Stonegate Pub Company Limited

Condensed Consolidated Interim Financial Information

For the 28 weeks ended 12 April 2020

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Consolidated income statement

For the 28 weeks ended 12 April 2020

		Unaudited 28 weeks ended 12 April 2020			Unaudited 28 weeks ended 14 April 2019		
	Notes	**Pre-exceptional items £m**	**Exceptional items[1] £m**	**Total £m**	Pre-exceptional items £m	Exceptional items[1] £m	Total £m
Revenue		**452**	**-**	**452**	453	-	453
Other income	3	**9**	**-**	**9**	-	-	-
Operating costs		**(373)**	**(38)**	**(411)**	(389)	(20)	(409)
Operating profit before depreciation, amortisation, impairment and loss on sale of non-current assets		**88**	**(38)**	**50**	64	(20)	44
Depreciation, amortisation and impairment		**(70)**	**(24)**	**(94)**	(37)	(2)	(39)
Profit/(loss) on sale of non-current assets	12	**-**	**-**	**-**	-	-	-
Operating profit/(loss)		**18**	**(62)**	**(44)**	27	(22)	5
Finance costs	6	**(58)**	**(11)**	**(69)**	(23)	(1)	(24)
(Loss)/profit before taxation		**(40)**	**(73)**	**(113)**	4	(23)	(19)
Income tax charge	5	**(17)**	**(3)**	**(20)**	(1)	-	(1)
(Loss)/profit for the period		**(57)**	**(76)**	**(133)**	3	(23)	(20)

[1] Exceptional items are explained further in note 4.

The Group has initially applied IFRS 16 at 30 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 1.5.

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

The notes on pages 6 to 34 form part of the condensed consolidated interim financial information.

Consolidated statement of comprehensive income

For the 28 weeks ended 12 April 2020

	Notes	**Unaudited 28 weeks ended 12 April 2020 £m**	Unaudited 28 weeks ended 14 April 2019 £m
Loss for the period		**(133)**	(20)
Items that will not be reclassified to profit or loss			
Re-measurement of defined benefit pension schemes		**-**	-
Other comprehensive loss after tax		**-**	-
Total comprehensive loss for the period		**(133)**	(20)

The Group has initially applied IFRS 16 at 30 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 1.5.

The notes on pages 6 to 34 form part of the condensed consolidated interim financial information.

Consolidated balance sheet

As at 12 April 2020

	Notes	**Unaudited 12 April 2020 £m**	Unaudited 14 April 2019 £m	Audited 29 September 2019 £m
Assets				
Non-current assets				
Property, plant and equipment	8	**4,546**	547	550
Investment property	10	**130**	-	-
Brand	7	**5**	5	5
Operating leases	7	**-**	159	150
Goodwill	7	**235**	137	142
Trade and other receivables	13	**17**	-	6
Retirement benefit surplus	18	**1**	1	1
		4,934	849	854
Current assets				
Inventories		**19**	13	13
Trade and other receivables	13	**87**	39	39
Cash and cash equivalents		**319**	25	22
		425	77	74
Non-current assets held for sale	11	**44**	-	-
Total assets		**5,403**	926	928
Liabilities				
Current liabilities				
Trade and other payables	14	**(281)**	(138)	(140)
Borrowings	15	**(99)**	(15)	(17)
		(380)	(153)	(157)
Non-current liabilities				
Borrowings	15	**(3,873)**	(738)	(739)
Deferred tax liabilities		**(227)**	(18)	(21)
Retirement benefit obligations	18	**(8)**	(4)	(8)
Provisions	16	**(4)**	(15)	(14)
		(4,112)	(775)	(782)
Total liabilities		**(4,492)**	(928)	(939)
Net assets/(liabilities)		**911**	(2)	(11)
Equity				
Called up share capital		**5**	2	2
Share premium		**1,148**	97	97
Retained earnings		**(242)**	(101)	(110)
Total funds/(deficit)		**911**	(2)	(11)

The Group has initially applied IFRS 16 at 30 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 1.5.

The notes on pages 6 to 34 form part of the condensed consolidated interim financial information.

Consolidated statement of changes in equity

As at 12 April 2020

	Unaudited Share capital £m	Unaudited Share premium £m	Unaudited Retained earnings £m	Unaudited Total equity £m
Total equity at 29 September 2019	**2**	**97**	**(110)**	**(11)**
Adjustment on initial application of IFRS 16 (net of tax)	**-**	**-**	**1**	**1**
Adjusted balance at 30 September 2019	**2**	**97**	**(109)**	**(10)**
Total comprehensive income/(losses):				
Loss for the period	-	-	(133)	(133)
Total comprehensive losses for the period	-	-	(133)	(133)
Share issue	3	1,051	-	1,054
Total equity at 12 April 2020	**5**	**1,148**	**(242)**	**911**
Total equity at 30 September 2018	**2**	**82**	**(81)**	**3**
Total comprehensive income/(losses):				
Loss for the period	-	-	(20)	(20)
Total comprehensive losses for the period	-	-	(20)	(20)
Share issue	-	15	-	15
Total equity at 14 April 2019	**2**	**97**	**(101)**	**(2)**

The Group has initially applied IFRS 16 at 30 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 1.5.

The notes on pages 6 to 34 form part of the condensed consolidated interim financial information.

