stonegate
PUB COMPANY

Annual report and financial statements

For the 53 weeks ended 30 September 2018

Registered number FC029833

Contents

Company information

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Manjit Dale
Ian Payne
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Brian Magnus

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Strategic report

The Directors present their strategic report on the Group for the 53 weeks ended 30 September 2018.

Stonegate Pub Company Limited and its subsidiaries (together "the Group") is the second largest managed pub operator on the high street. The Group had 725 operating sites at the year-end (2017: 703) spread across the United Kingdom, with approximately 78% of its pubs being located in town centres.

Stonegate operates within a wide variety of formats: from community and high-street pubs, through branded bars, to country inns and late-night venues. Stonegate's goal is to deliver fantastic customer experiences and has an extensive selection of formats, with a little something for everyone:

Classic Inns
Classic Inns are destination suburban pubs, combining a traditional pub environment with a premium food and drink experience.

Proper Pubs
Traditional pubs are at the centre of every community, a warm and welcoming place to socialise for a quiet pint, family lunch or a weekend night out.

Town Pub & Kitchen
Modern, independent-feel high-street pubs – open for breakfast and trading late, these sites provide a premium food and drink experience.

Slug and Lettuce
Stylish, branded high-street bars, Slug and Lettuce prides itself on fantastic cocktails, premium food and a wonderful atmosphere throughout the day and night.

Venues
From lively Latino to classic pop anthems, our eclectic group of stunning late-night venues offers a unique experience for those looking to party into the early hours.

Walkabout
Australian themed bars with the best seats for watching sport to the ultimate party venues, chilled places to meet up and get stuck into our Aussie food.

Yates
The iconic 'ALL-DAY-LONG' high-street bar. Famed during the day for value food and drink – transitioning to a higher-energy party venue at night.

Common Room
The perfect 'hang-out' any time of day. A collection of distinctive pubs, famed for great coffees, craft ales, street food and sport.

Be At One
A specialist cocktail bar offer with bars in prime high street town and city locations throughout the UK. The brand is synonymous with high quality cocktails, excellent service and a great party atmosphere.

Strategic report *(continued)*

Vision and Values

The Group's vision to deliver fantastic customer experiences is driven by the following values:

- *We have Fun* – we take pride and enjoy what we do; we celebrate success and recognise achievements; we go out of our way to make sure customers and teams have a great time and fun never compromises our safe and legal responsibility.
- *We invest Wisely* – We spend the Company's money like it's our own; we keep looking for smarter and more efficient ways of doing things; we effectively plan and prepare and we invest our time and money in developing talent.
- *Raring to Go* – We hit the ground running; we are willing to get involved; we commit to doing our best every day and we are adaptable and see change as an opportunity.
- *We are Straightforward* – We keep things simple and do not over complicate; we do what we say we are going to do; we are open and honest with each other and we approach challenges with solutions in mind.
- *We're One Team* – We treat each other with respect; we develop ourselves and our teams; we share great ideas and we take responsibility for our actions.

Strategy and Business Model

Stonegate has developed a range of urban and suburban formats built on an understanding of what a customer wants. The Group's approach involves identifying and applying the right format for each of its operating sites in order to deliver the best customer experience whilst maximising site profitability.

The Groups strategy is to improve growth through increasing our exposure to the more attractive categories and segments of our markets, through

- continuing to intelligently invest in its pub estate to maximise site profitability;
- pursuing targeted acquisitions of attractive and complementary pub portfolios with upside potential;
- aligning its formats to benefit from emerging consumer trends; and
- delivering operational improvements across its pub estate to drive margin growth.

Value is generated using our resources, our strong capabilities and leveraging our stakeholder relationships. Our investors TDR have a strong track record working with their investments' senior management teams to drive value and grow the business. This is achieved through investment of resource, both financial and operational, to improve the core business and as well as growth through targeted acquisition. Both TDR and Stonegate Teams are experienced and respected in the industry, with the capability to deliver the long term plan. The business works closely with a range of stakeholders both internal workforce and external, such as professional partners, investment analysts and supply chain relationships.

Business review

The results for the Group for the 53 weeks ended 30 September 2018 are shown in the consolidated income statement on page 15. Pre-exceptional operating profit for the period was £40,875,000 (2017: £42,817,000). Post-exceptional operating profit for the period was £29,857,000 (2017: £25,180,000). Loss before tax was £4,481,000 (2017: loss of £22,223,000). The financial position of the Group is set out in the consolidated balance sheet on page 17 which shows net assets of £1,999,000 (2017: £6,773,000). Net increase in cash and cash equivalents in the period was £12,000,000 (2017: decrease of £25,335,000).

Our eighth year of trading remained strong with the business seeing continued year on year sales, margin and profit growth. There remained significant investment within the estate with site development capex spend of £34,600,000 (2017: £47,700,000). The Group's 2018 return on investment was 35.3% (2017: 35.4%).

Strategic report *(continued)*

Business review *(continued)*

Several key events for the Group contributed to these results during the period. This included the purchase of the share capital of Be At One Holdings Limited and also the agreement to assign the leases of 15 Novus sites.

On 23 July 2018 Stonegate Pub Company Limited acquired the entire issued share capital of Be At One Holdings Limited. The specialist cocktail bar operator has 33 bars in prime high street town and city locations throughout the UK. As such, Be At One is a great fit with Stonegate's drink led strategy and our growing reputation for being the leading operator of high street bars in the UK's major towns and cities.

Also on the 23 July 2018 Stonegate Pub Company Limited exchanged on 15 sites from Novus, all of which are prime locations in London. These premium sites will, in time, fit within existing Stonegate brands and formats, including the Be At One Brand. By year end, 4 of the Novus leases had been assigned. The remaining 11 assigned by December 2018 for cash consideration of £25,352,000.

These acquisitions are further evidence of the success of Stonegate's strategy to be the leading consolidator of high street bars in the drink led sector and both Be At One and the Novus sites are a fantastic fit with Stonegate's business and the existing brands and formats.

Group Key Performance Indicators

The following are key performance indicators (KPIs) for the Stonegate group of companies at period end which the Board examines on a monthly basis:

Financial KPIs – Group	**2018 53 weeks**	**2017 52 weeks**
Drink Sales Growth (like for like)	6.0%	3.1%
Food Sales Growth (like for like)	0.8%	(2.3)%
Turnover Growth (like for like)	4.7%	2.0%
Return on Investment (ROI)	35.3%	35.4%

Like for like represents aggregate drink sales, food sales or turnover compared to the previous comparable period, made at those sites that were trading throughout the current and previous period.

The return on Investment represents for all pubs invested during the three-year period preceding of the date of the investment, the difference between the post-investment EBITDA and the 53 week pre-investment EBITDA, divided by the respective aggregate Investment Capital. Pubs that have traded for less than 53 weeks post-investment, are excluded from the definition.

Strategic report *(continued)*

Adjusted EBITDA Reconciliation	**53 weeks ended 30 September 2018**	**52 weeks ended 24 September 2017**
	£m	**£m**
Operating profit before depreciation, amortisation, impairment and loss on sale of non-current assets (page 15)	98.5	81.7
Acquisition costs	4.4	5.5
Restructuring and integration costs	4.6	4.0
Management fees	2.0	2.0
Pension scheme service costs	0.9	0.9
Losses on disposed/non trading sites	1.4	1.2
Other non-recurring costs	3.2	1.9
Onerous leases	(0.1)	6.3
Adjusted EBITDA	**114.9**	**103.5**

Adjusted EBITDA represents profit before finance income, finance costs, taxation, depreciation, amortisation, impairment and the other items shown above. The directors consider the adjusted EBITDA provides useful information about the Group's performance and aids a more effective comparison of the Group's trading performance from one period to the next and with similar businesses.

Non-financial KPIs

As well as providing a fantastic experience to our customers Stonegate is also committed to a high standard of health and safety. Therefore the board conducts customer research on an on-going basis, as well as monitoring complaints received and internal health and safety audit results. Sites are assessed on a regular basis on food safety, licensing, fire safety, external play area safety and hotel safety. The small number of sites that are not attaining our expected standards, are monitored closely by senior management and are supported to get back to the high standards we expect. This is achieved via extra training, audit visits and additional reporting. Over 82% of sites (2017: 79%) scored over 90% in our internal health and safety audits. We have 81% of our sites rated as good or above on the Food Standards Agency's website.

	2018 53 weeks	**2017 52 weeks**
Internal Health and Safety Audit Scores	**Number of visits**	**Number of visits**
Visited in the period	1,366	1,336
Green (scoring over 90%)	1,117	1,049
Amber (scoring 80 - 90%)	144	170
Red (scoring 50 - 80%)	86	110
Black (scoring under 50%)	19	7

Strategic report *(continued)*

Financial Position

The financial position of the Group is set out in the consolidated balance sheet on page 17 which shows net assets of £1,999,000 (2017: £6,773,000). Closing cash and cash equivalents were £15,551,000 (2017: £3,551,000) and non-current borrowings were £591,009,000 (2017: £589,835,000).

The Group is financed by fixed and floating loan notes listed, listed on the Channel Islands stock exchange. During the previous period the Group undertook a refinancing and 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%. The notes will mature on 15 March 2022. Further information on the Group's borrowings is included in note 18. At the period end the Group also had a bridging finance facility in place relating to the purchase of Be At One Holdings Limited and the 15 sites from A3D2 Limited of £69,269,000 which is due for repayment 20 July 2019. The facility has the option to be extended until March 2022 if certain conditions are met and will incur an interest rate of 3 months LIBOR + 5%.

The Directors do not consider there to be a significant risk to exposure to interest rates and the impact of the fluctuations from its floating rate loan notes. There is no currency risk as all of the revenues and costs of the Group are in sterling.

Principal risks and uncertainties

The risks and uncertainties of the Group remain largely unchanged from those previously reported. The risk of a wider macro-economic impact as a result of the UK leaving the EU, are addressed in the key areas below.

The Group's operations expose it to a variety of financial risks including the effects of credit risk and liquidity. The Group's principal financial instruments comprise cash sterling balances and bank deposits, loan notes, and other obligations that arise under leases together with trade receivables and trade payables that arise directly out of its operations.

The main risks can be analysed as:

Industry specific

The industry is under cost pressures from legislation, utility costs, business rates and leasehold rents, which leads to an on-going risk to our business. Stonegate's established and experienced procurement team, manage contracts to ensure the Group mitigates against increases in food and drink costs, as well as ensuring cost control processes are in place. These inflation driven factors reinforce our already strong emphasis on margins and cost control.

Risks to the Group's day to day trading include deterioration in consumer spending prompted by any downturn in the economy together with potential shifts in consumer spending patterns. The fundamental need for the UK consumer to socialise will always remain, however the changes in behaviour are rapid. Therefore there is a risk to market share if the Group is not positioned to react to these changes. The Group's Segment Strategy Teams, involving marketers, operators and finance, meet regularly to ensure segments respond quickly. The focus tends to be on opportunities, such as within the expanding dining out market as well as broad ranges of products which appeal to all demographics.

The Group is subject to various areas of regulation, particularly with regards to the sale of alcohol. This can include licences, permits, late night levies and various restriction orders. Stonegate works closely with the Police, Local Authorities and trade bodies in order to ensure we remain compliant with legislation.

