

Stonegate Group

Annual report and financial statements

For the 52 weeks ended 24 September 2023

Registered number FC029833

Contents

Strategic report	1
Directors' report	18
Statement of directors' responsibilities in respect of the annual report and the financial statements	22
Consolidated Income Statement	23
Consolidated Statement of Comprehensive Income	24
Consolidated Balance Sheet	25
Consolidated Statement of Changes in Equity	26
Consolidated Cash Flow Statement	27
Notes to the consolidated financial statements	28

Strategic report

The Directors present their strategic report for Stonegate Pub Company Limited and its subsidiaries (together “the Group”) for the 52 weeks ended 24 September 2023 (2022: 52 weeks ended 25 September 2022).

Stonegate is the largest pub owning company in the United Kingdom, with 4,432 operating sites at the period-end (2022: 4,516). The Stonegate Group encompasses five businesses with each one delivering a distinctive operating model. We optimise value creation by ensuring every one of our sites has the right operating model, value proposition and people in place.

Pub Partners

Our leased and tenanted estate comprises 2,745 operating pubs at the period end (2022: 2,864 pubs). These sites are let to publicans on tied leases and tenancies, such that as well as paying rent for the pub, each publican is tied into buying certain drink products from the Group. The publicans also have access to a large support infrastructure which is dedicated to supporting and empowering them to run great businesses. The Pub Partners’ estate is spread across England and Wales.

Stonegate

Our Managed estate comprising 799 operating sites at the period end (2022: 844 sites) is diversified with a mix of branded and unbranded pubs, bars and clubs, and is located across England, Scotland and Wales. The Group ensures that no matter what the brand or size of venue, each guest receives a warm Stonegate welcome in exciting, relevant and safe surroundings. Our Managed sites are run under a traditional managed model such that the Group employs all staff, incurs all costs and has full responsibility for all compliance matters, but in return directs the retail offer and has access to the full retail margin.

Craft Union

The Group has 550 operating Craft Union pubs across England and Wales at the period end (2022: 492 pubs) which sit at the heart of the communities they serve. The simple idea behind Craft Union is to deliver good quality drinks at a competitive price accompanied by varied entertainment in a well-invested pub for the locals. These pubs are run under an operator agreement whereby each pub is run by an Operator who receives a percentage of turnover. The Operator is responsible for all labour, but all other costs and responsibilities sit with the Group.

Commercial Properties

Our Commercial Properties estate comprises 288 operating pubs at the period end (2022: 260 pubs) which are let on free-of-tie terms to commercial landlords. These sites, although similar to the Pub Partners estate, do not have the same support infrastructure and the relationship with each tenant is purely driven by the lease agreement.

Managed Investments

The Group has partnered with some of the best operators in the pub industry in order to tap into their expertise to deliver optimum value in more specialist areas where the Group has less experience. There are currently 50 operating pubs (2022: 56 pubs) in this model with seven different partners and sites are predominately based in London and the South East. The vast majority of these sites are run under the traditional managed model.

Strategic report (continued)

Vision and Values

The Group's vision is:

"Bringing people together through our passion for great pubs, bars, and venues."

In order to deliver our mission, we focus on five key pillars:

1. Always offer the warmest welcome to every guest

Great hospitality starts with the warmest of welcomes. We aim to ensure that every guest experiences that when visiting any of our pubs, bars, and venues. This is accompanied by constantly evolving formats to reflect consumer demand, the best retail offers, and market leading operator support, ensuring that guests come back to us again and again.

2. Always look after our teams, as they make the difference

Our key resource is our people, who are critical to delivering our mission. We know that an engaged workforce reduces turnover and improves stability, and when coupled with market leading learning and development opportunities, this allows us to attract, retain, and develop an incredibly capable, talented team.

3. Always strive to improve and innovate

In the competitive environment in which we operate, it is critical that we are restless, innovative, and avoid becoming complacent. Through continued concept development, digital and technology investment to support guest engagement, and continually reviewing and modernising our ways of working, this is a key pillar of our culture and how we generate sales and profit growth.

4. Position every site for success

An important part of our strategy is to constantly review our diverse estate, ensuring that each pub sits within the operating format or model which allows it to be most successful and to generate the most profit for the group. We use a data and insights led approach to facilitate this, helping us ensure that our sites are best placed to serve the communities in which they are situated.