Consolidated cash flow statement

For the 28 weeks ended 12 April 2020

	Unaudited 28 weeks ended 12 April 2020 £m	Restated* Unaudited 28 weeks ended 14 April 2019 £m
Cash flows from operating activities		
Loss for the period	**(133)**	(20)
Adjustments for:		
-Depreciation, amortisation and impairment	**94**	39
-Net finance costs	**69**	24
-UK income tax charge	**20**	1
	50	44
Changes in:		
-Inventories	**(1)**	-
-Receivables	**(10)**	(2)
-Payables	**(3)**	10
-Tax paid	**(5)**	-
Net cash flow from operating activities	**31**	52
Cash flows from investing activities		
Purchase of property, plant and equipment	**(53)**	(45)
Net proceeds from sale of property, plant and equipment	**7**	-
Loan made to ultimate parent company	**-**	(6)
Payments for business acquisitions	**(1,266)**	(58)
Net cash acquired with trading sites	**161**	3
Net cash flow from investing activities	**(1,151)**	(106)
Cash flows from financing activities		
Interest paid	**(58)**	(18)
Issue of share capital	**1,055**	15
Advance of borrowings	**2,475**	201
Repayment of borrowings	**(1,957)**	(146)
Financing costs	**(89)**	(4)
Payment of lease liabilities	**(21)**	-
Net cash flow from financing activities	**1,405**	48
Net increase/(decrease) in cash and cash equivalents	**285**	(6)
Opening cash and cash equivalents	**9**	16
Closing cash and cash equivalents	**294**	10

*Refer to Note 1 for details of the restatement.

The Group has initially applied IFRS 16 at 30 September 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 1.5.

The notes on pages 6 to 34 form part of the condensed consolidated interim financial information.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

1 Accounting policies

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

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

The results for the current and comparative period are unaudited.

A prior year restatement has been recorded to reclassify a loan to Stonegate Pub Company Holdings Limited, the ultimate parent company (see note 19), from net cash flow from operating activities to net cash flow from investing activities.

The impact of the adjustment in the prior period is to reduce "Changes in receivables" and increase net cash flow from operating activities by £6 million, and increase net cash outflow from investing activities ("Loan made to ultimate parent company") by £6 million. There has been no change to the net increase in cash and cash equivalents and there is no impact on the prior period income statement or balance sheet or on the opening balances at 1 October 2018. The company's directors expect the same adjustment to be made to the period ended 29 September 2019 (being the comparative period) in the company's annual report and consolidated financial statements for the 52 weeks ended 27 September 2020.

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

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

1.1 Measurement convention

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

1.2 Going concern

The financial position of the Group is set out in the Consolidated Balance Sheet on page 3 which shows net assets of £911 million (2019: £2 million net liabilities).

During the current period the Group has experienced a net cash inflow of £285 million (2019: cash outflow of £6 million) which was driven by the issue of external debt used to acquire the entire issued share capital of Ei Group Limited on 3 March 2020.

The Group met its day-to-day working capital requirements through its standard trading cycle of cash generation and its £200 million 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 assets (current period net current assets of £89 million; 2019: net current liabilities of £76 million). At the period end the Group had drawn down £175 million of its revolving credit facility (2019: £Nil) and agreed a waiver on its covenant requirements for Quarter 3 and Quarter 4 2020.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

1 Accounting policies *(continued)*

1.2 Going concern *(continued)*

At the balance sheet date, the Group was financed by external debt totalling £2,978 million (2019: £745 million), details of which are set out in note 15. As a result of the acquisition on 3 March 2020:

- Stonegate Pub Company Financing 2019 plc received a £1,450 million bridging loan;
- Stonegate Pub Company Bidco Limited received a £450 million Senior Term Loan as well as a £400 million Second Lien Facility; and
- The Group repaid its Secured Fixed and Floating Notes of £745 million and Ei Group Limited external debt of £1,209 million.

Subsequent to the balance sheet date the Group:

- Privately placed £500 million of loan notes which replaced the £450 million Senior Term loan;
- Extended their RCF facility by £50 million and received a £50 million cash injection from TDR Capital LLP.

In addition the Group are currently planning to re-finance a portion of the existing debt, however if this did not occur then the current debt structure would remain.

The uncertainty due to the future impact on the Stonegate Pub Company Group of the recent COVID-19 outbreak has been considered as part of the Group's adoption of the going concern basis.

Since the closure of their estate on the 23 March 2020 as a result of the Covid-19 pandemic; the Group has implemented all appropriate measures to reduce the impact on trading, including cost reduction, postponement of refurbishments and other capital expenditure projects. The Group's latest forecasts and projections are for a period until September 2021 and are based on the phased re-opening of their estate which began on the 4 July 2020. The cash flow assumptions include a phased increase in sales over the going concern period with the assumption that all sites will be open by the end of September 2020. Current trading since 4 July 2020 is in line with these forecasts. The directors believe that although forecasting is difficult this is an appropriate approach as social distancing measures have been relaxed and people's confidence grows. The forecasts include a delay in all non-committed capital expenditure, reduction in variable costs including staffing and taking advantage of the twelve month business rates holiday announced for the hospitality sector. In those forecasts, the Stonegate Group is able to continue trading within its existing facilities and meet it's the requirements of its leverage covenants

As such the Stonegate Group, subject to sales improving in line with expectations and venues not being required to closed again, alongside taking into account government initiatives as set out above, has the ability to remain trading for a period of at least 12 months from the date of signing of these financial statements.

Whilst the Group's latest forecasts indicate headroom in its borrowing facilities, there is a risk of breaching the Stonegate Group's financial covenants and exceeding credit facilities if sales levels were not to rise in line with forecasts or venues were again required to close.

The Stonegate Board has also considered a number of severe but plausible downside scenarios; including if sales forecasts increased at a slower growth rate than expected or all venues were required to close again for a period of 2 months. These downside cases whilst considered severe have a significant impact on sales and cash flow and continue to be under review given current market conditions associated with COVID-19. The severe downside scenario associated with sales increasing at a lower rate than forecast, if it occurred, highlights that our borrowing facilities and leverage covenant would breach as at July 2021. If all venues were required to close again for a period of 2 months then without additional funding or further mitigating actions that both the borrowing facilities and leverage covenant would be in breach earlier.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

1 Accounting policies *(continued)*

1.2 Going concern *(continued)*

The Group continue to take actions to minimise the impact of Covid-19 on the business and would seek further covenant relaxations from its lenders if required.