The Group's employees are subject to the Working Time Regulations, which controls the hours they are legally allowed to work. In addition, as a number of the Group's staff are employed at the minimum wage, the Group is impacted by increases in the minimum wage. The Directors expect that increases will result in an increase in the Group's labour costs, however they expect increases to be mitigated to a certain extent by revenue growth resulting from higher wages, as well as certain measures introduced by the Group.

Strategic report *(continued)*

Principal risks and uncertainties *(continued)*

With the UK poised to leave the EU in 2019, this does bring a degree of risk and uncertainty to the business. This is due to potential impacts on the business due to uncertainty in the political and economic environment. Initial impacts seen are around movement of people, exchange rates and the cost of imports which we will need to commercially manage through negotiation and retail pricing. Management are not aware of anything which, to date suggests any material impacts.

Group specific

A large proportion of the Group's revenues are collected in cash across its bars, which exposes the Group to potential cash loss. The Group has a strong internal audit department which maintains a comprehensive cash handling policy and ensures there is minimal cash leakage out of the business.

Reliance is placed on key suppliers to ensure continuous supply of both food and drink. The Group is exposed to the risk of failure by these suppliers to deliver to the required time scales or standards. A disaster recovery and business continuity plan is established to mitigate such risks.

The Group reinvests in the growth of the business by way of new sites and refurbishment of existing ones. There is a risk that these investments do not perform to the levels expected. The Group performs careful market and financial analysis before committing to such investments.

The Group has two defined benefit pension schemes, closed to new members. The value of the Group's pension obligations and returns on assets is subject to risk of changes in life expectancy, actual and expected inflation and changes in bond yields. The difference in value between scheme assets and liabilities may vary resulting in an increased deficit being recognised on our balance sheet.

There is a risk to business operations if there is a critical IT systems loss caused by failure or a security breach. The Group operates offsite recovery capability, with back up data plans in place. Systems are protected by anti-virus software and firewalls, which are regularly kept up to date.

In order to deliver the fantastic customer experience, it is important to attract and develop our people within the organisation. As well as our career pathway and training programme, we undertake succession planning and remuneration benchmarking in order to retain our best people.

Details of the financial risk management objectives and policies are set out in note 19.

Corporate Social Responsibility

Responsible Service

Stonegate Pub Company Limited believes that social responsibility and commercial responsibility are inextricably linked. It is important, therefore, that we work with the Government, and in particular Enforcement Bodies such as the Police and Local Authorities, to actively support and promote responsible drinking. In order to achieve this, Stonegate Pub Company Limited is committed to the following standards:

- Not offering "all you can drink" promotions;
- Not offering liquor-only multi buy deals;
- Not pricing any alcoholic drinks below £1.00.

All pub managers are encouraged to attend Pub Watch meetings in their area and closely liaise with all authorities. We also ask for strict adherence to the nationally acknowledged "Challenge 25" scheme, seeking proof of age of anyone appearing to be 25 years or under.

Strategic report *(continued)*

Corporate Social Responsibility *(continued)*

Environmental factors

We are keen to make our contribution to the environment and have started several projects on environmental matters, as explained below.

Waste and recycling matters

Waste disposal and recycling is an important issue in the pub and food industry. Stonegate partners with Olleco in the recycling of its used cooking oil. Our used oil is refined into a range of products such as industrial oils and renewable fuels. In the 53 weeks ended 30 September 2018 we collected 951,586 litres of used cooking oil, or 880 metric tonnes (2017: 831 tonnes). This is the equivalent of saving 2,021 tonnes of carbon (2017: 1,909 tonnes).

Stonegate also works in partnership with Veolia Environmental Services for waste collection and recycling services. Veolia offers a range of recycling services to manage our waste streams. On current basis, 46% goes to glass recycling facilities, 11% to dry mixed product recycling and 8% food. The remaining 35% is of General Non Hazardous Industrial classification. Of this 98% is consigned to Energy Recovery via Heat operations and Materials recovery secondary segregation. The remaining 2% is currently land filled.

All single use plastic was removed in September 2018. In one year we will have stopped 52.3 millon single use plastic items going to landfill. This totals 33 tonnes of plastic per year.

Reducing energy consumption

We continue to manage our energy, with the aim to limit our environmental impact as well as managing cost within the business. We proactively work with third parties, helping us in the management of energy consumption. During the year we continued the roll-out of smart meters in majority of our outlets. We will use these in order to manage usage, in order to be as efficient as possible to help reduce consumption.

Allergens

As a company, we are committed to provide information to our customers where they suffer from allergies so they can make informed choices when consuming our products. We provide allergen information on our websites and at site to help customers. We constantly review our training and food chain in making sure we offer the best customer experience.

Sugar

Following the introduction of the Government soft drinks sugar tax levy, we actively managed the number of sugary products on offer, complimenting with healthier non sugary alternatives. We continue to offer customers a wide range of products, appealing to all tastes.

Social and community issues

Charitable activities

Our local pubs are at the heart of the communities and as part of our service we like to contribute to these communities. During the period to 30 September 2018 our pubs have raised £98,000 (2017: £73,000) for several local and national charities. These include Mind, Parkinson's and Care for Kids. Not only are our pubs involved in charity work. Our head office in Luton demonstrated outstanding charitable giving this year and continued a close relationship with the local Children's Hospital, Keech Cottage Hospice. As a principle, all of our supplier gifts received are sold on a regular basis and all proceeds are given to charity.

Supporting our students
Nationally, Stonegate gave nearly £85,000 (2017: £38,000) sponsorship to student unions and student sports clubs. Throughout the period we also supported local football teams; netball teams; tennis and rugby teams across the UK.

Strategic report *(continued)*

Future Outlook

Being a wet led business, Stonegate continues to trade ahead of the general pub market as well as outperforming the overall retail sector. Operating an adaptable multi-format strategy, we expect that growth confidence to continue in 2019. Customers seek value, which our blue and white collar offer gives customers across the board. The casual dining market continues to struggle with oversupply and deep discounting to attract customers, something we have worked hard to become much less reliant on in our offer.

Cost pressures continue to exist through inflation, National Living Wage, rates valuation etc , however through disciplined cost management planning with are well placed to manage and mitigate increases.

Our ongoing disciplined approach to capital spend will continue to deliver sustainable growth.

Going Concern

The financial statements have been prepared on the going concern basis. The statement headed "Going Concern" on page 20 sets out certain factors to the Directors' consideration in reaching this assessment.

Ownership

The immediate controlling party is Stonegate Pub Company Midco Limited, a company that is owned by TDR Capital Stonegate L.P., an investment fund managed by TDR Capital LLP, a private equity management firm registered in the UK. TDR Capital LLP takes an active role in the operations of the Group, working in partnership with management to harness opportunities together through board representation and professional support.

Approval
The Directors Strategic report was approved by the Board on 22 January 2019 and signed on its behalf by:

David Ross
Director

Directors' report

The Directors present their report together with the non-statutory financial statements for the 53 weeks ended 30 September 2018. As further described in note 1, these consolidated financial statements have been prepared solely for non-statutory purposes.

Principal activities

The principal activity of the Group is the operation of licensed bars.

Ownership

The immediate controlling party is Stonegate Pub Company Midco Limited, a company that is owned by TDR Capital Stonegate L.P., an investment fund managed by TDR Capital LLP, a private equity management firm registered in the UK. TDR Capital LLP is a leading private equity firm with over €8 billion of committed capital. It invests in medium-sized, European businesses and partners with them to develop and grow their operations. TDR Capital LLP works in partnership with management to harness opportunities together through board representation and professional support.

Various investment funds managed by TDR Capital LLP incorporated Stonegate Pub Company Limited in August 2010 when it purchased 333 freehold and leasehold pubs and bars from Mitchells and Butlers PLC and then went on to purchase the Plato 3 business in June 2011.

Board of Directors

The Directors, who held office during the period, and since the end of the period, were as follows:

Manjit Dale
Brian Magnus
Ian Payne MBE
Simon Longbottom
David Ross

<u>Manjit Dale (Founding Partner of TDR Capital LLP)</u>

Prior to founding TDR Capital LLP in 2002, Manjit was Managing Partner at DB Capital Partners Europe and has almost 20 years' experience in private equity. Manjit graduated from Cambridge University with an Honours Degree in Economics.

<u>Brian Magnus (Senior Partner at TDR Capital LLP)</u>

Brian joined TDR Capital LLP in September 2012. Prior to joining TDR Capital LLP, he was a managing director at Morgan Stanley where he was European head of Morgan Stanley Private Equity, and formerly head of UK investment banking. He joined Morgan Stanley in 2000 having previously worked in the corporate finance division of Schroder's, a company later acquired by Citigroup.

<u>Ian Payne MBE (Chairman of Stonegate Pub Company)</u>

Ian, an accomplished expert in the licensed leisure sector, has held Board positions with Bass Taverns, Stakis plc. and Ladbrokes gaming. He was CEO of the Laurel Pub Company from its inception in May 2001 through to December 2004 and later Chairman of Bay Restaurant Group Limited and Town and City Pub Group Limited prior to the formation of Stonegate Pub Company Limited in November 2010. Ian started his career in the trade behind the bar of a local pub more than 35 years ago.

<u>Simon Longbottom (Chief Executive Officer of Stonegate Pub Company)</u>

Simon has spent much of his career within the licensed industry. Prior to joining Stonegate Simon was a managing director of Pub Partners, a division of Greene King, as well as a managing director of Gala Coral's gaming division. Simon has also held senior positions with Mill House Inns and Mitchell's & Butlers plc.

Directors' report *(continued)*

Board of Directors *(continued)*

David Ross (Chief Finance Officer of Stonegate Pub Company)

David qualified with PriceWaterhouseCoopers in 1999 before joining Boots as a senior internal audit manager. After holding various senior roles in Boots, David joined the Spirit Group in 2004 as Head of Finance for Investments and the development company of Gastro pubs & Bars. He joined Laurel in 2007 as Head of Finance and held that position until the break-up of Laurel in 2008 when David was appointed Head of Finance of Bay Restaurant Group Limited and Town and City Pub Group Limited. He was appointed Chief Finance Officer of Stonegate Pub Company Limited in January 2012.

Senior Management Team

The Senior Management team at year end consisted of Ian Payne MBE (Chairman), Simon Longbottom (CEO), David Ross (CFO), Suzanne Baker (Commercial Director), Nick Andrews (Managing Director Traditional Pubs), Helen Charlesworth (Managing Director Branded Bars and Venues), Nicola Pryce (Marketing Director), Tim Painter (HR Director) and Daniel Wilkinson (Director of Strategy and Corporate Affairs).

Suzanne Baker

Suzanne Baker is the Commercial Director of Stonegate Pub Company Limited, responsible for all commercial contracts including purchasing and property. Suzanne has spent her career within the licensed leisure sector having previously held Board positions in Town and City Pub Group Limited, Bay Restaurant Group Limited, Laurel Pub Company and JD Wetherspoon. She commenced her career joining Grand Met Retail in operations, progressing within the marketing and purchasing roles across national brands, including Chef & Brewer.