5. Promote safety and efficiency

The Group's strategy is underpinned by a firm and resolute focus at all levels of the organisation on safety. Our fundamental priority is making sure that our operations are safe for our team and for our guests. The Group takes safety and compliance with all legal requirements extremely seriously. We continually assess our systems and processes as a team and restlessly seek more efficient ways of working wherever possible.

Our vision and strategy are firmly underpinned by our 'FIRST' values, which define who we are and how we behave.

- 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; 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; 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; 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; we approach challenges with solutions in mind.
- We are one **TEAM** – We treat each other with respect; we develop ourselves and our teams; we share great ideas; we take responsibility for our actions.

Strategic report *(continued)*

Business model

Value is generated using our resources, our strong capabilities and leveraging our stakeholder relationships.

The Group's investors TDR Capital LLP, a leading private equity firm, have a strong track record working with their investments' senior management teams to drive value and grow the business. This is achieved through the investment of resources, both financial and operational, to improve the core business and as well as growth through targeted acquisitions. Both TDR and Stonegate are experienced and respected in the industry, with the capability to deliver the long-term plan.

The Group's key resource is its large estate of predominately freehold properties, geographically spread across the UK. Stonegate's management, with TDR's support, ensure that the Group has sufficient working capital and capability to generate the best returns. This ensures the properties are initially assessed and moved to the correct segment and then that they are operated in the best way to create optimal value.

The business then works closely with a range of internal and external stakeholders, such as professional partners, investment analysts and supply chain partners to continually assess its performance and make improvements where required.

Alongside the economic returns, Stonegate takes pride in its growing environmental, social and governance agenda. Further information can found on page 9.

Business review

The results for the Group for the 52 weeks ended 24 September 2023 are shown in the consolidated income statement on page 23. Total revenue for the period was £1,719 million compared to £1,611 million in the 52 weeks ended 25 September 2022. Of the £1,719 million, the managed segment contributed £1,011 million (52 weeks 2022: £976 million), whilst the leased and tenanted pubs, being Pub Partners and Commercial Property, together contributed £427 million (52 weeks 2022: £416 million) and the operator-led segment, contributed £281 million (52 weeks 2022: £219 million). Pre-exceptional operating profit for the period was £293 million (52 weeks 2022: pre-exceptional operating profit of £315 million). Post-exceptional operating profit for the period was £68 million (52 weeks 2022: £118 million). Loss before tax was £257 million (52 weeks 2022: loss of £130 million). The financial position of the Group is set out in the consolidated balance sheet on page 25 which shows net assets of £601 million (2022: net assets of £109 million). Net decrease in cash and cash equivalents in the period was £41 million (52 weeks 2022: decrease of £91 million).

Sales for the 52 weeks to 24 September 2023 were favourable compared to the prior year which included the negative impact of the Omicron Covid-19 variant. Whilst the macroeconomic environment continues to have an impact on the Group and the cost of living crisis has led to lower profit and operating cashflows than would otherwise have resulted had these conditions not existed, overall the Group has delivered a highly respectable performance, further demonstrating the resilience of its high quality pub portfolio.

In the period the Group has spent £144 million on expansionary, conversion and maintenance capital (52 weeks 2022: £140 million).

The Group has disposed of 68 trading sites, 10 non licensed and eight non-trading properties in the period for net proceeds of £49 million (52 weeks 2022: 63 trading sites; two non-trading sites and four non-licensed properties for net proceeds of £46 million), which also includes the sale of fixtures and fittings to publicans. Included in the number of disposals were nine lease hand backs for £Nil proceeds (52 weeks 2022: eight). In addition, net 16 sites moved from trading to non-trading (52 weeks 2022: net two sites moved from trading to non-trading and one additional leasehold site was acquired).

Strategic report (continued)

Business review (continued)

Group Key Performance Indicators

Below are the key performance indicators (KPIs) for the Stonegate Group at the period end which the Board reviews on a periodic basis.

Financial KPIs – Group	2023 52 weeks	2022 52 weeks
Managed Turnover Growth (like for like)	3.0%	0.9%
Operator Led Turnover Growth (like for like)	10.3%	9.5%
L&T Turnover Growth (like for like)	5.5%	(3.2)%

Like for like represents turnover compared to the previous comparable period, for the sites in each segment that were trading throughout the current and previous period.

