities of £81,148,000; 2018: net current liabilities of £96,588,000). In the forthcoming period the Group expects to achieve year on year pre-exceptional operating profit growth (both organically and through acquisitions) and be cash generative at an operating cash flow level and at a total cash flow level. At the period end the Group had drawn down £Nil of its revolving credit facility (2018: £34,000,000).

At the balance sheet date, the Group was financed by fixed and floating rate loan notes totalling £745,000,000 (2018: £595,000,000), details of which are set out in note 10. On 30 January 2019 Stonegate Pub Company Financing plc received £149,250,000 from the issue of £150,000 discounted floating loan notes charging an annual interest rate of 3 months LIBOR + 6.25%. The Group also repaid its bridging finance facility of £120,741,000.

Notes to the financial statements

For the 28 weeks ended 14 April 2019

1 Accounting policies *(continued)*

1.2 Going concern *(continued)*

The Group met its day-to-day working capital requirements through cash generation and a £50,000,000 overdraft facility. Management have prepared a board paper on going concern showing the Group's forecasts and projections prepared for a period covering fifteen months from the date of the year-end financial statements. Taking account of reasonable possible changes in trading performance, the board paper shows that the Group should be able to operate within the level of its current borrowing facility.

Applying reasonably possible sales based sensitivities year on year the Group's forecasts show that it would continue to operate within its facility and within financial covenants.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months from the date of approval of the financial statements and for the foreseeable future thereafter. Thus they adopt the going concern basis of accounting in preparing these financial statements.

1.3 Basis of consolidation

The condensed consolidated interim financial information includes the financial statements of the Company and its subsidiary undertakings made up to 14 April 2019. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

1.4 Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.5 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Notes to the financial statements

For the 28 weeks ended 14 April 2019

1 Accounting policies *(continued)*

1.5 Non-derivative financial instruments *(continued)*

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

1.6 Derivative financial instruments and hedging

Derivative financial instruments

The Group does not use interest rate swaps to hedge its exposure to interest rate fluctuations on its floating rate loan notes as the risk is considered to be minimal.

1.7 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- freehold properties are depreciated to their estimated residual values over 50 years;
- leasehold properties and improvements are depreciated over the shortest of 50 years, their estimated useful lives and their remaining lease periods;
- administration furniture, fixtures, fittings and equipment are depreciated over 2 to 15 years; and
- retail furniture, fixtures and equipment are depreciated over 3 to 15 years.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

The group capitalises employment costs and related personal expenses of individuals whose job roles are fundamentally associated with managing or implementing the Group's capital development programme. Judgement is therefore applied in determining the element of internal labour costs which are directly attributable to capital projects. Where such an individual undertakes non-capital expenditure related activities as part of their job roles then a proportion of their cost is not capitalised unless the non-capital expenditure related activities are incidental to their role.

1.8 Sale and leaseback transactions

The Group enters into sale and leaseback transactions where land and buildings have been sold and the Group has immediately entered into a lease agreement with the acquirer. These land and buildings are no longer included within property, plant and equipment and the rentals paid are charged on a straight-line basis to the Consolidated Income Statement over the lease term.

Notes to the financial statements

For the 28 weeks ended 14 April 2019

1 Accounting policies *(continued)*

1.9 Business combinations

Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Acquisitions post transition date

For acquisitions on or after 26 September 2011, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquire, if any; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Acquisitions prior to IFRS transition date

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs in the transition period. The Group elected not to restate business combinations that took place prior to transition date. In respect of acquisitions prior to transition date, goodwill is included at transition date or earlier if applicable on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that only separable intangibles were recognised and goodwill was amortised. On transition, certain items recognised as other intangibles under Adopted IFRS have been separately accounted for with appropriate adjustments against property, plant and equipment and amortisation of goodwill ceased as required by IFRS 1.