Nick Andrews

Nick joined Stonegate in June 2015 as Managing Director of the Traditional Pubs estate. He was previously brand operations director at Mitchells & Butlers, where he worked for five years. Prior to that, he was Regional Director with Lloyds Banking Group for seven years. Nick originally joined the Bass PLC graduate program before progressing into roles with Bass Leisure Group and Holiday Inns, eventually becoming Director & General Manager of the O'Neill's pub chain.

Helen Charlesworth

Helen joined Stonegate in June 2016 as Managing Director for Branded Bars. She started her career in retail working her way through the ranks from a key worker on a Saturday to Regional Manager. Whilst studying to attain an MSc in TQM and Business Excellence she Helen moved into the hospitality sector where she held senior Director positions, namely at Pizza Express and latterly Managing Director at Your Move.

Nicola Pryce

Nicola Pryce as the Marketing Director is responsible for brand development & promotions, digital marketing and pre-booked sales. She joined Stonegate in January 2016 following 11 years at Merlin Entertainments Group. She progressed through Merlin in various marketing roles including Global Brand Marketing Director for the London Eye, Madame Tussauds , Sealife and Legoland Discovery Centres. Prior to that she held marketing roles in leisure & retail sectors including Selfridges, BAA, Whitbread and Hoverspeed.

Tim Painter

Tim Painter is HR Director of Stonegate Pub Company Limited, responsible for the recruitment, training and development of the Group's 10,000 employees. Tim started his career in food retail with HR roles at Asda and Safeway. He then moved to Thorn UK, where he progressed to be HR Director for a Division of the business. In 2003, Tim was appointed as HR Director for Travel Inn, part of Whitbread plc. During his tenure, Travel Inn acquired and integrated the Premier Lodge business to form Premier Travel Inn. In 2006, Tim returned to food retail as HR Director of Musgrave Retail Partners GB, which managed the franchised convenience brands Budgens and Londis. Tim was appointed HR Director for Stonegate Pub Company Limited in January 2012.

Directors' report *(continued)*

Senior Management Team *(continued)*

Daniel Wilkinson

Daniel joined Stonegate in April 2015 and has served as Strategy and Corporate Affairs Director since April 2016. He is responsible for the strategic direction of our business and is the head of mergers and acquisitions activity within Stonegate. Daniel joined from the leased and tenanted division of Greene King, where he was a commercial director. He holds an MSCi in physics and nuclear science from the University of Birmingham.

The senior management team remuneration is linked to agreed profit targets of the business.

Results and dividends

The loss after tax was £7,513,000 (2017: loss of £24,130,000).

In the prior period a dividend of £93,871,000 was paid on 5 May 2017.

Employee involvement

The Group places great importance on the involvement, development and well-being of its employees. They are kept informed of developments through regular meetings and quarterly updates.

Stonegate operates a transparent career pathway through "Albert's Theory of Progression", based around the character of Albert Einstein. This enables all of our pub employees to progress through their training, which covers legal requirements. Employees are then encouraged to progress through Albert's Award, for team leaders; Albert's Accolade for Deputy Managers; Albert's Accelerator for aspiring Deputy Managers to become General Managers; and Albert's Aspirations for General Managers to further develop their skills to move into corporate roles. Success is celebrated at all levels. Albert's Theory of Progression has already delivered over 200 internally appointed General Managers, and the scale and scope of the programme continues to evolve and expand. Retention rates are doubled when we enlist people onto our career pathway.

A Master class programme has been developed for our General Manager population as well as for our Pub Support (Head Office) team.

Stonegate utilises a strength based recruitment approach for all team members, whereby an applicant must pass the 'Strength Quiz' prior to being considered for interview. This ensures that we are recruiting people who have the right personality and attributes for our business, rather than simply seeking to hire people with prior experience in our sector. This recruitment process is then complimented by a rigorous 6 week induction process which ensures that all new hires receive the required basic training to be effective in their role. These initiatives have helped drive a 30 ppts improvement in team turnover over the last three years

As well as our internal career pathway for pub teams, there are many other personal development opportunities provided to people across the business. Examples include our investment in putting every single Stonegate Area Manager through the post graduate diploma in multi-unit leadership at Birmingham City University, our investment in delivering Stephen Covey's '7 Habits of Effective Managers' to all line managers, and a brand new on line learning platform for all employees which will launch in April 2019.

The Group gives full consideration to applications for employment from disabled persons where the requirement of the job can be adequately fulfilled by a disabled or handicapped person. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

Directors' report *(continued)*

Equality and Diversity

Stonegate is an equal opportunities employer committed to providing equal employment opportunities to all employees regardless of personal status and to prohibit all forms of discrimination. Our policy is to ensure no unlawful discrimination occurs in the recruitment and selection process on the grounds of sex, race, disability, age, sexual orientation, and religion or belief. Our selection decisions are based on objective, non-discriminatory, job related criteria, consistently applied to all candidates.

We strive to create a work environment free of discrimination, harassment and bullying, where everyone is treated with dignity and respect and all employment decisions are based on merit, qualifications and abilities. Stonegate operates a robust grievance procedure which enables employees to raise concerns they may have.

The following table sets out our diversity balance as between men and women at the end of FY 2018:

	Male	**Female**
All employees (site and Head Office)	50%	50%
All Head Office employees	52%	48%
Senior management team (excluding Board)	67%	33%
Board	67%	33%

Modern Slavery Act 2015

In accordance with the requirements of the Modern Slavery Act, the Board has approved and the Company has accordingly published its compliance statement on its website. This can be accessed at www.stonegatepubs.com.

Guidelines for Disclosure and Transparency in Private Equity

The Directors consider the annual report and financial statements to comply with all aspects of the Guidelines for Disclosure and Transparency in Private Equity.

Approval
The Directors report was approved by the Board on 22 January 2019 and signed on its behalf by:

David Ross
Director

Cricket Square
Grand Cayman
Cayman Islands
KY1 1111

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors of Stonegate Pub Company Limited ('the directors') have accepted responsibility for the preparation of the Strategic report, Director's report and non-statutory Group accounts for the period ended 30 September 2018 which are intended by them to give a true and fair view of the state of affairs of the Group and of the profit or loss for that period. They have decided to prepare the non-statutory Group accounts in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and applicable Cayman Island company law. In preparing these non-statutory Group accounts, the directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether they have been prepared in accordance with IFRS, as adopted by the EU;
- assessed the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- used the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for such internal control as they determine is necessary to enable the preparation of non-statutory Group accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities

Consolidated Income Statement
For the 53 weeks ended 30 September 2018

		53 weeks ended 30 September 2018			52 weeks ended 24 September 2017		
	Notes	**Pre-exceptional items £000**	**Exceptional items[1] £000**	**Total £000**	Pre-exceptional items £000	Exceptional items[1] £000	Total £000
Revenue	2	**774,390**	**-**	**774,390**	697,468	-	697,468
Operating costs		**(667,595)**	**(8,303)**	**(675,898)**	(600,400)	(15,393)	(615,793)
Operating profit / (loss) before depreciation, amortisation, impairment and loss on sale of non-current assets		**106,795**	**(8,303)**	**98,492**	97,068	(15,393)	81,675
Depreciation and impairment		**(49,997)**	**(2,715)**	**(52,712)**	(43,058)	(2,244)	(45,302)
Amortisation of operating leases and brand		**(8,709)**	**-**	**(8,709)**	(5,861)	-	(5,861)
Total depreciation, amortisation and impairment		**(58,706)**	**(2,715)**	**(61,421)**	(48,919)	(2,244)	(51,163)
Loss on disposal of non-current assets	12	**(7,214)**	**-**	**(7,214)**	(5,332)	-	(5,332)
Operating profit / (loss)	3	**40,875**	**(11,018)**	**29,857**	42,817	(17,637)	25,180
Finance income	5	**80**	**-**	**80**	101	-	101
Finance costs	6	**(34,354)**	**(64)**	**(34,418)**	(31,321)	(16,183)	(47,504)
Profit / (loss) before taxation		**6,601**	**(11,082)**	**(4,481)**	11,597	(33,820)	(22,223)
UK income tax charge	8	**(1,998)**	**(1,034)**	**(3,032)**	(1,580)	(327)	(1,907)
Profit / (loss) for the period attributable to owners of the parent company		**4,603**	**(12,116)**	**(7,513)**	10,017	(34,147)	(24,130)

[1] Exceptional items are explained further in note 7.

The notes on pages 20 to 57 form part of these financial statements.

Consolidated Statement of Comprehensive Income

For the 53 weeks ended 30 September 2018

	Notes	**53 weeks ended 30 September 2018 £000**	52 weeks ended 24 September 2017 £000
Loss for the period		**(7,513)**	(24,130)
Items that will not be reclassified to profit or loss			
Re-measurement of defined benefit pension schemes	24	**3,300**	4,099
Tax charge relating to components of other comprehensive income	8	**(561)**	(697)
Other comprehensive income after tax		**2,739**	3,402
Total comprehensive loss for the period		**(4,774)**	(20,728)

The notes on pages 20 to 57 form part of these financial statements.

Consolidated Balance Sheet
At 30 September 2018

	Notes	**30 September 2018 £000**	24 September 2017 £000
Assets			
Non-current assets			
Property, plant and equipment	9	**531,030**	520,916
Brand	10	**5,237**	1,810
Operating leases	10	**119,729**	78,669
Goodwill	10	**124,974**	114,141
Retirement benefit surplus	24	**912**	764
		781,882	716,300
Current assets			
Inventories	15	**12,410**	11,448
Trade and other receivables	16	**30,661**	32,228
Cash and cash equivalents		**26,454**	16,514
		69,525	60,190
Total assets		**851,407**	776,490
Liabilities			
Current liabilities			
Trade and other payables	17	**(119,867)**	(126,577)
Borrowings	18	**(103,819)**	(20,963)
		(223,686)	(147,540)
Non-current liabilities			
Borrowings	18	**(591,009)**	(589,835)
Deferred tax liabilities	14	**(14,383)**	(6,040)
Retirement benefit obligations	24	**(4,036)**	(10,213)
Provisions	20	**(16,294)**	(16,089)
		(625,722)	(622,177)
Total liabilities		**(849,408)**	(769,717)
Net assets		**1,999**	6,773
Equity			
Called up share capital	21	**1,685**	1,685
Share premium	21	**81,647**	81,647
Retained earnings		**(81,333)**	(76,559)
Total equity attributable to owners of the parent company		**1,999**	6,773

These financial statements were approved by the board of directors on 22 January 2019 and were signed on its behalf by:

David Ross
Director

Company registered number: FC029833

Consolidated Statement of Changes in Equity
For the 53 weeks ended 30 September 2018

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Total equity at 25 September 2016	**1,500**	**135,453**	**(55,831)**	**81,122**
Total comprehensive income / (losses):				
Losses for the period	-	-	(24,130)	(24,130)
Other comprehensive income for the period	-	-	3,402	3,402
Total comprehensive losses for the period	-	-	(20,728)	(20,728)
Transactions with owners recorded directly in equity:				
Shares issued	185	40,065	-	40,250
Dividends paid	-	(93,871)	-	(93,871)
Total contributions by and distributions to owners of the Company	**185**	**(53,806)**	**-**	**(53,621)**
Total equity at 24 September 2017	**1,685**	**81,647**	**(76,559)**	**6,773**
Total comprehensive income / (losses):				
Losses for the period	-	-	(7,513)	(7,513)
Other comprehensive income for the period	-	-	2,739	2,739
Total comprehensive losses for the period	-	-	(4,774)	(4,774)
Total equity at 30 September 2018	**1,685**	**81,647**	**(81,333)**	**1,999**