Based on the above, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However as set out above the events and future uncertain effect on trading arising as a result of the COVID-19 outbreak represents a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, to continue realising their assets and discharging their liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

1.3 Basis of consolidation

The condensed consolidated interim financial information includes the financial statements of the Company and its subsidiary undertakings made up to 12 April 2020. 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.

This is the first set of the Group's financial statements in which IFRS 16 has been applied. Changes to significant accounting policies are described in Note 1.5.

1.4 Key accounting judgements and estimates

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

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

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for the new significant judgements related to lessee accounting under IFRS 16, which are described in Note 1.5.

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 4 provides information on all of the items disclosed as exceptional in the current and previous period.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

1 Accounting policies *(continued)*

1.4 Key accounting judgements and estimates *(continued)*

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.

Defined pension benefit schemes

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

Business combinations

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

Note 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.

1.5 Changes in significant accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the last annual financial statements.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 27 September 2020.

The Group has initially adopted IFRS 16 Leases from 30 September 2019. A number of other new standards are effective from 30 September 2019 but they do not have a material effect on the Group's financial statements.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 30 September 2019. Accordingly, the comparative information presented for 2019 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

1 Accounting policies *(continued)*

1.5 Changes in significant accounting policies *(continued)*

Definition of a lease

Previously, the Group determined at contract inception, whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 30 September 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

As a lessee

The Group lease properties and vehicles.

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards if ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. IT equipment). The Group recognises the lease payments associated with the leases as an expense on a straight-line basis over the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property in ‘property, plant and equipment’, the same line item as it presents underlying assets of the same nature that it owns. The carrying amounts of right-of-use assets are as below.

			Property, plant and equipment		
	Investment property	**Non-current assets held for sale**	**Property**	**Vehicles**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
Balance at 30 September 2019	-	-	692	1	693
Balance at 12 April 2020	**21**	**8**	**951**	**2**	**982**

The Group presents lease liabilities in ‘Borrowings’ in the Consolidated Balance Sheet.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

1 Accounting policies *(continued)*

1.5 Changes in significant accounting policies *(continued)*

Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain re-measurements of the lease liability. The right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's accounting policies.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Transition

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 30 September 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. The Group applied this approach to all other leases.

The Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use assets at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

1 Accounting policies *(continued)*

1.5 Changes in significant accounting policies *(continued)*

Impacts on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact of transition is summarised below.

	30 September 2019 £m
Right-of-use assets presented in property plant and equipment	692
Operating leases	(150)
Trade and other receivables	(11)
Trade and other payables	9
Provisions	8
Lease liabilities	(546)
Retained earnings	(1)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 30 September 2019. The weighted-average rate applied is 5.26%

	30 September 2019 £m
Operating lease commitment at 29 September 2019 as disclosed in the Group's consolidated financial statements	793
Impact of discounting using the incremental rate at 30 September 2019	(304)
Change in assessment of lease term under IFRS 16	57
Lease liabilities recognised at 30 September 2019	**546**

Impacts for the period

In relation to those leases under IFRS 16, for the 28 weeks ending 12 April 2020, the Group's operating profit metric improved by £10 million as the new depreciation expense is lower than the IAS 17 operating lease charge; however net finance costs are higher than this, at £15 million, such that net profit after tax and the operating profit before depreciation, amortisation, impairment and loss on sale of non-current assets are lower compared to the previous IAS 17 reporting basis.

1.6 Non-derivative financial instruments

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

Trade and other receivables

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

Trade and other payables

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

Notes to the financial statements

For the 28 weeks ended 12 April 2020

1 Accounting policies *(continued)*

1.6 Non-derivative financial instruments *(continued)*

Cash and cash equivalents

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

Interest-bearing borrowings

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

1.7 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.

1.8 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;
- retail furniture, fixtures and equipment are depreciated over 3 to 15 years;
- right-of-use assets are depreciated over their lease lives;
- long-life landlords fixtures and fittings are depreciated over 30 years; and
- short-life landlords fixtures and fittings are depreciated over 5 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.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

1 Accounting policies *(continued)*

1.9 Investment property

The Group leases some properties on commercial leases within the Commercial Properties segment. The commercial terms of these leases result in the assets meeting the criteria of investment property.

Properties held as investment property are measured at fair value reflecting market conditions at the balance sheet date. Gains and losses arising from changes in the fair value of investment property are recognised in the income statement in the period in which they arise. Fair values are determined based on an annual revaluation by external valuers or employees who are professionally qualified to carry out such valuations.

Transfers are made to/from investment property when there is change of use evidenced by a change in the lease terms. When a property transfers from property, plant and equipment to investment property it is revalued to fair value. Surpluses arising from the revaluation exercise are taken through other comprehensive income to the revaluation reserve except where they reverse a revaluation decrease relating to the same asset previously recognised as an expense in the income statement. Any deficit arising from the revaluation exercise is taken through other comprehensive income to the revaluation reserve to the extent that there is a surplus in place relating to the same asset. When a property transfers from investment property to property, plant and equipment it is revalued to fair value and the movement recognised in the income statement.

1.10 Non-current assets held for sale

Properties identified for disposal which are classified in the balance sheet as non-current assets held for sale are held at the lower of carrying value on transfer to non-current assets held for sale, as assessed at the time of transfer, and fair value less costs to dispose. The fair value less costs to dispose is based on the net estimated realisable disposal proceeds (ERV) which is provided by third party property agents who have been engaged to sell the properties. Licensed land and buildings, investment property and operating lease intangibles are classified as held for sale when they have been identified for disposal by the Group. They must be available for immediate sale in their present condition and the sale should be highly probable. These conditions are met when management are committed to the sale, the property or lease is actively marketed and the sale is expected to occur within one year. Licensed land and buildings held for sale are not depreciated and operating lease intangible asset assets held for sale are not amortised.