The Group Income Statement discloses statutory (loss) / profit information that includes items disclosed in the tables below which Management believe if separately disclosed allow a clearer understanding of the trading performance of the Group. Separately disclosed items are those which are separately identified by virtue of their size or incidence.

	Statutory		Adjusted	
	2023 52 weeks £m	2022 52 weeks £m	2023 52 weeks £m	2022 52 weeks £m
Revenue	1,719	1,611	1,719	1,611
Other income	-	1	-	1
Operating costs before depreciation and amortisation	(1,277)	(1,147)	(1,344)	(1,212)
EBITDA	442	465	375	400
Operating profit	68	118	219	242

	2023 52 weeks £m	2022 52 weeks £m
EBITDA	442	465
Business interruption insurance	1	4
Surrender premiums	2	3
Business reorganisation	5	-
Management fees	2	2
Equity settled share based payment expense	1	1
Pension scheme service (credits) / costs	(1)	1
Losses on disposed/non-trading sites	1	-
Other non-recurring costs	-	1
IFRS 16	(78)	(77)
Adjusted EBITDA	375	400

Strategic report (continued)

Business review (continued)

Adjusted EBITDA represents profit before finance income, finance costs, taxation, depreciation, amortisation, impairment, and the other items shown above. In relation to those leases under IFRS 16, for the 52 weeks ending 24 September 2023, the Group's operating profit before depreciation, amortisation, impairment, revaluation and profit on sale of non-current assets improved by £78 million as operating lease rentals are not included in operating profit (52 weeks 2022: £77 million). Depreciation of right-of-use assets and lease liability interest are instead included below operating profit. Further information on leases can be found in note 27. The directors consider the adjusted EBITDA provides useful information about the Group's performance and aids a comparison of the Group's trading performance from one period to the next and with similar businesses.

Adjusted Operating profit represents statutory operating profit adjusted for the other items shown above in the adjusted EBITDA reconciliation and the impact of £226 million reduction in the value of the estate and goodwill (52 weeks 2022: £195 million reduction) and profit on sale of non-current assets of £8 million (52 weeks 2022: £6 million).

Non-financial KPIs

We report our progress against a range of established ESG metrics. These have been based upon leading industry indicators such as Food Hygiene Rating Scheme (FHRS), diversity, employee wellbeing and recycling. Further areas of focus cover water consumption, energy usage, internal appointments, employee engagement and customer net promoter score (NPS). Our key non-financial safety standards metric is the 5-star rating that we seek to achieve from the Food Standards Agency's website across our managed pub estate. The percentage of managed pubs rated five stars at the end of the financial period was 96.7% (2022: 93.6%) with an average rating of 4.96 (2022: 4.95).

Stonegate recognises the importance of having an engaged and motivated workforce and the value it can bring to a business. The Group has conducted a number of pulse engagement surveys over the past few years to understand how it is performing around employee engagement. The most recent survey, conducted in Spring 2023, had a pulse rate, being the key measure of engagement, of 7.6 out of 10 (2022: 7.6).

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 any concerns they may have.

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

	Male	Female
All employees (site and Head Office)	50%	50%
All Head Office employees	48%	52%
Senior management team (excluding Operating Board)	53%	47%
Operating Board	67%	33%

The Group continues to deliver a female mentoring programme, designed to support females with potential to progress with the business. Mentors are typically colleagues at Senior management team level and are provided with comprehensive training. The programme encompasses around 25 females in each annual intake and has been running for five years.

Strategic report *(continued)*

Business review *(continued)*

Financial Position

The financial position of the Group is set out in the consolidated balance sheet on page 25 which shows net assets of £601 million (2022: £109 million). Group cash at the period end was £92 million (2022: £133 million), of which £40 million (2022: £69 million) is held within the Unique securitisation, and the Group has access to a further £88 million (2022: £128 million) from its revolving credit facility and a further £25 million (2022: £25 million) overdraft facility. Non-current borrowings were £3,570 million (2022: £3,791 million). During the period, on 7 March 2023 the Group agreed an additional £50 million RCF A facility, the terms being consistent with the existing facility expiring in September 2024. The Group also agreed, on 16 March 2023, an extension of the £23 million RCF B facility to September 2024 in line with the A facility. The Group is financed by predominantly long-term debt in the form of securitised debt and bank borrowings, denominated in both sterling and euros, details of which can be found in note 22.