Consolidated Cash Flow Statement
For the 53 weeks ended 30 September 2018

	53 weeks ended 30 September 2018 £000	52 weeks ended 24 September 2017 £000
Cash flows from operating activities		
Loss for the period	**(7,513)**	(24,130)
Adjustments for:		
-Depreciation, amortisation and impairment	**61,421**	51,163
-Loss on sale of non-current assets	**7,214**	5,332
-Net finance costs	**34,338**	47,403
-UK income tax charge	**3,032**	1,907
	98,492	81,675
Changes in:		
-Inventories	**(18)**	(1,175)
-Receivables	**4,320**	(633)
-Payables	**(15,122)**	10,117
-Provisions	**(260)**	4,881
-Difference between pension contributions paid and amounts recognised in operating profit	**(3,244)**	(930)
Cash generated from operating activities	**84,168**	93,935
Interest paid	**(30,848)**	(46,857)
Income tax paid	**(9)**	-
Net cash flow from operating activities	**53,311**	47,078
Cash flows from investing activities		
Purchase of property, plant and equipment	**(71,384)**	(82,207)
Proceeds from sale of property, plant and equipment	**6,510**	7,399
Interest received	**16**	25
Payments for business acquisitions	**(64,773)**	(66,311)
Net cash acquired with trading sites	**4,855**	3,314
Net cash flow from investing activities	**(124,776)**	(137,780)
Cash flows from financing activities		
Advance of borrowings	**86,268**	603,000
Repayment of borrowings	**-**	(480,000)
Proceeds from share issue	**-**	40,250
Dividend payment	**-**	(93,871)
Financing costs	**(2,803)**	(4,012)
Net cash flow from financing activities	**83,465**	65,367
Net increase/(decrease) in cash and cash equivalents	**12,000**	(25,335)
Opening cash and cash equivalents	**3,551**	28,886
Closing cash and cash equivalents	**15,551**	3,551

Notes to the consolidated financial statements

1 Accounting policies

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

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The consolidated financial statements have 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 these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), as allowed under Cayman Island Company Law.

There is no statutory requirement for accounts to be audited in the UK; however, these accounts are being prepared and subject to a non-statutory audit for the purpose of filing accounts of the UK branch of this overseas Group and formally setting out the financial performance and position of the Group.

No parent company information is presented in these consolidated financial statements, 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 these Group financial statements.

1.1 Measurement convention

The financial statements are 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 Group's principal activities, together with the principal risks and uncertainties factors likely to affect its future development, performance and position are set out in the Strategic and Directors' Reports on pages 2 to 13. The financial position of the Group is set out in the Consolidated Balance Sheet on page 17 which shows net assets of £1,999,000 (2017: £6,773,000). In addition, note 19 to the consolidated financial statements includes the Group's key exposures to credit risk and liquidity risk.

During the current period the Group has experienced a net cash inflow of £12,000,000 (2017: cash outflow of £25,335,000). The net cash inflow was a result of the Group's operating, investing and financing activities. During the prior period Stonegate Pub Company Limited issued share capital resulting in a £40,250,000 inflow, in order to purchase Intertain Limited; carried out a £595,000,000 refinancing on 16 March 2017 and paid out a £93,871,000 dividend on 5 May 2017.

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 with this financial year seeing an increase from the bridging finance facilities utilised for acquisitions (current period net current liabilities of £154,161,000; 2017: net current liabilities of £87,350,000). In the forthcoming period the Group expects to continue 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 £25,000,000 of its revolving credit facility (2017: £8,000,000).

At the balance sheet date, the Group was financed by fixed and floating rate loan notes totalling £595,000,000 (2017: £595,000,000), details of which are set out in note 18. The Group also had a bridging finance facility in place relating to the purchase of Be At One Holdings Limited and the 15 sites from A3D2 Limited of £69,269,000 which is due for repayment 20 July 2019. The facility has the option to be extended until March 2022 if certain conditions are met and will incur an interest rate of 3 months LIBOR + 5%. The Group believes that meeting these conditions is probable and within their control.

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 approval of the financial statements. Taking

Notes *(continued)*

1 Accounting policies *(continued)*

1.2 Going concern *(continued)*

account of reasonable possible changes in trading performance, the board paper shows that the Group will 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 consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 30 September 2018. 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.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

1.5 Non-derivative financial instruments *(continued)*

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 *(continued)*

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.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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 annually 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.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

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, are 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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

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. These costs are discussed further in note 7.

Notes *(continued)*

1 Accounting policies *(continued)*

1.19 Key accounting judgements and estimates

The preparation of the consolidated financial statements 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 7 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.

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. These are disclosed in note 11.

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, which are disclosed in note 24. 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 12 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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

  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 of 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 will be adopted by the group from 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 *(continued)*

2 Revenue

Revenue disclosed in the consolidated income statement is analysed as follows:

	2018	2017
	53 weeks	52 weeks
	£000	£000
Sales of food, beverages, admissions, hotel rooms and machine income	**774,390**	697,468

3 Expenses

Included in operating profit are the following expenses:

	2018	2017
	53 weeks	52 weeks
	£000	£000
Drink and food costs	**204,409**	187,019
Employment costs	**205,033**	182,229
Operating lease rentals	**52,417**	54,040
Other costs	**214,039**	192,505
Depreciation, amortisation and impairment	**61,421**	51,163
Loss on disposal of non-current assets	**7,214**	5,332
Costs deducted from revenue to determine operating profit	**744,533**	672,288

Included within operating profit are £11,018,000 of costs (2017: £17,637,000) relating to exceptional items (see note 7).

4 Employees

The average number of persons employed by the Group (including directors) during the period, analysed by category, was as follows:

	2018	2017
	53 weeks	52 weeks
Head office administration[1]	**376**	335
Retail[1]	**13,111**	12,577
	13,487	12,912

[1] Employee numbers relate to actual employees rather than full-time employee equivalents.

At the period end the Group had 13,848 employees (2017: 13,408 employees).

The aggregate payroll costs of these persons were as follows:

	2018	2017
	53 weeks	52 weeks
	£000	£000
Wages and salaries	**190,141**	169,895
Social security costs	**13,189**	11,119
Pension costs	**1,703**	1,215
	205,033	182,229

Notes *(continued)*

5 Finance income

	2018	2017
	53 weeks	52 weeks
	£000	£000
Other interest receivable	**80**	101
Total finance income	**80**	101

6 Finance costs

	2018	2017
	53 weeks	52 weeks
	£000	£000
Interest payable on loan notes	**29,556**	29,530
Other interest payable	**1,987**	372
Net pensions finance charge	**219**	315
Debt issue costs amortisation	**1,947**	8,012
Refinancing costs	**191**	8,284
Unwinding of discount element of provisions	**235**	316
Non-utilisation and commitment fees	**283**	675
Total finance costs	**34,418**	**47,504**

Included within finance costs are £64,000 of costs (2017: £16,183,000) relating to exceptional items (see note 7).

Notes *(continued)*

7 Exceptional items

	2018	2017
	53 weeks	52 weeks
	£000	£000
Operating exceptional items		
Acquisition costs	**4,439**	5,545
Integration costs	**1,696**	2,975
Restructuring costs	**2,306**	-
Compensation for loss of office	**-**	494
Impairment of property, plant and equipment (note 11)	**2,684**	1,954
Impairment of operating leases (note 11)	**31**	290
Onerous lease provision	**8,096**	6,829
Onerous lease reversal	**(8,234)**	(450)
	11,018	17,637
Finance costs	**64**	16,183
UK income tax charge relating to exceptional items	**1,034**	327
Total exceptional items	**12,116**	34,147

Acquisition costs: Acquisition costs are items of expenditure incurred in connection with the business combination activities during the period (see note 12). These costs include legal and professional fees and stamp duties which are expensed as incurred.

Integration costs: In the period of acquisition and the period following acquisition, the Group incurred costs to combine and streamline the operations of the acquired businesses with the Group.

Restructuring costs: During the period the Group incurred costs relating to process and efficiency improvement.

Compensation for loss of office: Compensation payments relate to key management personnel.

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: In the current period these costs relate to the short term increase in the Group's revolving credit facility. In the prior period these costs related to the refinancing on 16 March 2017. As part of this the Group incurred an early redemption penalty of £4,889,000, excess interest of £1,677,000, fees of £1,895,000 and wrote off existing debt issue costs of £6,046,000. In the prior period the Group also incurred corporate restructuring costs of £1,676,000.

Notes *(continued)*

8 Taxation

	2018	2017
	53 weeks	52 weeks
	£000	£000
Tax charged in the income statement		
Current tax:		
- UK corporation tax	**1,701**	-
- Group relief paid for previous year	**-**	-
Total current tax charge	**1,701**	-
Deferred tax (note 14):		
- Origination and reversal of temporary differences	**1,632**	2,563
- Adjustments in respect of previous periods	**(8)**	258
- Rate change	**(293)**	(914)
Total deferred tax charge	**1,331**	1,907
Total current and deferred tax charged in the income statement	**3,032**	1,907

	2018	2017
	53 weeks	52 weeks
	£000	£000
Tax credited in other comprehensive income		
Deferred tax:		
- Re-measurement of defined benefit pension schemes	**561**	697
Total tax charge recognised in other comprehensive income	**561**	697

Reconciliation of total tax charge

The effective rate of tax is different to the full rate of corporation tax. The differences are explained below:

	2018	2017
	53 weeks	52 weeks
	£000	£000
Loss before tax	**(4,481)**	(22,223)
Tax at current UK corporation tax rate of 19% (2017: 19.5%)	**(851)**	(4,333)
Expenses not deductible for tax purposes	**4,365**	7,413
Impact of rate change	**(293)**	(914)
Group relief not paid for	**-**	(517)
Adjustment in respect of previous periods	**(8)**	258
Deferred tax not recognised	**(181)**	-
Total tax charged in the income statement	**3,032**	1,907

Notes *(continued)*

9 Property, plant and equipment

	Land and buildings £000	Leasehold improvements £000	Furniture, fixtures and equipment £000	Total £000
Cost				
At 25 September 2016	307,874	103,648	195,060	606,582
Acquisitions through business combinations	15,897	-	2,698	18,595
Additions	9,109	17,790	55,761	82,660
Disposals	(5,575)	(487)	(14,977)	(21,039)
Fully depreciated assets	(3)	(4,976)	(12,019)	(16,998)
Reclassification	2,423	(2,423)	-	-
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**
Depreciation				
At 25 September 2016	(7,216)	(32,009)	(90,634)	(129,859)
Charge for the year	(1,087)	(7,232)	(34,739)	(43,058)
Impairment (note 11)	(1,226)	(400)	(328)	(1,954)
Disposals	407	206	8,376	8,989
Fully depreciated assets	3	4,976	12,019	16,998
At 24 September 2017	(9,119)	(34,459)	(105,306)	(148,884)
Charge for the year	(1,403)	(9,046)	(39,548)	(49,997)
Impairment (note 11)	-	(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)**
Net book value				
At 30 September 2018	**320,954**	**82,976**	**127,100**	**531,030**
At 24 September 2017	320,606	79,093	121,217	520,916
At 25 September 2016	300,658	71,639	104,426	476,723

During the current period the Group acquired £2,250,000 of property, plant and equipment through business combinations (2017: £18,595,000). See note 12 for details of these acquisitions.