Profits or losses on disposal of property are calculated as the difference between the net sales proceeds and the carrying amount of the asset within non-current assets held for sale at the date of disposal.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

1 Accounting policies *(continued)*

1.11 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.

1.12 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.

Brand

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

1.13 Inventories

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

1.14 Trade receivables and trade payables

Trade receivables are held at their original invoiced amount net of an Expected Credit Loss ("ECL") allowance based on the simplified model as allowed by IFRS 9. Trade payables are held at amortised cost. Amounts owed by subsidiary undertakings are assessed for ECLs on a general basis under IFRS 9. The Company recognises a provision on this basis when the carrying value of the asset is not supported by the collateral available.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

1 Accounting policies *(continued)*

1.15 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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

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

Non-financial assets

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

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

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

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

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

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 to the financial statements

For the 28 weeks ended 12 April 2020

1 Accounting policies *(continued)*

1.16 Employee benefits *(continued)*

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.

1.17 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 non-trading sites closure costs.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

1 Accounting policies *(continued)*

1.18 Revenue

Revenue is measured at the fair value of the consideration received or receivable and is derived from the sale of food and drinks; rent; admissions; hotel rooms and machine income to third parties, after deducting discounts and VAT. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and is measured at the fair value of consideration receivable, excluding discounts, rebates and other sales taxes or duty.

The Group has initially applied IFRS 15 from 1 October 2018.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Drink and food

Revenue is recognised at the point at which drinks and food are provided based on till receipts take in the Group's licensed estate. Promotional discounts are recorded at point of sale. Revenue is reported on product sales net of VAT and discounts applied.

The performance obligation is satisfied upon delivery of the drink and food and payment of the transaction price is due immediately when the customer purchases these items.

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.

Publican Partnerships

Drink revenue is earned from the supply of drink products to publicans and revenue is recognised at the point of delivery to the pub at which point physical possession is passed and the publican takes control of the product obtaining the significant risks and rewards of ownership. The proceeds from the sale are recognised as revenue.

Rent

Rent revenue is recognised on a straight line basis over the term of the lease based on the contractual terms of the lease agreement.

Other services

Accommodation revenue is recognised on a daily basis based on occupancy at the agreed price (net of discount and VAT). Machine income is recognised where net takings are recognised as earned on the Group's proportion of machine proceeds in the period of sale.

The performance obligation is satisfied at the point the service is provided and payment is generally due at the end of the guest stay at the accommodation.

1.19 Government Grant

Money received in the form of a government grant is treated as revenue grant. Therefore, grant income is recorded within other income in the income statement on a systematic basis in the same periods as the related expenses incurred.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

1 Accounting policies *(continued)*

1.20 Expenses

Leases

Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases.

Finance leases are recognised at acquisition at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

The asset is then depreciated over the shorter of the estimated useful life of the asset or the lease term. A corresponding liability is included in the balance sheet as a finance obligation. Lease payments are apportioned between the finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs.

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.

1.21 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.

1.22 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 4.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

2. Segmental reporting

On 3 March 2020, Stonegate Pub Company Bidco Limited acquired the entire share capital of Ei Group Limited. As a result of this the directors deemed it more appropriate to operate with six operating segments.

The Group has six distinguishable operating segments being Publican Partnerships, Commercial Properties, Bermondsey Pub Company, Craft Union Pub Company, Managed Stonegate Investments and Managed Ei Investments which reflect the different nature of income earned, types of property and profile of customers. The five segments have been identified because the Chief Operating Decision Maker (CODM) regularly reviews discrete financial information relating to them.

Operating segments are aggregated when they have similar economic characteristics and therefore Bermondsey Pub Company, Craft Union Pub Company and Managed Ei Investments have been combined as they represent income earned from the direct operation of pubs, albeit through different trading styles.

This results in three reportable segments being:

1) Publican Partnerships - Rental income and revenue from supply of drinks and gaming machines
2) Commercial Properties - Rental income
3) Managed - Revenue from the sale of food, drink, accommodation and gaming machine income

The CODM reviews the financial results by segment to underlying EBITDA and this therefore provides the basis for the disclosures below. Inter-segment revenues and costs are eliminated upon consolidation and the segmental note is presented net of these eliminations.

All of the Group's revenue is generated in the United Kingdom and is not further segmented based on location, therefore no geographical segmental analysis has been provided. The balance sheet is not reviewed by the CODM on a segmented basis and therefore no disclosure has been made in relation to segmental assets and liabilities.

Period ended 12 April 2020	**Publican Partnerships £m**	**Commercial Properties £m**	**Managed Stonegate £m**	**Managed Ei £m**	**Central £m**	**Total £m**
Drink revenue	16	-	327	11	-	354
Rent revenue	12	1	-	-	-	13
Food revenue	-	-	61	1	-	62
Revenue from amusement and other machines	-	-	11	1	-	12
Other revenue	-	-	11	-	-	11
Total revenue	**28**	**1**	**410**	**13**	**-**	**452**
Other income	-	-	8	1	-	9
Operating costs before depreciation and	(9)	-	(319)	(13)	(70)	(411)
Underlying EBITDA	**19**	**1**	**99**	**1**	**(70)**	**50**
Depreciation and amortisation						(94)
Finance costs						(69)
Loss before tax						**(113)**
Taxation						(20)
Loss after tax						**(133)**

In the period ended 14 April 2019 the Group operated as one Operating Segment related to the Managed Stonegate Estate, this segment had underlying EBITDA of £88 million and associated central costs of £44 million. Group loss before tax was £20 million.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

3. Other income

	28 weeks ended 12 April 2020 £m	28 weeks ended 14 April 2019 £m
Government grants	**9**	-
Total government grants	**9**	-

During the period £9 million was recognised within other income in relation to the Job Retention Scheme.