The Group has adopted a policy of revaluation at 24 September 2023 which is a change from the cost model used in prior years. Management have concluded the presentation of property, plant and equipment at valuation instead of cost less accumulated depreciation and accumulated impairment losses results in the financial statements reflecting the importance of the property portfolio to the operations of the business by providing current information about the fair value of the Group's property portfolio to users of the accounts. The adoption of a revaluation policy for the Group has been delayed since the acquisition of Ei Group Limited in March 2020 as a result of the uncertainty regarding the industry's post-Covid-19 recovery and the high inflationary environment.

The Group has applied this prospectively at 24 September 2023 and accordingly has charged depreciation during the year and the comparative information presented for 2022 has not been restated.

The Group has engaged a third-party valuer, Avison Young (UK) Limited, to conduct a full estate valuation exercise at the year end date. The Group has recognised £790 million upwards movement in the valuation of the estate and related assets in the 52 weeks ended 24 September 2023 and a net £48 million downwards movement. The Group has also recognised a £178 million goodwill impairment charge. In the 52 weeks ended 2022 the Group recognised a £195 million downwards movement including a £145 million estate impairment charge and £44 million goodwill impairment charge. Further details can be found in note 14.

Strategic report (continued)

Principal risks and uncertainties

The Group manages risk through its Risk Management Group (RMG) which meets formally each quarter to assess and update those risks and uncertainties facing the Group. It is chaired by the Director of Risk and attended by the CFO, HR Director, MD of Managed Ops, Director of IT, Business Unit Director of Managed Ops, Group General Counsel, Director of Strategy and B2B, Director of Licensing, Director of Property Legal Compliance, Business Unit Director of Craft and other professional leaders, so is well represented across the business.

The RMG document their output on the Group's risk register. The Group currently has 18 risks deemed to be high, of which only six remain high once the RMG has considered controls in place and other mitigation factors. These six high gross risks at 24 September 2023 are:

- General economy
- Cyber security
- Drink supply and distribution
- Property condition
- Funding liquidity and financial covenants
- Refinancing

General economy

Whilst the macroeconomic environment continues to have an impact on the Group and the cost of living crisis has led to lower profit and operating cashflows than would otherwise have resulted had these conditions not existed, overall the Group has delivered a highly respectable performance, further demonstrating the resilience of its high quality pub portfolio.

Risks to the Group's day-to-day trading include deterioration in consumer spending prompted by the current forecast 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 changes in consumer behaviour are often rapid. Therefore, there is a risk to market share if the Group is not positioned to quickly react to these changes. The Group's Segment Strategy teams, involving marketers, operators and finance, meet regularly to ensure segments respond quickly.

The hospitality industry is facing significant inflationary cost pressures across drink, food and wage lines as well as the impact of increased energy costs. The Group has agreed beer, food and distribution contracts with suppliers until 2024 and energy prices have been hedged for FY24. Where possible the effects of higher costs have been mitigated by retail price rises. Staffing levels are monitored in the Managed business to ensure efficiency of staff rostering.

Cyber security

The Group's operations are reliant on its information technology systems for business processes, accounting, reporting and communication. There is therefore 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.

Strategic report (continued)

Principal risks and uncertainties (continued)

Drink supply and distribution

The Group places reliance on key suppliers and distributors to ensure there is a continuous supply of both food, drink and other products to its managed pubs and its publicans. The Group is exposed to the risk of failure by these suppliers to deliver in the required time frames or to the standards expected. The Group has mitigated supply risks as much as possible by expanding the number of key suppliers for food and drink. It works closely with its key suppliers and distribution partners to ensure good working relationships. In addition, a disaster recovery and business continuity plan are established to mitigate such risks.

Property condition

Property condition risk refers to declining property conditions across the estate which if not funded adequately could result in issues becoming more expensive to resolve over time. The Group expects to mitigate this risk with increased property condition reporting and the introduction of computer aided facility management (CAFM) software which enables facility managers to plan, execute and monitor all activities involved in reactive and planned preventative maintenance.