Included in property, plant and equipment are properties with a net book value of £312,610,000 (2017: £312,959,000) over which the Group's borrowings are secured by way of fixed and floating charges.

Land and buildings includes £11,978,000 (2017: £12,473,000) relating to long leasehold sites; £192,324,000 of freehold land (2017: £194,556,000) and £116,652,000 of freehold properties (2017: £113,577,000).

Notes (continued)

10 Goodwill, operating leases and brand intangible assets

	Brand £000	Operating leases £000	Goodwill £000
Cost			
At 25 September 2016	-	55,265	111,232
Acquisitions through business combinations	2,000	42,029	7,400
Disposals	-	-	(681)
Fully depreciated assets	-	(841)	-
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**
Amortisation			
At 25 September 2016	-	(12,664)	(3,810)
Charge for the year	(190)	(5,671)	-
Impairment (note 11)	-	(290)	-
Fully depreciated assets	-	841	-
At 24 September 2017	(190)	(17,784)	(3,810)
Charge for the year	(301)	(8,408)	-
Impairment (note 11)	-	(31)	-
Disposals	-	797	-
Fully depreciated assets	-	156	-
At 30 September 2018	**(491)**	**(25,270)**	**(3,810)**
Net book value			
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 acquired £3,728,000 of brand (2017: £2,000,000); £51,299,000 of operating leases (2017: £42,029,000) and £12,075,000 of goodwill (2017: £7,400,000) as a result of business combinations. See note 12 for details of these acquisitions.

Notes (continued)

11 Impairment losses

Property, plant and equipment and operating lease intangible assets

The Group considers each of its individual pubs as a cash-generating unit (CGU). Each CGU is reviewed annually for indicators of impairment, and impairment reversals for previously impaired CGUs. 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 higher of the expected net realisable value or the value in use.

The value in use is determined using the present value of the expected cash flows attributable to that site using a pre-tax discount rate of 8.42% (2017: 8.4%) applied to the future expected cash flows using budgeted earnings before interest, tax, depreciation and amortisation over a five year period, as prepared for the board. The cash flows continue to be risk adjusted to reflect a conservative outlook. The key assumptions are budgeted earnings and trading margin, which include past investments and staff costs, and have been reviewed by the board and deemed to be reasonable. Cash flows beyond five years are extrapolated using a 2.5% growth rate for five years, after which a nil percentage growth rate is applied into perpetuity.

Where a reliable estimate of the net realisable value is available and is higher than the carrying amount of the asset, the asset is not impaired and no value in use is calculated.

Indicators of impairment were found in each of the periods ended 30 September 2018 and 24 September 2017 on a small number of individual CGUs and consequently impairment reviews were carried out on the affected CGUs. Impairments totalling £2,951,000 (2017: £2,244,000) were identified. Impairment reversals of £236,000 were also identified (2017: £Nil).

The Group's estimate of impairments is most sensitive to changes in the discount rate, growth rates and budgeted cash flows. Sensitivity analysis has been carried out by reference to these assumptions. This demonstrated that a 1% reduction in the growth rate, a 1% increase in the discount rate, or a 5% reduction in budgeted cash flow would not lead to an increase in the impairment charge. The minimal impact is mainly driven by factoring in the fair value less costs to sell for the CGUs.

Goodwill

Goodwill acquired via business combinations is tested annually for impairment. For this purpose, the goodwill is allocated to the 725 strong pub estate being a group of CGUs, as this represents the lowest level within the Group that goodwill is monitored for internal management purposes.

The carrying amount of goodwill has been compared to its recoverable amount and involved calculating an overall value in use, using discounted cash flow projections. The value in use calculation is based on budgeted earnings before interest and taxation over a five year period, the pre-tax discount rate and the growth rate used to extrapolate cash flows beyond the budgeted period. The pre-tax risk adjusted discount rate applied to cash flow projections was 8.42% (2017: 8.4%). Management have estimated the discount rate by reference to past experience and an industry average weighted cost of capital as adjusted for appropriate risk factors reflecting current economic conditions and the risk profile of the CGUs. Cash flows beyond five years are extrapolated using a 2.5% growth rate for five years, after which a nil percentage growth rate is applied into perpetuity.

The calculation is most sensitive to changes in the assumptions used for budgeted cash flow, pre-tax discount rate and growth rate. Management considers that reasonable possible changes in assumptions would be an increase in discount rate of 1%, a reduction in growth rate of 1% or a 5% reduction in budgeted cash flow. As an indication of sensitivity, when applied to the value-in-use calculation neither a 1% increase in discount rate, a 1% reduction in growth rate or a 5% reduction in cash flow would have resulted in an impairment of goodwill in the period.

Notes (continued)

12 Acquisitions and disposals

Acquisitions in the current period

Be At One Holdings Limited

On 23 July 2018 Stonegate Pub Company Limited acquired the entire issued share capital of Be At One Holdings Limited. The specialist cocktail bar operator has 33 bars in prime high street town and city locations throughout the UK. Be At One is a great fit with Stonegate's drink led strategy and our growing reputation for being the leading operator of high street bars in the UK's major towns and cities. The acquisition was funded by a bridging loan of £54,420,000, charging an annual interest rate of 3 months LIBOR + 5% and due for repayment 20 July 2019. The facility has the option to be extended until March 2022 if certain conditions are met and will incur an interest rate of 3 months LIBOR + 5%. A summary of the provisional fair values of the assets and liabilities acquired are given in the table below:

	Fair value £000
Operating leases	42,822
Property, plant and equipment	1,300
Brand	3,728
Inventory	866
Cash	4,826
Trade and other receivables	2,038
Trade and other payables	(6,385)
Provisions	(230)
Deferred tax	(5,631)
Net assets acquired	43,334
Purchase price satisfied by:	
Cash consideration	52,592
Goodwill	**9,258**

Goodwill is considered to represent the value of the acquired specialist cocktail-makers workforce and synergies 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 £1,821,000 related to stamp duty and external legal and professional fees. These costs have been included in 'operating exceptional costs' in the consolidated income statement (see note 7).

Operating leases: The fair value of lease premiums was derived through a fair value exercise, taking into account earnings (profit) and the key city centre locations the sites have.

Property, plant and equipment: Included in property, plant and equipment are fixtures and fittings with a valuation of £1,300,000.

Brand: Brand intangibles of £3,728,000 have been recognised to the extent that the Be At One format provides a profit benefit versus similar unbranded bars. Brand intangibles are being amortised over a useful economic life of 10 years.

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

Provisions: The fair value of provisions also includes £230,000 relating to onerous leases on loss-making sites at acquisition.

Post-acquisition to 30 September 2018 Be At One Holdings Limited contributed £8,013,000 in revenue and £372,000 in loss before tax. If the acquisition of Be At One Holdings Limited had taken place at the start of the financial period the Group's consolidated revenue would have been £808,768,000 and its consolidated loss before tax would have been £4,031,000.

Notes (continued)

12 Acquisitions and disposals *(continued)*

Novus Limited

On 23 July 2018 Stonegate Pub Company Limited exchanged on 15 sites from A3D2 Limited, trading as Novus, all of which are prime locations in London. By year end, 4 of the Novus leases had been assigned, with the remaining 11 assigned by December 2018 for cash consideration of £25,352,000. The acquisition was funded by a bridging loan of £14,849,000, charging an annual interest rate of 3 months LIBOR + 5% and due for repayment 20 July 2019. The facility has the option to be extended until March 2022 if certain conditions are met and will incur an interest rate of 3 months LIBOR + 5%.

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

	Fair value £000
Operating leases	4,826
Property, plant and equipment	90
Inventory	78
Cash	29
Trade and other receivables	651
Deferred tax	(820)
Net assets acquired	4,854
Purchase price satisfied by:	
Cash consideration	6,052
Goodwill	**1,198**

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 £706,000 related to stamp duty and external legal and professional fees. These costs have been included in 'operating exceptional costs' in the consolidated income statement (see note 7).

Operating leases: The fair value of lease premiums was derived through a fair value exercise, taking into account earnings (profit) and the prime central London locations these sites hold.

Property, plant and equipment: Included in property, plant and equipment are fixtures and fittings with a valuation of £90,000.

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

Post-acquisition to 30 September 2018 these sites contributed £147,000 in revenue and £72,000 in profit before tax. If the sites had been acquired at the start of the financial period the Group's consolidated revenue would have been £782,458,000 and its consolidated loss before tax would have been £4,031,000.

Other acquisitions

During the current period the Group also acquired three additional sites, one being a freehold and two leasehold sites. Payments for these sites were £910,000. Payments of £2,200,000 were made to exit two leasehold sites from tied leases with Ei Group plc. Additionally, a payment of £2,715,000 was made to assign a leasehold site from the Administrator of the Tattershall Castle Group, being £1,400,000 of operating lease and £1,315,000 of goodwill. During the period a further consideration of £304,000 was paid for the acquisition of Bar Holdings Limited and is included in Goodwill additions.

Total payments for business acquisitions were £64,773,000.

Notes (continued)

12 Acquisitions and disposals *(continued)*

Acquisitions in the prior period

Intertain Limited

On 6 December 2016 Stonegate Pub Company Limited acquired the entire issued share capital of Intertain Limited. The Intertain Limited group consists of twenty-nine freehold and leasehold sites. The acquisition was funded by an indirect investment in the Company by funds managed by TDR Capital LLP, the ultimate controlling parties. In connection with the investment and for the purposes of making the acquisition, the Company issued 18,488,745 ordinary shares of £0.01 each at an aggregate price of £40,250,000 to Stonegate Pub Company Midco Limited, the Company's immediate parent company. The proceeds from the share issue were used as consideration and also to repay Intertain Limited's existing debt at the acquisition date.

The estate is a very good fit with the Group's existing portfolio of pubs and bars. It also gives the opportunity to trade in some towns and cities in which Stonegate Pub Company Limited did not have any sites, such as Carlisle and Lichfield, and also to utilise the Walkabout brand name. A summary of the fair values of the assets and liabilities acquired are given in the table below:

	Fair value £000
Operating leases	26,726
Property, plant and equipment	10,498
Brand	2,000
Inventory	683
Cash	2,991
Trade and other receivables	4,751
Trade and other payables	(5,988)
Provisions	(4,931)
Deferred tax	1,590
Net assets acquired	38,320
Purchase price satisfied by:	
Cash consideration	38,386
Goodwill	**66**

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 £1,267,000 related to stamp duty and external legal and professional fees. These costs have been included in 'operating exceptional costs' in the consolidated income statement (see note 7).

Operating leases: The fair value of lease premiums was derived through a fair value exercise.