4. Exceptional operating items

	28 weeks ended 12 April 2020 £m	28 weeks ended 14 April 2019 £m
Operating exceptional items		
Acquisition costs	**35**	2
Integration costs	**3**	3
Discretionary exit bonus	**-**	15
Impairment of operating leases (note 7)	**-**	1
Impairment of property, plant and equipment (note 8)	**24**	1
	62	22
Finance costs	**11**	1
Tax	**3**	-
Total exceptional items	**76**	23

Acquisition costs: Acquisition costs are items of one-off expenditure incurred, primarily, in connection with the business combination activities. These costs include legal and professional fees and stamp duties which are expensed as incurred. Included here are costs of £34,880,000 incurred in connection with the acquisition of Ei Group Limited. During the previous year acquisition fees of £1,183,000 were incurred in relation to the acquisition of seventeen leasehold sites from A3D2 Limited, Balls Brother (Emporium) Limited and Tank and Paddle Limited. Acquisition fees of £620,000 were also incurred as part of the acquisition of Bar Fever Limited in the prior period.

Integration costs: Following the acquisitions, the Group incurred costs to combine and streamline the operations of the acquired businesses with the Group. Following the acquisition of Ei Group Limited integration costs of £2,030,000 and pre-conversion costs of £154,000 were incurred. Pre-conversion costs are those costs incurred in placing Ei Group Limited members of staff within Stonegate Pub Company Limited sites to gain an understanding in Stonegate Pub Company Limited's ways of working. Integration costs of £2,507,000 were incurred in the prior period in relation to the acquisition of Be At One Limited on 22 July 2018.

Discretionary exit bonus: During the previous period a discretionary exit bonus was paid to key management personnel as a result of the acquisition of the Group by a new private equity fund.

Finance costs: Finance costs relate to the repayment of the existing loan notes including £5,800,000 early redemption charge and the write off of £4,700,000 debt issue costs. Finance costs in the prior period relate to the repayment of the bridging finance facility. Details can be found in note 15. The costs associated with this are considered as exceptional in nature.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

5. Taxation

	28 weeks ended 12 April 2020 £m	28 weeks ended 14 April 2019 £m
Tax charged in the income statement		
Current tax:		
- UK corporation tax	**(3)**	-
Total current tax charge	**(3)**	-
Deferred tax:		
- Origination and reversal of temporary differences	**2**	1
- Adjustments in respect of previous periods	**-**	-
- Rate change	**21**	-
Total deferred tax charge	**23**	1
Total current and deferred tax charged in the income statement	**20**	1

6. Finance costs

	28 weeks ended 12 April 2020 £m	28 weeks ended 14 April 2019 £m
Interest payable on loan notes	**19**	18
Bank interest	**20**	-
Other interest payable	**-**	3
Debt issue costs amortisation	**7**	3
Refinancing costs	**6**	-
Discounting of lease liabilities	**17**	-
Total finance costs	**69**	24

Included within finance costs are £11,315,000 of costs (2019: £816,000) relating to exceptional items (see note 4).

Notes to the financial statements

For the 28 weeks ended 12 April 2020

7. Goodwill, operating leases and brand intangible assets

	Brand	Operating leases	Goodwill
	£m	£m	£m
Cost			
At 30 September 2018	6	145	129
Acquisitions through business combinations	-	47	17
At 29 September 2019	6	192	146
Acquisitions through business combinations (note 12)	-	-	93
Adoption of IFRS 16	-	(192)	-
At 12 April 2020	6	-	239
Amortisation			
At 30 September 2018	(1)	(25)	(4)
Charge for the year	-	(16)	-
Impairment	-	(1)	-
At 29 September 2019	(1)	(42)	(4)
Adoption of IFRS 16	-	42	-
At 12 April 2020	(1)	-	(4)
Net book value			
At 12 April 2020	**5**	**-**	**235**
At 29 September 2019	5	150	142
At 30 September 2018	5	120	125

Additional goodwill of £93,000,000 was recognised in the period relating to the acquisition of Ei Group Limited.

Goodwill has been reduced in the period by £151,000 (2019: £264,000), representing the apportioned value of goodwill allocated to those sites disposed of during the period.

As part of the transition to IFRS 16 right-of-use assets with a net book value of £149,540,000 have been reclassified to property, plant and equipment.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

8. Property, plant and equipment

	Right-of-use assets £m	Land and buildings £m	Landlords fixtures and fittings £m	Leasehold improvements £m	Furniture, fixtures and equipment £m	Other assets £m	Total £m
Cost							
At 30 September 2018	-	331	-	127	244	-	702
Acquisitions through business combinations	-	-	-	-	1	-	1
Additions	-	7	-	18	58	-	83
Disposals	-	(2)	-	(1)	(7)	-	(10)
Fully depreciated assets	-	-	-	(2)	(19)	-	(21)
At 29 September 2019	-	336	-	142	277	-	755
Adoption of IFRS 16	695	-	-	-	-	-	695
Acquisitions through business combinations (note 12)	309	2,759	192	33	39	28	3,360
Additions	1	6	1	13	32	-	53
Disposals	(2)	(1)	-	-	(1)	(1)	(5)
Transfer to non-current assets held for sale	(5)	(5)	-	-	(2)	-	(12)
Transfer to investment properties	-	(4)	-	-	-	-	(4)
At 12 April 2020	998	3,091	193	188	345	27	4,842
Depreciation							
At 30 September 2018	-	(10)	-	(44)	(117)	-	(171)
Charge for the period	-	(2)	-	(10)	(45)	-	(57)
Impairment	-	(2)	-	(1)	(1)	-	(4)
Disposals	-	-	-	1	5	-	6
Fully depreciated assets	-	-	-	2	19	-	21
At 29 September 2019	-	(14)	-	(52)	(139)	-	(205)
Charge for the period	(31)	(3)	(2)	(6)	(28)	-	(70)
Impairment	(14)	(8)	-	-	(2)	-	(24)
Transfer to non-current assets held for sale	-	1	-	-	1	-	2
At 12 April 2020	(45)	(24)	(2)	(58)	(168)		(297)
Net book value							
At 12 April 2020	**953**	**3,067**	**191**	**130**	**177**	**27**	**4,546**
At 29 September 2019	-	322	-	90	138	-	550
At 30 September 2018	-	321	-	83	127	-	531

The Group has initially applied IFRS 16 at 30 September 2019, using the modified retrospective approach. Under this approach, operating lease intangibles with a net book value of £149,540,000 have been reclassified to property, plant and equipment. During the period the Group recognised a right-of use asset of £545,254,000 (after adjustments for onerous lease provisions, lease prepayments and accrued lease expenses at 30 September 2019).