1.10 Intangible assets and goodwill

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions is capitalised. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

Operating lease intangible assets

The fair values attached to operating leasehold interests on acquisitions are deemed to represent lease premiums, and are capitalised and carried as intangible assets. Amortisation is charged to the income statement on a straight-line basis over the lease lives.

Brand

Brand intangible assets recognised on acquisition are amortised on a straight-line basis over their estimated useful lives of 10 years.

Notes to the financial statements

For the 28 weeks ended 14 April 2019

1 Accounting policies *(continued)*

1.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price less any costs of disposal. Cost is calculated using the first in first out method.

1.12 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest Group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Groups of assets (the "cash-generating unit").

The Group considers each of its individual pubs as a cash-generating unit. Each CGU is reviewed periodically for indicators of impairment. When indicators of impairment are identified the carrying value of the individual pub is compared to its recoverable amount. The recoverable amount is determined as being the greater of its value in use and its fair value less costs to sell.

The Group annually tests whether goodwill has been impaired. Management makes judgements to allocate goodwill to the group of CGUs that benefits from the synergy of acquisitions and reflects the level at which goodwill is monitored, on this basis goodwill is allocated to the entire estate. The recoverable amount of the CGUs that the goodwill has been allocated to is determined based on value-in-use calculations which require estimating future cash flows and applying a suitable discount rate.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (Group of units) on a *pro rata* basis.

Notes to the financial statements

For the 28 weeks ended 14 April 2019

1 Accounting policies *(continued)*

1.12 Impairment excluding inventories and deferred tax assets *(continued)*

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.13 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Group determines the net interest on the net defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/asset.

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid. Re-measurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs. The gain or loss on a settlement is the difference between the present value of the defined benefit obligation being settled as determined on the date of settlement and the settlement price, including any plan assets transferred and any payments made directly by the Group in connection with the settlement.

Notes to the financial statements

For the 28 weeks ended 14 April 2019

1 Accounting policies *(continued)*

1.13 Employee benefits *(continued)*

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.14 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

A provision for onerous leases is made for sites for which future trading profits, or income from subleases, is not expected to cover rent. The provision takes several factors into account, including the expected future profitability of the pub and the amount estimated as payable on surrender of the lease, where this is a likely outcome.

1.15 Revenue

Revenue is measured at the fair value of the consideration received or receivable and is derived from the sale of food and drinks; admissions; hotel rooms and machine income to third parties, after deducting discounts and VAT. Revenue is recognised at the point of sale.

All revenue is derived from the one principal activity of the business, based solely within the United Kingdom.

In respect of the loyalty card scheme, the More card, as points are issued to customers the retail fair value of those points expected to be redeemed is deferred. When the points are used by customers they are recorded as revenue.

1.16 Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method and unwinding of the discount on provisions. Financing income comprise interest receivable on funds invested.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

1.17 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Notes to the financial statements

For the 28 weeks ended 14 April 2019

1 Accounting policies *(continued)*

1.17 Taxation *(continued)*

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.18 Exceptional items

The Group presents separately on the face of the income statement those material items of income and expense which are outside of the normal course of trading, which management consider will distort comparability, in order to provide a trend measure of underlying performance.

1.19 Key accounting judgements and estimates

The preparation of the condensed consolidated interim financial information requires management to make judgements, estimates and assumptions in the application of accounting policies that affect reported amounts of assets, liabilities, revenues and expenses during the period.

Management periodically evaluates its estimates and judgements and bases them on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

Key accounting judgements

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

Exceptional items

During the period certain items are identified and separately disclosed as exceptional. Judgement is applied as to whether the item meets the necessary criteria as per the accounting policy disclosed. This assessment covers the nature of the item, cause of occurrence and the scale of impact of that item on reported performance. Note 2 provides information on all of the items disclosed as exceptional in the current and previous period.

Key areas of estimation

The following are the key areas of estimation uncertainty that may have the most significant effect on the amounts recognised in the financial statements.