Property, plant and equipment: Included in property, plant and equipment is freehold property with a valuation of £9,098,000 and fixtures and fittings of £1,400,000.

Brand: Brand Intangibles of £2,000,000 have been recognised to the extent that the Walkabout format provides a profit benefit versus similar unbranded pubs. Brand intangibles are being amortised over a useful economic life of 10 years.

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

Provisions: When considering the fair value of the assets and liabilities acquired the Group has also provided for an ongoing legal case in connection to the acquisition. Management expect that indemnification provided by the former owners of the business to cover any liability arising. The fair value of provisions also includes £2,427,000 relating to onerous leases on closed or loss-making sites at acquisition.

Deferred tax: The Group recognised a deferred tax asset on losses existing in Intertain Limited pre-acquisition.

Notes (continued)

12 Acquisitions and disposals *(continued)*

Large Bars Limited

On 21 April 2017 Stonegate Pub Company Limited acquired the entire issued share capital of Large Bars Limited, consisting of three leasehold sites in the London area. Total consideration was £4,828,000 and was funded out of cash.

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 acquired are given in the table below:

	Fair value £000
Operating leases	4,403
Property, plant and equipment	150
Inventory	51
Cash	61
Trade and other receivables	450
Trade and other payables	(694)
Deferred tax	(765)
Net assets acquired	3,656
Purchase price satisfied by:	
Cash consideration	4,828
Goodwill	**1,172**

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 £322,000 related to stamp duty and external legal and profession fees. These costs have been included in 'operating exceptional costs' in the consolidated income statement (see note 7).

Operating leases: The fair value of lease premiums was derived through a fair value exercise.

Property, plant and equipment: Included in property, plant and equipment is fixtures and fittings of £150,000.

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

Notes (continued)

12 Acquisitions and disposals *(continued)*

Bar Holdings Limited

On 13 September 2017 Stonegate Pub Company Limited acquired the entire issued share capital of Bar Holdings Limited. The Bar Holdings Limited group operates five prime London transport hub sites. Total consideration was £10,000,000 and was funded out of cash.

The business has been acquired for the purpose of operating in these key locations and consolidating the Group's strong position in sports-led entertainment.

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

	Fair value £000
Operating leases	5,500
Property, plant and equipment	250
Inventory	105
Cash	262
Trade and other receivables	1,274
Trade and other payables	(2,575)
Deferred tax	(978)
Net assets acquired	3,838
Purchase price satisfied by:	
Cash consideration	10,304
Goodwill	**6,466**

Goodwill is considered to represent the value of the benefits that will be gained from the location of these sites in key transport locations.

The Group incurred acquisition-related costs of £276,000 related to stamp duty and external legal and professional fees. These costs have been included in 'operating costs' in the consolidated income statement (see note 7).

Operating leases: The fair value of the lease premiums was derived through a third party valuation by Davis Coffer Lyons in December 2017. The valuations calculated the fair value of the operating leases based on the stabilised earnings (profit) methodology.

Property, plant and equipment: Included in property, plant and equipment is fixtures and fittings of £250,000.

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

Other acquisitions in the prior period

During the current period the Group also acquired several sites from JD Wetherspoon plc, Faucet Inn Limited, Punch Taverns plc and Enterprise Inns plc. Total payments for these sites were £13,097,000, of which £6,799,000 was for land and buildings; £5,400,000 was for operating leases and £898,000 for fixtures and fittings.

The Group incurred acquisition-related costs for the purchase of these sites of £1,304,000 related to stamp duty and external legal and professional fees. These costs have been included in exceptional operating costs in the consolidated income statement (see note 7).

During the current period the Group also acquired two sites from JD Wetherspoon plc for £300,000 which was for the operating leases (see note 10). Total payments for business acquisitions were £98,590,000.

Notes (continued)

12 Acquisitions and disposals *(continued)*

Disposals in the current period

During the period the Group disposed of twenty-two sites to third parties for consideration of £8,638,000, with associated costs of sale and closure costs of £2,128,000. Property, plant and equipment and operating leases with net book values of £8,415,000 and goodwill with net book values of £1,242,000 were disposed. Loss on disposal was £3,147,000.

During the period the Group also wrote off property, plant and equipment with net book values of £4,067,000 relating to sites developed during the period.

Total loss on disposal for the period was £7,214,000.

Disposals in the prior period

During the prior period the Group disposed of fifteen sites to third parties for consideration of £9,305,000, with associated costs of sale and closure costs of £1,906,000. Property, plant and equipment with net book values of £6,391,000 and goodwill with net book values of £681,000 were disposed. Profit on disposal was £327,000.

During the period the Group also wrote off property, plant and equipment with net book values of £5,659,000 relating to sites developed during the period.

Total loss on disposal for the period was £5,332,000.

Notes (continued)

13 Investments in subsidiaries

The Company has the following investments in subsidiaries.

Name of company	Country of incorporation	Class of shares held	Proportion held	Nature of business
Stonegate Pub Company Financing plc	England and Wales	Ordinary	100%	Financing
Plato Company 3 Limited	Cayman Islands	Ordinary	100%	Holding company
FTK Propco Limited	England and Wales	Ordinary	100%	Dormant
DW Propco Limited	England and Wales	Ordinary	100%	Dormant
BH Propco Limited	England and Wales	Ordinary	100%	Dormant
Hull Propco Limited	England and Wales	Ordinary	100%	Property company
SJT Propco Limited	England and Wales	Ordinary	100%	Dormant
AD Propco Limited	England and Wales	Ordinary	100%	Dormant
Large Bars Limited	England and Wales	Ordinary	100%	Operation of licensed bars
Falcon Propco 1 Limited	England and Wales	Ordinary	100%	Property company
Town and City Pub Group Limited*	England and Wales	Ordinary	100%	Holding company
Barley Pub Company Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Hops Pub Company Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Plato Restaurant Holdings Limited*	Cayman Islands	Ordinary	100%	Holding company
Bay Restaurant Holdings Limited*	Cayman Islands	Ordinary	100%	Holding company
Bay Restaurant Group Limited*	England and Wales	Ordinary	100%	Holding company
Slug and Lettuce Company Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Intertain Limited	England and Wales	Ordinary	100%	Holding company
Intertain (Bars) Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Intertain (Bars) II Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Intertain (Bars) III Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Intertain (Bars) IV Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Holdings Limited	England and Wales	Ordinary	100%	Operation of licensed bars
Sports Bar And Grill (Canary Wharf) Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Sports Bar And Grill Farringdon Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Sports Bar And Grill St Katherine Dock Limited*	England and Wales	Ordinary	100%	Dormant
Sports Bar And Grill Victoria Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Sports Bar And Grill Waterloo Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Sports Bar And Grill (Piccadilly Circus) Limited*	England and Wales	Ordinary	100%	Operation of licensed bars
Sports Grill to Go Limited*	England and Wales	Ordinary	100%	Dormant
Be At One Holdings Limited	England and Wales	Ordinary	100%	Holding company
Be At One Limited*	England and Wales	Ordinary	100%	Operation of licensed bars

* Held indirectly

Notes *(continued)*

14 Deferred tax assets and liabilities

Movement in deferred tax during the period is as follows:

	30 September 2018 £000	24 September 2017 £000
At beginning of period	**(6,040)**	(3,283)
Charged to income statement	**(1,331)**	(1,907)
Charged to equity	**(561)**	(697)
Acquisitions	**(6,451)**	(153)
At end of period	**(14,383)**	(6,040)

The movements in deferred tax assets and liabilities during the period are shown below:

Deferred tax assets	Tax losses £000	Retirement benefit liabilities £000	Temporary differences £000	Total £000
At 25 September 2016	3,922	2,408	43	6,373
Credited/(charged) to income statement	(2,509)	(105)	511	(2,103)
Recognised in other comprehensive income	-	(697)	-	(697)
Recognised in goodwill	2,688	-	-	2,688
At 24 September 2017	4,101	1,606	554	6,261
Charged to income statement	(3,599)	(71)	(523)	(4,193)
Recognised in other comprehensive income	-	(561)	-	(561)
At 30 September 2018	**502**	**974**	**31**	**1,507**

The Directors consider it reasonable to recognise deferred tax assets as it is probable that taxable profits will be available against which the temporary differences can be utilised.

Deferred tax liabilities	Retirement benefit liabilities £000	Intangibles £000	Property, plant and equipment £000	Total £000
At 25 September 2016	-	2,370	7,286	9,656
Charged/(credited) to income statement	-	466	(662)	(196)
Recognised in goodwill	-	-	2,841	2,841
At 24 September 2017	-	2,836	9,465	12,301
Charged/(credited) to income statement	155	466	(3,483)	(2,862)
Recognised in goodwill	-	-	6,451	6,451
At 30 September 2018	**155**	**3,302**	**12,433**	**15,890**

At the period end the Group had a net deferred tax liability of £14,383,000 (2017: liability of £6,040,000) and an unrecognised deferred tax asset of £890,000 (2017: £1,042,000) relating to unutilised losses in Intertain Limited.

Notes *(continued)*

14 Deferred tax assets and liabilities *(continued)*

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 30 September 2018 has been calculated based on these rates.

Note 23 discusses an ongoing enquiry with HMRC regarding Intertain (Bars) Limited over its valuation methodology on acquisition of properties in 2009.

HMRC have disputed the Group's valuation methodology in respect of its acquisition of pubs in 2010. Whilst discussions are ongoing with HMRC and the outcome could be substantially higher, the financial statements reflect the Group's best estimate of the eventual outcome which is a utilisation of £9,200,000 tax losses.

15 Inventories

	30 September 2018 £000	24 September 2017 £000
Goods held for resale	**12,410**	11,448
	12,410	11,448

The estimated replacement cost of stocks is not materially different from the above carrying values.

The Group consumed £204,409,000 of inventories during the period (2017: £187,019,000) and charged £Nil to the income statement for the write-down of inventories during the period (2017: £Nil).

16 Trade and other receivables

	30 September 2018 £000	24 September 2017 £000
Trade receivables	**4,359**	5,959
Amounts due from group undertakings	**337**	-
Other receivables	**8,830**	7,699
Prepayments and accrued income	**17,135**	18,570
	30,661	32,228

There is an amount of £300,000 owing from Stonegate Pub Company Group S.a.r.l, a company incorporated in Luxembourg, which is repayable on demand. There is also an amount of £37,000 owing from TDR Capital LLP (2017: £39,000 payable), see note 25.

Notes *(continued)*

17 Trade and other payables

	30 September 2018 £000	24 September 2017 £000
Trade payables	**54,607**	58,300
Amounts due to group undertakings	**2,557**	2,733
Other taxation and social security	**14,682**	16,499
Corporation tax payable	**1,701**	-
Other payables	**17,613**	23,890
Accruals	**28,707**	25,155
	119,867	126,577

There is an amount of £2,557,000 (2017: £2,694,000) owing to Stonegate Pub Company Midco Limited, the immediate parent company, at 30 September 2018. See note 25.

18 Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 19.