Land and buildings includes £12 million (2019: £12 million) relating to long leasehold sites and £3,065 million of freehold land and properties (2019: £310 million).

Included within other assets are the office building, fixtures and fittings and non-licenced properties that were all part of the acquisition of Ei Group Limited on 3 March 2020.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

9. Impairment losses

Property, plant and equipment

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.

On 20 March 2020, all pubs and restaurants were mandatorily closed under government instruction due to the Covid-19 pandemic. This closure is considered to be a significant indicator of impairment of property, plant and equipment. As a result a full impairment review of all of the Group's property, plant and equipment has been performed by comparing recoverable amount to its carrying values. Any resulting impairment relates to sites with poor trading performance, where the output of the calculation is insufficient to justify their current net book value. Value in use calculations use forecast trading performance cash flows, which are discounted by applying a pre-tax discount rate of 8.0% (2019 52 weeks 8.15%). At 12 April 2020, the value in use calculations include as estimate of the impact of expected closure period and subsequent build up in trade post reopening, as a direct result of the Covid-19 pandemic.

Impairments totalling £23,633,000 (2019: £4,226,000) were identified.

In relation to the Stonegate and EI Managed pubs a sensitivity analysis has been performed on the property estate which considers the impact of forecast trading cash flows which is the most sensitive assumption. This analysis considers this change with other assumptions unchanged, in practice one change in assumption may be accompanied by a change in another. If there was a further years delay in the build up in trade post reopening as a result of the Covid-19 pandemic, the impairment charge would increase by £1 million. If the discount rate was to increase by 1%, the impairment charge would increase by £8 million.

In relation to the Publican Partnerships and Commercial properties the assumption is that the rental payments will continue to be collected from the publicans and this will continue to support carrying value of the properties. However, if this were not the case, a resulting 5% reduction in the carrying value of these properties would increase the impairment charge by £143m.

Goodwill

Goodwill acquired via business combinations is tested annually for impairment. For this purpose, the goodwill is allocated to the pub estate being a group of CGUs, as this represents the lowest level within the Group that goodwill is monitored for internal management purposes. On 20 March 2020, all pubs and restaurants were mandatorily closed under government instruction due to the Covid-19 pandemic. This closure is considered to be a significant indicator of impairment of goodwill.

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 forecast earnings before interest and taxation over a five year period, taking into accounts the impact of expected closure period and subsequent build up in trade post reopening, as a direct result of the Covid-19 pandemic, 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 8.0% (2019 52 weeks 8.15%). Management has 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.

The calculation is most sensitive to changes in assumptions used for forecast cash flow, pre-tax discount rate and growth rate. Given the uncertainty surrounding future trading levels as a result of the Covid-19 pandemic, several scenarios have been modelled. Although not considered probable, if there was a further years delay in the build up in trade post reopening as a result of the Covid-19 pandemic or a 1% rise in the discount rate, no impairment would be recognised.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

10. Investment property

	Right-of-use assets £m	Land and buildings £m	Total £m
Cost			
Acquisitions through business combinations (note 12)	21	105	126
Transfer from property, plant and equipment	-	4	4
	21	**109**	**130**

11. Non-current assets held for sale

	Lease liabilities £m	Right-of-use assets £m	Land and buildings £m	Furniture, fixtures and equipment £m	Total £m
Transfer on business combinations	-	3	45	-	48
Transfer from property, plant and equipment	-	5	4	1	10
Transfer from lease liabilities	(8)	-	-	-	(8)
Disposals	-	-	(6)	-	(6)
	(8)	**8**	**43**	**1**	**44**
Representing:					
Property, plant and equipment	(8)	8	41	1	**42**
Investment property	-	-	2	-	**2**
	(8)	**8**	**43**	**1**	**44**

When assets are identified for disposal and meet the criteria within IFRS 5 they are reclassified from property, plant and equipment to non-current assets held for sale and are revalued at that point to their fair value less costs to dispose if this is lower than its carrying value.

Investment property assets are also moved to non-current assets held for sale at book value when they meet the criteria within IFRS 5.

Non-current assets held for sale comprises properties that have been identified by the Group for disposal as part of the continued disposal programme. The sale of all assets within this category is expected to be completed within one year of the balance sheet date. Included in non-current assets held for sale are 42 sites identified by the CMA as sites which are to be disposed as part of the acquisition of Ei Group Limited by the Group.

At 12 April 2020 non-current assets held for sale includes 95 properties which are expected to be sold within the next year.

13 of these properties are included in the managed operating segment, 68 in publican partnerships, 12 in unlicensed properties and 2 in commercial properties.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

12. Acquisitions and disposals

Acquisitions in the current period

Ei Group Limited

On 3 March 2020, Stonegate Pub Company Bidco Limited acquired the entire share capital of Ei Group Limited. Total consideration was £1,265,366,000, satisfied in cash. The acquisition was funded by external debt, see note 15 for further details. In the period to 12 April 2020 Ei Group Limited contributed a net loss of £23 million to the consolidated net loss for the period. If the acquisition had occurred on 30 September 2019, Group revenue would have been £753 million and net loss would have been £135 million. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 30 September 2019.