Notes to the financial statements

For the 28 weeks ended 14 April 2019

1 Accounting policies *(continued)*

1.19 Key accounting judgements and estimates *(continued)*

Impairment of property, plant, equipment and operating leases

Property, plant and equipment and operating leases are reviewed for impairment if there are any indicators to suggest that the carrying amount may not be recoverable. Recoverable amounts are determined based on value-in-use calculations and estimated sale proceeds. These calculations require assumptions to be made regarding projected cash flows and the choice of a suitable discount rate in order to calculate the present value of those cash flows. Actual outcomes may vary from these estimates.

Onerous lease provisions

The Group provides for its onerous obligations under operating leases where the site is closed or for properties where rental expense is in excess of income. The estimated timings and amounts of cash flows are determined using management experience.

Defined pension benefit schemes

The present value of defined benefit pension scheme liabilities are determined on an actuarial basis and depend on a number of actuarial assumptions. Any changes in these assumptions could impact the carrying amounts of retirement benefit assets / liabilities.

Business combinations

The Group identifies separate assets and liabilities upon acquisition and recognises those assets at their fair value. The assessment of fair value, particularly for property, plant, equipment and operating leases acquired, is undertaken with reference to current market conditions.

Note 7 describes the business combinations in the current and prior periods and provides details of the fair value adjustments made in arriving at the fair value of assets and liabilities acquired.

1.20 Segmental reporting

The Group operates predominately one type of business (pubs) in the United Kingdom. This includes the sale of food, beverages, admissions, hotel rooms and machine income and are collectively regarded and reported as one segment.

1.21 New standards, interpretations and amendments to existing standards

As at the date of approval of the financial statements there are a number of standards and interpretations issued by the IASB and IFRIC with an effective date after the date of these financial statements and which have not been early adopted by the Group. These are expected to be applied as follows:

- The IASB issued IFRS 16 Leases in January 2016. The new standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The new standard will be effective for periods beginning on or after 1 January 2019, and the group plans to adopt IFRS 16 in the period beginning 30 September 2019. For lessors, there is little change to the existing accounting in IAS 17 Leases. The application of IFRS 16 will have a material impact on the group's consolidated financial results and financial position. This includes recognition of interest and amortisation expense in place of fixed rental expense in the income statement and the recognition of right-of-use assets and lease liabilities for its operating lease portfolio on the balance sheet. There is no net cash flow impact on application of IFRS 16, although the classification of cash flows will be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Notes to the financial statements

For the 28 weeks ended 14 April 2019

1 Accounting policies (continued)

1.21 New standards, interpretations and amendments to existing standards (continued)

The group has a comprehensive project under way to assess the overall impact of adopting IFRS 16, including: determining the preferred transition approach and quantifying the financial impacts; addressing the future data collection requirements and updating processes accordingly; and integrating IFRS 16 into all its reporting with effect from 30 September 2019. It is not practicable to provide a reasonable estimate of the financial effect on the initial application of IFRS 16 until this assessment project has been completed.

- The IASB issued IFRS 15 Revenue from Contracts with Customers in May 2014, and amended it in April 2016. The new standard provides a single, five-step revenue recognition model, applicable to all sales contracts, which is based upon the principle that revenue is recognised when the control of goods or services is transferred to the customer. The new standard is effective for accounting periods beginning on or after 1 January 2018, and was adopted by the group on 1 October 2018. This standard replaces all existing revenue recognition guidance under current IFRS. The group has completed an impact assessment and determined that the adoption of IFRS 15 will not have a material impact on its consolidated results and financial position, but will result in additional disclosure requirements.
- IFRS 9 Financial Instruments – IFRS 9 Financial Instruments was first issued in November 2009 with a complete version issued in July 2014 and is a replacement of IAS 39 Financial Instruments: Recognition and Measurement. The new standard becomes effective for annual periods beginning on or after 1 January 2018. The Group has assessed the impact and determined that the adoption of IFRS 9 will not have a material impact on its consolidated results and financial position.