	30 September 2018 £000	24 September 2017 £000
Current liabilities		
Bank overdrafts	**10,903**	12,963
Revolving credit facility	**25,000**	8,000
Bank loans	**67,916**	-
	103,819	20,963
Non-current liabilities		
Secured loan notes issued by Stonegate Pub Company Financing plc	**591,009**	589,835
	591,009	589,835

Current liabilities include £25,000,000 (2017: £8,000,000) drawn down from the Group's revolving credit facility and charged annual interest of 3 month LIBOR +3% and is repayable on demand.

Current liabilities also include £69,268,000 of bridging loans in relation to the purchase of Be At One and the Novus sites, see note 12. These charge an annual interest rate of 3 months LIBOR + 5% and are due for repayment 20 July 2019. The facility has the option to be extended until March 2022 if certain conditions are met and will incur an interest rate of 3 months LIBOR + 5%. These are shown net of debt issue costs of £1,352,000.

Non-current secured loan notes are shown net of debt issue costs of £3,991,000 (2017: £5,165,000).

Notes *(continued)*

18 Borrowings *(continued)*

Terms and debt repayment schedule:

	Principal borrowed £000	Year of maturity	Principal outstanding **30 September 2018 £000**	Principal outstanding 24 September 2017 £000
Secured fixed notes	405,000	2022	**405,000**	405,000
Secured floating notes	190,000	2022	**190,000**	190,000
			595,000	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%. The notes will mature on 15 March 2022 and are listed on the Channel Islands stock exchange. Amortised debt issue costs of £3,991,000 offset the loan balance at the period end.

19 Financial instruments

Fair values of financial instruments

Set out in the table below are the carrying values and fair values of all of the Group's financial instruments at 30 September 2018 and 24 September 2017.

	Fair value **2018 £000**	Fair value 2017 £000	Carrying value **2018 £000**	Carrying value 2017 £000
Financial assets - loans and receivables				
Trade receivables	**4,359**	5,959	**4,359**	5,959
Other receivables	**8,830**	7,699	**8,830**	7,699
Cash and cash equivalents	**26,454**	16,514	**26,454**	16,514
	39,643	30,172	**39,643**	30,172
Financial liabilities				
Trade payables	**54,607**	58,300	**54,607**	58,300
Other payables	**17,613**	23,890	**17,613**	23,890
Secured fixed notes	**399,140**	408,471	**405,000**	405,000
Secured floating notes	**187,769**	190,289	**190,000**	190,000
Bank loans and overdrafts	**105,171**	20,963	**105,171**	20,963
	764,300	701,913	**772,391**	698,153

The following assumptions were used to estimate the fair values:

Trade and other receivables – these are carried at amortised cost using the effective interest method and fair value is deemed to be the same as this.

Cash and cash equivalents - approximate to the carrying amounts stated in the accounts.

Trade and other payables - these are carried at amortised cost using the effective interest method and fair value is deemed to be the same as this.

Notes *(continued)*

19 Financial instruments *(continued)*

Short-term loans and overdrafts – approximates to the carrying amount because of the short maturity of these instruments.

Long term loans – based on quoted market prices in the case of the securitised debt.

The Group's financial instruments consist of securitised loan notes, bank borrowings and cash, the main purpose of which is to raise finance for the Group's operations. The Group's other financial instruments, such as trade receivables and payables, arise directly from its operations.

Fair value hierarchy

IFRS 7 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs used to derive fair value.

The classification uses the following three-level hierarchy:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values disclosed in respect of securitised loan notes have been evaluated as level 1 within the hierarchy described above. All other financial instruments carried at fair value have been measured by a level 2 valuation method.

Capital risk management

The Group's capital structure consists of debt, issued share capital and reserves. These are managed effectively to minimise the Group's cost of capital, to add value to shareholders and to service debt obligations. The Group's principal external debt is held within one securitisation. The securitised debt is monitored by a variety of measures, which are reported to the debt providers on a quarterly basis. The Group assesses the performance of the business, the level of available funds and the short to medium term strategic plans concerning capital spend as well as the need to meet financial covenants and such assessment influences the level of dividends payable.

The main risks from the Group's financial instruments are liquidity risk and credit risk.

The Directors do not consider there to be a significant risk to exposure to interest rates and the impact of the fluctuations from its floating rate loan notes. There is no currency risk as all of the revenues and costs of the Group are in sterling. The policy for managing each of the Group's risks is set out as follows.

Liquidity risk

Liquidity risk is risk that the Group may not be able to meet its financial obligations as they fall due. The Group seeks to manage financial risk to ensure sufficient liquidity is available to meet foreseeable needs. The Group also monitors the maturity of financial liabilities to avoid the risk of a shortage of funds. Surplus funds are placed on deposit and are available at short notice. The table below summarises the maturity profile of the Group's debt based on contractual, undiscounted cash flows including interest.

Notes *(continued)*

19 Financial instruments *(continued)*

At 30 September 2018	Within 1 year £000	1-2 years £000	2-5 years £000	> 5 years £000	Total £000
Interest-bearing loans and borrowings					
- capital	**69,268**	**-**	**595,000**	-	**664,268**
- interest	**30,247**	**28,946**	**43,559**	**-**	**102,752**
Bank overdrafts	**10,903**	**-**	**-**	**-**	**10,903**
Revolving credit facility	**25,000**	**-**	**-**	**-**	**25,000**
Trade payables	**54,607**	-	-	-	**54,607**
Other payables	**17,613**	-	-	-	**17,613**
	207,638	**28,946**	**638,559**	**-**	**875,143**

At 24 September 2017	£000	£000	£000	£000	£000
Interest-bearing loans and borrowings					
- capital	-	-	595,000	-	595,000
- interest	28,750	28,580	71,160	-	128,490
Bank overdrafts	12,963	-	-	-	12,963
Revolving credit facility	8,000	-	-	-	8,000
Trade payables	58,300	-	-	-	58,300
Other payables	23,890	-	-	-	23,890
	131,903	28,580	666,160	-	826,643

Credit risk

Credit risk arises because a counter party may fail to perform its obligations. The principal financial assets of the Group are cash and cash equivalents, trade receivables and other receivables. The credit risk associated with the cash and cash equivalents is limited. Credit risk is managed by transacting with financial institutions with high quality credit ratings. Trade receivables comprise a large number of individually small amounts from unrelated customers and are shown net of a provision for doubtful debts. Management estimates the provision for doubtful debts based on a review of all individual receivable accounts, experience and known factors at the period end. The credit risk associated with these is minimal. The Group has no significant concentration of credit risk. The carrying amount of financial assets represents the maximum credit exposure. The ageing of trade and other receivables at the balance sheet date, gross of the doubtful debt provision, is as follows:

	30 September 2018 £000	24 September 2017 £000
Not past due	**13,177**	11,922
0-30 days past due	**13**	1,112
31-60 days past due	**339**	613
Greater than 60 days past due	**218**	337
	13,747	13,984

Trade receivables are shown gross of a provision of £221,000 (2017: £326,000). £19,000 was charged to the income statement during the period (2017: charged £87,000).

Notes *(continued)*

20 Provisions

	Onerous leases £000	Health and safety claims £000	Total £000
At 25 September 2016	4,180	1,781	5,961
Additions	5,301	700	6,001
Additions through business combinations	2,551	2,380	4,931
Discount rate revision	1,706	-	1,706
Utilised	(959)	(1,000)	(1,959)
Released	(551)	-	(551)
At 24 September 2017	12,228	3,861	16,089
Additions	8,096	1,891	9,987
Additions through business combinations	230	-	230
Utilised	(678)	(1,100)	(1,778)
Released	(8,234)	-	(8,234)
At 30 September 2018	**11,642**	**4,652**	**16,294**

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 onerous lease 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.

21 Share capital

	30 September 2018 £000	24 September 2017 £000
Called up, allotted and fully paid:		
168,488,745 ordinary shares of £0.01 each	1,685	1,685

Ordinary shares
The company's ordinary shares, which carry no right to fixed income, each carry the right to one vote at general meetings of the company.

Share premium
Consideration received for shares issued above their nominal value net of transaction costs.

Retained earnings
Cumulative profit and loss net of distributions to owners.

Notes *(continued)*

22 Commitments

Operating leases relating to land and buildings

At the end of the reporting period, the future minimum lease payments under non-cancellable operating leases are payable as follows:

	30 September 2018 £000	24 September 2017 £000
Future minimum rentals payable under non-cancellable operating leases:		
Within one year	**55,757**	47,853
Between one and five years	**210,947**	181,421
After five years	**516,786**	461,830
	783,490	691,104

Capital commitments

Capital commitments for property, plant and equipment:

	30 September 2018 £000	24 September 2017 £000
Contracted but not provided	**14,360**	10,394

23 Contingent liability

Intertain (Bars) Limited has been in dispute with HMRC over its valuation methodology on acquisition of properties in 2009. The matter has not progressed significantly and the Directors are confident of the position adopted by Intertain (Bars) Limited as this follows generally accepted accounting practice and Royal Institute of Chartered Surveyors valuation guidance. However, HMRC are continuing to pursue the matter and therefore the Directors consider it appropriate to disclose this contingent liability which, in the unlikely event of HMRC being successful, could result in the utilisation of £7,981,000 tax losses and a potential cash outflow of £1,170,000.

Notes *(continued)*

24 Employee benefits

Defined contribution pension schemes

The Group operates three defined contribution stakeholder schemes for certain employees. The pension cost charge for the period represents contributions payable by the Group to the schemes and amounted to £1,703,000 (2017: £1,215,000). At the period end the Group had outstanding contributions payable to the schemes of £Nil (2017: £1,000).

Defined benefit pension schemes

On 21 June 2011, as part of the Plato Company 3 acquisition the Group acquired two defined benefit schemes, the Laurel Pub Pension scheme and the Yates Group Pension scheme, which are closed to new members and closed to further accruals for existing members. The assets of the schemes are held in single, separate trustee administered funds.

A full actuarial valuation for the Laurel Pub Pension scheme was carried out as at 28 February 2014. For the purposes of IAS19 the provisional results of the actuarial valuation for the Laurel Pub Pension scheme as at 28 February 2017, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 30 September 2018.

A full actuarial valuation for the Yates Group Pension scheme was carried out as at 28 February 2017. For the purposes of IAS19 the actuarial valuation as at 28 February 2017, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 30 September 2018.

The following tables illustrate the impact of both the Laurel Pub Pension scheme and the Yates Group Pension scheme on the consolidated income statement, the consolidated statement of comprehensive income (SOCI) and the consolidated balance sheet.

The amounts recognised in the balance sheet are as follows:

	30 September 2018	24 September 2017
Laurel Pub Pension scheme	**£000**	£000
Fair value of plan assets	**74,534**	73,485
Present value of defined benefit obligation	**(78,570)**	(83,698)
Net retirement benefit liability recognised in the balance sheet	**(4,036)**	(10,213)
Yates Group Pension scheme	**£000**	£000
Fair value of plan assets	**12,971**	14,322
Present value of defined benefit obligation	**(12,059)**	(13,558)
Surplus in scheme	**912**	764
Restriction of surplus	**-**	-
Net retirement benefit surplus recognised in the balance sheet	**912**	764
Total net retirement benefit recognised in the balance sheet	**(3,124)**	(9,449)

At the end of the life of the Yates Group Pension scheme, the Company has an unconditional right to a refund and any such refund would be paid out only on a net of tax basis.