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

	Provisional fair value £m
Property, plant and equipment (note 8)	3,360
Investment properties (note 10)	126
Inventory	5
Cash	161
Trade and other receivables	54
Non-current assets held for sale	48
Trade and other payables	(176)
Borrowings	(2,230)
Corporation tax	6
Deferred tax	(182)
Net assets acquired	1,172
Purchase price satisfied by:	
Cash consideration	1,265
Goodwill	93

Goodwill is considered to represent the benefits and synergies 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 £34,800,000 related to stamp duty and external legal professional fees. These costs have been included in 'exceptional operating costs' in the consolidated income statement (see note 4).

Property, plant and equipment: Included in property, plant and equipment are freehold and leasehold properties of £3,360 million whose fair value was derived at by an external valuation. The valuation was based on current and historic trading levels and the resultant EBITDA, the valuers have then applied an appropriate multiplier to the EBITDA.

Investment property: Included in investment property are freehold and leasehold properties of £126 million whose fair value was derived at by an external valuation. The valuation was based on current and historic trading levels and the resultant EBITDA, the valuers have then applied an appropriate multiplier to the EBITDA.

Intangible assets: The fair value of intangible assets were considered but none were identified of a material value.

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

Notes to the financial statements

For the 28 weeks ended 12 April 2020

12. Acquisitions and disposals *(continued)*

Borrowings: Included in borrowings was debentures with a fair value of £1,024 million, unsecured facilities with a fair value of £160 million and a revolving credit facility of £30 million all of which was repaid shortly after acquisition with the proceed of the financing, discussed in note 15. Also included were securitised bonds with a fair value of £778 million which are due for repayment between 2024 and 2032.

The fair value of intangible assets was considered as part of the purchase price allocation but none were identified of a material value.

Other acquisitions:

During the current period the Group completed the assignment of one leasehold site. Right-of-use assets of £500,000 were recognised relating to this acquisition.

Disposals

During the period the Group disposed of two sites to third parties for net consideration of £573,000, tangible fixed assets with net book values of £893,000 and goodwill with a net book value of £151,000. Loss on disposal was £471,000.

During the period the Group also disposed of half of the space in one site for net consideration of £588,000.

During the period the Group disposed of non-current assets held for sale for net consideration of £6,000,000 with net book values of £6,000,000. Loss on disposal was £nil.

Total profit on disposal was £117,000.

13. Trade and other receivables

	12 April 2020 £m	14 April 2019 £m
Trade receivables	**37**	5
Amounts due from group undertakings	**6**	6
Other receivables	**15**	5
Prepayments and accrued income	**21**	23
Financial assets	**9**	-
Corporation tax debtor	**16**	-
	104	39

Included within amounts due from group undertakings is £5,847,000 (2019: £Nil) expected to be recovered in more than 12 months. This relates to a loan provided on 4 April 2019 to Stonegate Pub Company Holdings Limited, the ultimate parent company, a company incorporated in the Cayman Islands. The loan is repayable on 4 April 2022 and charging an annual interest of LIBOR +2.50%.

Included within trade receivables is £3,085,000 due in more than one year which is money owed by the publicans for the sale of fixtures and fittings on deferred terms and part of the balance is due in more than one year.

Financial assets of £7,999,000 are included within trade and other receivables due in more than one year and relate to the right-of-use asset in relation the leasing sites to tenants.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

14. Trade and other payables

	12 April 2020 £m	14 April 2019 £m
Trade payables	**62**	59
Amounts due to group undertakings	**2**	1
Other taxation and social security	**31**	23
Corporation tax payable	**-**	2
Other payables	**46**	18
Accruals	**140**	35
	281	138

Included within accruals in the period ending 12 April 2020 is £34 million relating to costs incurred in connection with the acquisition of Ei Group Limited and the associated refinancing (see note 15).

Included within other payables and accruals are amounts of £29 million and £78 million as at 12 April 2020 which were acquired as part of the Ei Group Limited acquisition.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

15. Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. The securitised bonds acquired as a result of the acquisition of Ei Group Limited were measured at fair value on acquisition.

	12 April 2020 £m	14 April 2019 £m
Current liabilities		
Bank overdrafts	**25**	15
Securitised bonds	**19**	-
Lease liabilities	**55**	-
	99	15
Non-current liabilities		
Secured loan notes issued by Stonegate Pub Company Financing plc	**-**	738
Revolving credit facility	**172**	-
Bridging loan	**1,398**	-
Senior term loan	**438**	-
Second lien facility	**390**	-
Securitised bonds	**752**	-
Lease liabilities	**723**	-
	3,873	738

Non-current liabilities include £172 million (2019: £Nil) drawn down from the Group's revolving credit facility which are shown net of debt issue costs of £3 million. Annual interest of 3 months LIBOR +3% is charged and is repayable on 12 September 2024.

Non-current bridging loans are shown net of debt issue costs of £52 million, non-current senior term loan are shown net of debt issue costs of £13 million and the second lien facility is shown net of debt issue costs of £10 million.

As part of the transition to IFRS 16 current lease liabilities of £55 million and non-current lease liabilities of £728 million have been recognised having been discounted using the weighted-average rate of 5.26%.

Terms and debt repayment schedule:

			Principal outstanding	
	Principal borrowed £m	Year of maturity	**12 April 2020 £m**	14 April 2019 £m
Secured Fixed Notes	405	2022	**-**	405
Secured Floating Notes	340	2022	**-**	340
Bridging Loan	1,100	2025	**1,100**	-
Bridging Loan	350	2027	**350**	-
Senior Term Loan	450	2027	**450**	-
Second Lien Facility	400	2028	**400**	-
Securitised bonds - A4	263	2027	**263**	-
Securitised bonds - M	225	2024	**225**	-
Securitised bonds - N	190	2032	**190**	-
			2,978	745

Notes to the financial statements

For the 28 weeks ended 12 April 2020

15. Borrowings *(continued)*

On 3 March 2020 Stonegate Pub Company Financing 2019 plc, a public limited company incorporated under the laws of England and Wales and a company whose ultimate parent company is Stonegate Pub Company Limited, received £750,000,000 bridging loans charging an annual interest rate of 3 months LIBOR + 5.25%, bridging loans of £350,000,000 charging an annual interest rate of 3 months LIBOR + 5% and £350,000,000 bridging loans charging an annual interest rate of 3 months LIBOR + 5.25%.