Notes to the financial statements

For the 28 weeks ended 14 April 2019

2. Exceptional operating items

	28 weeks ended 14 April 2019	28 weeks ended 8 April 2018
	£000	£000
Operating exceptional items		
Acquisition costs	**2,256**	117
Integration costs	**2,507**	688
Restructuring costs	**15,856**	-
Onerous leases	**-**	(1,062)
Impairment of operating leases (note 5)	**684**	-
Impairment of property, plant and equipment (note 6)	**944**	-
	22,247	(257)
Finance costs	**816**	111
Total exceptional items	**23,063**	(146)

Acquisition costs: Acquisition costs are items of one-off expenditure incurred, primarily, in connection with the business combination activities during the current and previous period. These costs include legal and professional fees and stamp duties which are expensed as incurred.

Integration costs: Following the acquisitions, the Group incurred costs to combine and streamline the operations of the acquired businesses with the Group.

Restructuring costs: Restructuring costs are costs incurred in connection with reviewing the business processes.

Onerous leases: The onerous lease provision covers potential liabilities for onerous lease contracts for sites that have either closed, or where projected future trading revenue is insufficient to cover the lower of exit cost or value-in-use. The provision is based on the present value of expected future cash flows, discounted, relating to rents, rates and other property costs to the end of the lease terms net of expected sublet income. Reversals relate to provisions no longer required.

Finance costs: Finance costs relate to the repayment of the bridging finance facility in the period. The costs associated with this are considered as exceptional in nature.

3. Finance income

	28 weeks ended 14 April 2019	28 weeks ended 8 April 2018
	£000	£000
Other interest receivable	**10**	36
Total finance income	**10**	36

Notes to the financial statements

For the 28 weeks ended 14 April 2019

4. Finance costs

	28 weeks ended 14 April 2019 £000	28 weeks ended 8 April 2018 £000
Interest payable on loan notes	**18,085**	15,577
Other interest payable	**2,408**	497
Debt issue costs amortisation	**2,626**	620
Refinancing costs	**222**	112
Non-utilisation and commitment fees	**49**	107
Unwinding of discount element of provisions	**74**	152
Total finance costs	**23,464**	17,065

Included within finance costs are £816,000 of costs (2018: £111,000) relating to exceptional items (see note 2).

Notes to the financial statements

For the 28 weeks ended 14 April 2019

5. Goodwill, operating leases and brand intangible assets

	Brand	Operating leases	Goodwill
	£000	£000	£000
Cost			
At 24 September 2017	2,000	96,453	117,951
Acquisitions through business combinations	3,728	51,299	12,075
Disposals	-	(2,597)	(1,242)
Fully depreciated assets	-	(156)	-
At 30 September 2018	5,728	144,999	128,784
Acquisitions through business combinations	-	47,363	12,076
Disposals	-	(252)	-
At 14 April 2019	5,728	192,110	140,860
Amortisation			
At 24 September 2017	(190)	(17,784)	(3,810)
Charge for the year	(301)	(8,408)	-
Impairment	-	(31)	-
Disposals	-	797	-
Fully depreciated assets	-	156	-
At 30 September 2018	(491)	(25,270)	(3,810)
Charge in the period	(309)	(7,626)	-
Impairment	-	(684)	-
Disposals	-	183	-
At 14 April 2019	(800)	(33,397)	(3,810)
Net book value			
At 14 April 2019	**4,928**	**158,713**	**137,050**
At 30 September 2018	5,237	119,729	124,974
At 24 September 2017	1,810	78,669	114,141

During the current period the Group completed the assignment of eleven leasehold sites from A3D2 Limited. Operating leases of £20,956,000 and goodwill of £4,972,000 was recognised relating to this acquisition.

Additional goodwill of £124,000 was recognised in the period relating to the acquisition of Bar Holdings Limited.