Notes *(continued)*

24 Employee benefits *(continued)*

Movements in the present value of scheme liabilities are as follows:

	30 September 2018	24 September 2017
Laurel Pub Pension scheme	**£000**	£000
Present value of scheme liabilities at beginning of period	**83,698**	90,046
Expenses	**26**	70
Interest cost	**2,285**	2,030
Actuarial gains	**(3,484)**	(5,315)
Benefits paid	**(3,955)**	(3,133)
Past service costs	**-**	-
Present value of scheme liabilities at end of period	**78,570**	83,698
Yates Group Pension scheme	**£000**	£000
Present value of scheme liabilities at beginning of period	**13,558**	14,622
Expenses	**-**	-
Interest cost	**357**	331
Actuarial gains	**(241)**	(974)
Benefits paid	**(1,615)**	(421)
Past service costs	**-**	-
Present value of scheme liabilities at end of period	**12,059**	13,558
Total present value of scheme liabilities at end of period	**90,629**	97,256

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

	30 September 2018	24 September 2017
Laurel Pub Pension scheme	**£000**	£000
Fair value of scheme assets at beginning of period	**73,485**	75,819
Interest income	**2,045**	1,714
Return on plan assets excluding interest income	**(311)**	(1,915)
Contributions paid by employer	**3,270**	1,000
Benefits paid	**(3,955)**	(3,133)
Fair value of scheme assets at end of period	**74,534**	73,485
Yates Group Pension scheme	**£000**	£000
Fair value of scheme assets at beginning of period	**14,322**	14,686
Interest income	**378**	332
Return on plan assets excluding interest income	**(114)**	(275)
Contributions paid by employer	**-**	-
Benefits paid	**(1,615)**	(421)
Fair value of scheme assets at end of period	**12,971**	14,322
Total fair value of scheme assets at end of period	**87,505**	87,807

Notes *(continued)*

24 Employee benefits *(continued)*

Interest costs are shown in finance costs and service costs and expenses are recognised in operating costs. The amounts recognised in the income statement are as follows.

	2018 53 weeks	2017 52 weeks
Laurel Pub Pension scheme	**£000**	£000
Past service costs	**-**	-
Interest cost	**240**	316
Expenses	**26**	70
Net cost	**266**	386
Yates Group Pension scheme	**£000**	£000
Past service costs	**-**	-
Interest income	**(21)**	(1)
Expenses	**-**	-
Net income	**(21)**	(1)
Total net cost	**245**	385

Analysis of amounts recognised in the SOCI in the period:

	2018 53 weeks	2017 52 weeks
Laurel Pub Pension scheme	**£000**	£000
Return on plan assets excluding interest income	**(311)**	(1,915)
Experience gains	**(1,081)**	791
Effects of changes in demographic assumptions	**768**	2,125
Effects of changes in financial assumptions	**3,797**	2,399
Re-measurement losses recognised in the SOCI	**3,173**	3,400
Yates Group Pension scheme	**£000**	£000
Return on plan assets excluding interest income	**(114)**	(275)
Experience gains	**(257)**	366
Effects of changes in demographic assumptions	**158**	224
Effects of changes in financial assumptions	**340**	384
Re-measurement gains recognised in the SOCI	**127**	699
Total re-measurement losses recognised in the SOCI	**3,300**	4,099

Cumulative amounts recognised in the SOCI:

	30 September 2018 £000	24 September 2017 £000
At beginning of period	**(10,231)**	(14,330)
Re-measurement losses in the period	**3,300**	4,099
At end of period	**(6,931)**	(10,231)

Notes *(continued)*

24 Employee benefits *(continued)*

The history of experience adjustments on the schemes for the current and previous financial periods is as follows:

Laurel Pub Pension scheme	**2018 £000**	2017 £000	2016 £000	2015 £000	2014 £000
Present value of retirement benefit liabilities	**(78,570)**	(83,698)	(90,046)	(69,332)	(65,734)
Fair value of plan assets	**74,534**	73,485	75,819	62,112	58,499
Net liability in the scheme	**(4,036)**	(10,213)	(14,227)	(7,220)	(7,235)
Experience adjustment on scheme liabilities	**(1,081)**	791	1,482	1,441	(152)
Percentage of scheme liabilities	**1.4%**	(0.9)%	(1.7)%	(2.1)%	0.2%
Experience adjustments on scheme assets	**(311)**	(1,915)	12,279	1,712	3,712
Percentage of scheme assets	**(0.4)%**	(2.6)%	16.2%	2.8%	6.3%

Yates Group Pension scheme	**£000**	£000	£000	£000	£000
Present value of retirement benefit liabilities	**(12,059)**	(13,558)	(14,622)	(12,569)	(13,041)
Fair value of plan assets	**12,971**	14,322	14,686	13,299	13,168
Net asset in the scheme	**912**	764	64	730	127
Experience adjustment on scheme liabilities	**(257)**	366	225	725	(44)
Percentage of scheme liabilities	**2.1%**	(2.7)%	(1.5)%	(5.8)%	0.3%
Experience adjustments on scheme assets	**(114)**	(275)	1,466	107	677
Percentage of scheme assets	**(0.9)%**	(1.9)%	10.0%	0.8%	5.1%

The Group has agreed with the trustees of the Laurel Pub Pension scheme that it will aim to eliminate the deficit by the payment of annual contributions of £2,000,000 each year until 2023. The Group will meet the other annual fees and expenses (excluding the annual PPF levy) incurred by the scheme subject to a cap of £250,000 per scheme year.

The Group does not expect to contribute to the Yates Group defined benefit plan in the next financial period.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

	30 September 2018	24 September 2017
Male retiring in 2018	**21.2 years**	21.5 years
Female retiring in 2018	**23.1 years**	23.4 years
Male retiring in 2043	**23.0 years**	23.7 years
Female retiring in 2043	**25.1 years**	25.7 years

Notes *(continued)*

24 Employee benefits *(continued)*

The principal actuarial assumptions (expressed as weighted averages) at the period end were as follows:

	30 September 2018 £000	24 September 2017 £000
Laurel Pub Pension Scheme		
Discount rate	**2.90%**	2.75%
Rate of increase in pension payment	**3.10%**	3.20%
Inflation (RPI)	**3.30%**	3.40%
Inflation (CPI)	**2.30%**	2.40%
Yates Group Pension Scheme		
Discount rate	**2.90%**	2.75%
Rate of increase in pension payment	**2.30%**	2.40%
Inflation (RPI)	**3.30%**	3.40%
Inflation (CPI)	**2.30%**	2.40%

The fair values of the plan assets and the return on those assets for both schemes were as follows:

	2018 £000	2017 £000
Laurel Pub Pension Scheme		
Equities	**31,559**	39,164
Bonds	**42,711**	33,897
Cash	**264**	424
Fair value of plan assets	**74,534**	73,485
Actual return on plan assets	**1,734**	(201)
Yates Group Pension Scheme		
Equities	**4,977**	5,870
Bonds	**7,938**	7,805
Cash	**56**	52
Other	**-**	595
Fair value of plan assets	**12,971**	14,322
Actual return on plan assets	**264**	57

Analysis of the sensitivity to the principal assumptions of the present value of the defined benefit obligation is set out below:

		Impact on scheme liabilities	
	Change in assumption	30 September 2018 £000	24 September 2017 £000
Laurel Pub Pension Scheme			
Discount rate	Increase of 0.10% p.a.	**(1,493)**	(1,758)
Rate of inflation	Increase of 0.10% p.a.	**1,414**	1,758
Rate of mortality	Increase in life expectancy of 1 year	**2,357**	2,762
Yates Group Pension Scheme			
Discount rate	Decrease of 0.25% p.a.	**374**	475
Rate of inflation	Increase of 0.25% p.a.	**301**	325
Rate of mortality	Increase in life expectancy of 1 year	**386**	407

Notes *(continued)*

24 Employee benefits *(continued)*

The sensitivities shown above are approximate. Each sensitivity considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation and pension increases. The average duration of the defined benefit obligation at the period ending 30 September 2018 is 19 years for the Laurel Pub Pension scheme (2017: 22 years) and 13 years for the Yates Group Pension scheme (2017: 14 years).

The plan typically exposes the Group to actuarial risks such as investment risk, interest rate risk, mortality risk and longevity risk. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to plan liabilities. This would detrimentally impact the balance sheet position and may give rise to increased charges in future income statements. This effect would be partially offset by an increase in the value of the plan's bond holdings, and in qualifying death in service insurance policies that cover the mortality risk. Additionally, caps on inflationary increases are in place to protect the Yates Group Pension scheme against extreme inflation.

25 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not contained in this note.

Transactions with key management personnel

Key management comprises the executive directors and management board. The key management personnel compensation is as follows:

	2018	2017
	53 weeks	52 weeks
	£000	£000
Salaries and short-term employee benefits	**4,570**	3,880
Post-employment pension benefits	**203**	193
Compensation for loss of office	**-**	494
	4,773	4,567

Other related party transactions

During the year interest was charged on loans to management as part of the MEP scheme of £64,000 (2017: £76,000) and £197,000 was repaid during the period (2017: £417,000). One employee ceased employment resulting in £201,000 being cancelled. The amount outstanding at 30 September 2018 and included in other receivables was £1,113,000 (2017: £1,447,000).

There is an amount of £2,557,000 (2017: £2,694,000) owing to Stonegate Pub Company Midco Limited, the immediate parent company, at 30 September 2018 relating to this transaction. This is included in trade and other payables.

During a prior period the Group issued an interest free loan of £200,000 to Simon Longbottom, a director of Stonegate Pub Company Limited. At 30 September 2018 this amount remained outstanding and was included in other receivables.

Transactions with Group undertakings

During the year the Group was invoiced management charges of £2,012,000 (2017: £2,039,000) by TDR Capital LLP. The amount outstanding at 30 September 2018 was £501,000 (2017: £Nil). The Group also operated a handful of public houses on behalf of entities affiliated with investment funds managed by TDR Capital LLP, known as Cubitt House Limited. Purchases for these sites totalled £377,000 (2017: £189,000) and sales owing to the purchasing entities were £301,000 (2017: £230,000), resulting in a balance owing from entities affiliated with investment funds managed by TDR Capital LLP of £37,000 (2017: balance owed by Stonegate Pub Company Limited of £39,000). During the period the Group also disposed of one site to Cubitt House Limited for £1,600,000 which was settled in full.

Notes *(continued)*

26 Ultimate parent undertaking

The ultimate parent company is Stonegate Pub Company Holdings Limited, a company incorporated in the Cayman Islands. The ultimate controlling party is TDR Capital Stonegate L.P., an investment fund managed by TDR Capital LLP, a private equity management firm.

27 Post balance sheet events

On 26 October 2018, the High Court of Justice of England and Wales issued a judgment in a claim regarding the rights of members to equality of treatment in relation to pension benefits. The court ruling has made it clear that schemes are under a duty to equalise benefits for men and women in relation to guaranteed minimum pension benefits. The extent to which the judgement will increase the liabilities of the Scheme is under consideration, however initial estimates are an increase between 1-3% of gross liabilities, any adjustment is expected to be recognised in the second half of 2018/19.