The notes will mature between 2025 and 2027.

Stonegate Pub Company Bidco Limited, a private limited company incorporated under the laws of England and Wales and a company whose ultimate parent company is Stonegate Pub Company Limited, received a senior term loan of £450,000,000 on 3 March 2020 charging an annual interest rate of LIBOR + 5.25%. The loan matures on 12 March 2027.

On 3 March 2020 Stonegate Pub Company Bidco Limited received a £400,000,000 second lien facility charging an annual interest rate of LIBOR + 8.5%. The facility matures on 12 March 2028.

The proceeds from the issue of the loans on 3 March 2020 were used to finance the acquisition of Ei Group Limited, repay the secured fixed and floating notes (£405m and £340m respectively) and pay fees in connection with the transactions.

As part of the acquisition of Ei Group Limited on 3 March 2020, the Group acquired securitised bonds of £678,020,000. These securitised bonds consist of Class A4 notes charging an annual interest rate of 5.66%, Class M notes charging an annual interest rate of 7.40% and Class N notes charging an annual interest rate of 6.46%.

The securitised bonds were not repaid as part of the acquisition, therefore, in accordance with IFRS 3, they should be included on the balance sheet at fair value. As the securitised bonds are traded in an active market, a fair value of £770,535,000 was calculated based on the 2 March closing bond prices multiplied by the quantity of each bond held at the acquisition date, resulting in a fair value adjustment required of £92,515,000.

The notes will mature between 2024 and 2032.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

16. Provisions

	Onerous leases	Health and safety claims	Total
	£m	£m	£m
At 29 September 2019	10	4	14
Adjusted to right-of-use assets	(6)	-	(6)
Adjusted to retained earnings	(1)	-	(1)
Utilised	(1)	-	(1)
Released	-	(2)	(2)
At 12 April 2020	**2**	**2**	**4**
At 30 September 2018	12	5	17
Utilised	(1)	-	(1)
Released	-	(1)	(1)
At 14 April 2019	**11**	**4**	**15**

The onerous lease provision includes amounts for costs of securing closed sites.

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.

On 10th March 2020, the ongoing legal case regarding Walkabout Swansea, which the Group was fully indemnified against, was settled for £48,000. The provision of £2,000,000 relating to this has been released and the debtor of £2,000,000 has been removed in the current period.

Notes to the financial statements

For the 28 weeks ended 12 April 2020

17. Net debt

Analysis of changes in net debt:

	At 29 September 2019	Cash flow	Non-cash movements	At 12 April 2020
	£m	£m	£m	£m
Cash at bank and in hand	22	297	-	319
Bank overdraft	(14)	(11)	-	(25)
Lease liabilities	-	(21)	(34)	(55)
	8	265	(34)	239
Debt due within one year	(3)	(176)	(15)	(194)
Debt due after one year	(744)	(1,631)	(1,400)	(3,775)
Net debt	**(739)**	**(1,542)**	**(1,449)**	**(3,730)**

	At 30 September 2018	Cash flow	Non-cash movements	At 14 April 2019
	£m	£m	£m	£m
Cash at bank and in hand	26	(1)	-	25
Bank overdraft	(11)	(4)	-	(15)
	15	(5)	-	10
Debt due within one year	(93)	93	-	-
Debt due after one year	(595)	(149)	-	(744)
Net debt	**(673)**	**(61)**	**-**	**(734)**

Notes to the financial statements

For the 28 weeks ended 12 April 2020

18. Pensions

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

The defined benefit obligation as at 12 April 2020 is calculated on a year-to-date basis using the latest actuarial valuation as at 28 February 2017 and the minimum funding requirements as at 29 September 2019, which was carried out by a qualified independent actuary. Differences between the expected return on assets and the actual return on assets have been recognised as an actuarial gain or loss in the consolidated statement of total recognised gains and losses in accordance with the Group's accounting policy.

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

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

19. Related party transactions

There is an amount of £2 million (2019: £1 million) owing to Stonegate Pub Company Midco Limited, the immediate parent company, at 12 April 2020, which is included in trade and other payables. During the prior period Stonegate Pub Company Midco Limited subscribed for shares in Stonegate Pub Company Limited for the value of £15 million and paid up in full.

Transactions with Group undertakings

During the period the Group was invoiced management charges of £1 million (2019: £1 million) by TDR Capital LLP.

In the prior period Stonegate Pub Company Limited provided a loan to Stonegate Pub Company Holdings Limited, the ultimate parent company of £6 million. The loan is repayable on 4 April 2022 and charges annual interest of LIBOR + 2.50%. The amount owed of £6 million is included in non-current trade and other receivables.

20. Post balance sheet events

In response to coronavirus and the closure of all of the group's pubs, management has taken actions to mitigate the consequential and significant impact on both profit and cash flow of this closure. These actions include reducing the group's cash outflows in non-essential areas, accessing government's support packages in order to safeguard employment, offering rent concessions to support our pub partnerships and strengthening both short-term and long-term financing.

Financing has been accessed through the offer of private placement notes for £500 million to replace a proportion of the bridge debt acquired in March to finance the Ei acquisition, further work is on-going to replace the remaining bridge debt, alongside an increase to the revolving credit facility of £50 million for a period of two years. Furthermore the share issue will generate an additional £50 million.

Post year-end, the coronavirus pandemic has continued to evolve, on the 4th July we re-opened over 80% our pubs and bars whilst continuing the focus on cash conservation.