During the current period the Group completed the assignment of three leasehold sites from Balls Brothers (Emporium) Limited and three sites from Tank and Paddle Limited. Operating leases of £4,553,000 was recognised relating to the acquisition.

During the current period the Group completed the assignment of thirty four leasehold sites from Bar Fever Limited. Operating leases of £21,854,000 and goodwill of £6,980,000 was recognised relating to this acquisition.

Goodwill has been reduced in the period by £Nil (2018: £1,242,000), representing the apportioned value of goodwill allocated to those sites disposed of during the period.

Notes to the financial statements

For the 28 weeks ended 14 April 2019

6. Property, plant and equipment

	Land and buildings £000	Leasehold improvements £000	Furniture, fixtures and equipment £000	Total £000
Cost				
At 24 September 2017	329,725	113,552	226,523	669,800
Acquisitions through business combinations	760	-	1,490	2,250
Additions	6,253	14,925	50,049	71,227
Disposals	(6,200)	(1,449)	(13,581)	(21,230)
Fully depreciated assets	(7)	(406)	(20,631)	(21,044)
At 30 September 2018	330,531	126,622	243,850	701,003
Acquisitions through business combinations	-	-	972	972
Additions	4,677	9,603	31,076	45,356
Disposals	-	(6)	(304)	(310)
At 14 April 2019	335,208	136,219	275,594	747,021
Depreciation				
At 24 September 2017	(9,119)	(34,459)	(105,306)	(148,884)
Charge for the period	(1,403)	(9,046)	(39,548)	(49,997)
Impairment	-	(1,753)	(931)	(2,684)
Disposals	938	1,206	8,404	10,548
Fully depreciated assets	7	406	20,631	21,044
At 30 September 2018	(9,577)	(43,646)	(116,750)	(169,973)
Charge for the period	(829)	(4,994)	(23,322)	(29,145)
Impairment	-	(453)	(491)	(944)
Disposals	-	4	75	79
At 14 April 2019	(10,406)	(49,089)	(140,488)	(199,983)
Net book value				
At 14 April 2019	**324,802**	**87,130**	**135,106**	**547,038**
At 30 September 2018	320,954	82,976	127,100	531,030
At 24 September 2017	320,606	79,093	121,217	520,916

Included in property, plant and equipment are properties with a net book value of £316,009,000 over which the Group's borrowings are secured by way of fixed and floating charges.

Land and buildings includes £11,978,000 (2018: £11,978,000) relating to long leasehold sites; £192,324,000 of freehold land (2018: £192,324,000) and £120,500,000 of freehold properties (2018: £116,652,000).

Notes to the financial statements

For the 28 weeks ended 14 April 2019

7. Acquisitions and disposals

Acquisitions in the current period

On 22 January 2019 the Company acquired the entire issued share capital of Bar Fever Limited. The Company acquired thirty four leasehold sites. Total consideration was £26,319,000.

The business has been acquired for the purpose of integrating these sites into the Group's existing brands and approach to market where it is believed that synergies and economies of scale can be obtained.

A summary of the fair values of the assets and liabilities are given in the table below:

	Provisional fair value £000
Operating leases	21,854
Property, plant and equipment	290
Inventory	253
Cash	3,407
Trade and other receivables	994
Trade and other payables	(3,389)
Corporation tax	(631)
Deferred tax	(3,439)
Net assets acquired	19,339
Purchase price satisfied by:	
Cash consideration	26,319
Goodwill	6,980

Goodwill is considered to represent the value of the acquired workforces and the benefits that will be gained from combining these sites with the Group's existing portfolio of brands and sites.

The Group incurred acquisition-related costs of £620,000 related to stamp duty and external legal professional fees. These costs have been included in 'operating costs' in the consolidated income statement (see note 2).

Operating leases: The provisional fair value of lease premiums was derived through a fair value exercise and increases the book value by £21,854,000.

Property, plant and equipment: Included in property, plant and equipment is fixtures and fittings of £290,000.

Inventory: The fair value applied to inventory was that at the date of acquisition.

Other acquisitions

During the current period the Group also acquired seventeen sites from A3D2 Limited, Balls Brothers (Emporium) Limited and Tank and Paddle Limited. Intangible operating leases of £25,509,000, goodwill of £3,581,000 (see note 5) and property, plant and equipment of £682,000 (see note 6) were acquired as part of this acquisition.

Notes to the financial statements

For the 28 weeks ended 14 April 2019

7. Acquisitions and disposals *(continued)*

Disposals

During the period the Group disposed of one site to a third party with associated costs of sale and closure costs of £1,000, tangible fixed assets with net book values of £231,000 and intangible operating leases with net book values of £69,000. Loss on disposal was £301,000.

During the period the Group also received proceeds of £50,000 in connection with a Deed of Easement.

Costs of sale of £74,000 were incurred during the period regarding disposals in a prior period.

Total loss on disposal was £325,000.

8. Trade and other receivables

	14 April 2019 £000	8 April 2018 £000
Trade receivables	**4,942**	3,303
Amounts due from group undertakings	**5,750**	-
Other receivables	**5,071**	6,605
Prepayments and accrued income	**23,664**	22,594
	39,427	32,502

Amounts due from group undertakings of £5,750,000 (2018: £Nil) relate to a group loan with the ultimate parent company, Stonegate Pub Company Holdings Limited, a company incorporated in the Cayman Islands. The loan is repayable on 4 April 2022 and charging an annual interest of LIBOR +2.50%.

9. Trade and other payables

	14 April 2019 £000	8 April 2018 £000
Trade payables	**59,138**	39,079
Amounts due to group undertakings	**1,372**	2,739
Other taxation and social security	**23,214**	20,691
Corporation tax payable	**1,147**	-
Other payables	**18,031**	20,627
Accruals	**34,520**	28,415
	137,422	111,551

Notes to the financial statements

For the 28 weeks ended 14 April 2019

10. Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost.

	14 April 2019 £000	8 April 2018 £000
Current liabilities		
Bank overdrafts	**15,470**	13,094
Revolving credit facility	**-**	34,000
	15,470	47,094
Non-current liabilities		
Secured loan notes issued by Stonegate Pub Company Financing plc	**737,761**	590,455
	737,761	590,455

Secured loan notes are shown net of debt issue costs of £6,535,000 (2018: £4,545,000) and a discount accrual of £46,000.

Terms and debt repayment schedule:

			Principal outstanding	
	Principal borrowed £000	Year of maturity	**14 April 2019 £000**	8 April 2018 £000
Secured fixed notes	405,000	2022	**405,000**	405,000
Secured floating notes	340,000	2022	**340,000**	190,000
			745,000	595,000

On 16 March 2017 Stonegate Pub Company Financing plc, a public limited company incorporated under the laws of England and Wales and a wholly owned subsidiary of Stonegate Pub Company Limited, received £595,000,000 from the issue of £405,000,000 fixed loan notes charging an annual interest rate of 4.875% and £190,000,000 floating loan notes charging an annual interest rate of 3 months LIBOR + 4.375%.

On 30 January 2019 Stonegate Pub Company Financing plc received £149,250,000 from the issue of £150,000,0000 discounted floating loan notes charging an annual interest rate of 3 months LIBOR + 6.25%.

The notes will mature on 15 March 2022 and are listed on the Channel Islands stock exchange. Amortised debt issue costs of £6,535,000 offset the loan balance at the period end and a discount accrual of £46,000.

The proceeds from the issue of the loan notes on 16 March 2017 were used to repay the existing loan notes of £480,000,000; make a distribution to shareholders of £93,871,000; to pay fees in connection with the transaction and for general corporate purposes.

The proceeds from the issue of the loan notes on 30 January 2019 were used to repay the bridging finance facility that was used to finance the acquisitions of Be At One Holdings Limited, Bar Fever Limited, certain pubs acquired from A3D2 Limited, finance the acquisition of certain businesses and assets of Balls Brothers (Emporium) Limited and Tank and Paddle Limited, finance certain capital expenditures in relation to these acquisitions and pay fees in connection with the transactions.

Notes to the financial statements

For the 28 weeks ended 14 April 2019

11. Provisions

	Onerous leases	Health and safety claims	Total
	£000	£000	£000
At 30 September 2018	11,642	4,652	16,294
Utilised	(376)	(200)	(576)
Released	-	(250)	(250)
At 14 April 2019	**11,266**	**4,202**	**15,468**
At 24 September 2017	12,228	3,861	16,089
Utilised	(358)	-	(358)
Released	(1,062)	-	(1,062)
At 8 April 2018	**10,808**	**3,861**	**14,669**

The onerous lease provision includes amounts for lease rentals and costs of exiting closed and loss-making sites which the Group acquired during a prior period. The Directors have determined that these sites operate under onerous property leases and have provided the expected shortfall between operating income and rents payable for a property. The estimated period required to mitigate these losses is identified on an individual property basis. The release of the provisions primarily relates to the successful exit of sites at a rate below originally expected.

The health and safety claims provision is an estimate of the claims which the Group expects to settle over the next two years. These claims generally relate to minor incidents of personal injury at sites and the level of provision has been based on managements' expected future successful claim rate.

The Group has also provided for an ongoing legal case in connection to the acquisition of the Intertain Limited group of companies. Management expect that indemnification provided by the former owners of the business to cover any liability arising.

Notes to the financial statements

For the 28 weeks ended 14 April 2019

12. Net debt

Analysis of changes in net debt:

	At 24 September 2017 £000	Cash flow £000	Non-cash movements £000	At 30 September 2018 £000	Cash flow £000	Non-cash movements £000	At 14 April 2019 £000
Cash at bank and in hand	16,514	9,940	-	26,454	(1,311)	-	25,143
Bank overdraft	(12,963)	2,060	-	(10,903)	(4,567)	-	(15,470)
	3,551	12,000	-	15,551	(5,878)	-	9,673
Debt due within one year	(8,000)	(84,916)	-	(92,916)	92,916	-	-
Debt due after one year	(595,000)	-	-	(595,000)	(149,250)	(46)	(744,296)
Net debt per balance sheet	**(599,449)**	**(72,916)**	**-**	**(672,365)**	**(62,212)**	**(46)**	**(734,623)**

	At 24 September 2017 £000	Cash flow £000	Non-cash movements £000	At 8 April 2018 £000
Cash at bank and in hand	16,514	1,155	-	17,669
Bank overdraft	(12,963)	(131)	-	(13,094)
	3,551	1,024	-	4,575
Debt due within one year	(8,000)	(26,000)	-	(34,000)
Debt due after one year	(595,000)	-	-	(595,000)
Net debt per balance sheet	**(599,449)**	**(24,976)**	**-**	**(624,425)**

Notes to the financial statements

For the 28 weeks ended 14 April 2019

13. Pensions

The Group operates two defined benefit pension schemes providing benefits based on final pensionable salary. The assets of the schemes are held separately from those of the Group.

The defined benefit obligation as at 14 April 2019 is calculated on a year-to-date basis, using the latest actuarial valuation as at 28 February 2014 and was updated for IAS 19 purposes to 14 April 2019 by a qualified independent actuary. The defined benefit plan assets have been updated to reflect their market value as at 14 April 2019. Differences between the expected return on assets and the actual return on assets have been recognised as an actuarial gain or loss in the consolidated statement of total recognised gains and losses in accordance with the Group's accounting policy.

The Group also participates in defined contribution pension schemes for the benefit of certain employees. The assets of the schemes are held separately from those of the Group in independently administered funds.

The amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

14. Post balance sheet events

Subsequent to the period end, there have been no post balance sheet events.