Funding liquidity and financial covenants

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 Group's primary financial risks are to ensure that its debt is serviced, its financial covenants are achieved, investment plans are satisfied and working capital requirements are met. The Group's debt comprises borrowings in both sterling and euros and at both fixed and floating rates of interest. Floating rate debt is swapped to fixed rate wherever it is commercially sensible to do so. During the period, on the Group agreed an additional £50 million RCF A facility, the terms being consistent with the existing facility expiring in September 2024. The Group also agreed an extension of the £23 million RCF B facility to September 2024 in line with the A facility.

Within the Group's debt structure, there exists three main covenants that must be met and against which Management monitor and forecast performance. Further detail on these covenants can be found within note 23 to the accounts.

In addition, the Group maintains daily cash forecasting in order to monitor the liquidity of the Group and ensure it can meet liabilities as they fall due.

Stonegate's credit risk is primarily driven by the credit terms awarded to its publicans. The dedicated credit control function together with the operations team work with publicans to ensure levels of debt remain in line with Group expectations.

Further details of the financial risk management objectives and policies are set out in note 23.

Refinancing

The Group's £2.2bn of senior secured notes; privately placed notes and euro floating rates notes are due to expire in July 2025. Furthermore, the Group's RCF facility expires in September 2024. Whilst there is a plan in place for re-financing this debt, as at the date of signing the financial statements there is a risk that exists over the completion of this exercise.

Since the refinancing plans haven't been executed, there is an indication that a material uncertainty exists that may cast significant doubt on the Company and Group's ability to continue as a going concern for the going concern assessment period, and therefore that the Company and Group may be unable to realise their assets and discharge their liabilities in the normal course of business. Further details are set out in note 1.2.

Strategic report (continued)

Environmental, Social and Governance

Environmental factors – Non financial and sustainability information statement

Carbon and Energy

Approach

Stonegate continues to make positive contributions towards driving our environmental impact, improving society for the future. The climate agenda continues to be at the forefront of wider industry retail and hospitality thinking, seen very much in supply chain decisions, as well as the general provision of energy. The last 12 months has generally seen challenges in industry supply chain and the energy market, where energy and carbon management are playing an increasingly important role.

In 2021 we continued enhancing our internal governance establishing an ESG steering group bringing together experts in their respective areas. These relevant experts covered key parts of the ESG agenda including Commercial, Energy, Property, HR and Comms. Considering stakeholder priorities, the steering group created a strategy identifying areas of focus, as well as laying out a direction for the various elements of ESG. The steering group continues to date, and the remit grows as the ESG agenda continues to mature. In the last financial year energy saving initiatives have become a key focus area for Stonegate and this has been reflected in the steering group focus. Work targeted on climate related risks and opportunities has also begun in the last 12 months. To date we have seen that climate related risks are relatively low, as reflected by minimal climate related insurance claims history as well as minimal to no business interruption. Working with external consultants ERM International (ERM), work looking at climate related risks and opportunities has begun, which has initially concluded that Stonegate specific risks are low and that any risks are most likely be as a result of industry global supply chain dynamics. The steering group meets each quarter to update on progress and discuss relevant matters and reports back to the Main Board and our shareholders.

In 2022 Stonegate performed a major carbon baselining exercise with help from external consultants, setting out our carbon footprint and in-depth analysis of areas of opportunity. The analysis highlighted prospective areas that can make a difference, reflecting size and complexity. Like many in hospitality, scopes 1 & 2 account for approximately 10% of the carbon opportunity and the much harder to achieve 90%, sits in scope 3.

Scope 1 relates to the direct emissions from the fuels we use in our pubs, hotels and offices, such as natural gas and liquid petroleum gas. It also includes emissions from owned vehicles (including company cars) but excludes logistics where we outsource this to third parties. Scope 2 relates to the indirect emissions associated with the generation of electricity consumed in our sites. Scopes 1 & 2 are much more in our immediate control in the sense that energy consumption plays a major part of carbon management. Scope 3 relates to all other upstream and downstream activities present in our operations. Scope 3 is a longer-term opportunity in that it is highly dependent on factors less in our control. These would be such as our suppliers setting out their carbon management plans, supply chains being able to accommodate changes and consumer sentiment and choice. However we continue to work closely with industry groups such as the Zero Carbon Forum (ZCF) and our suppliers to be moving forward in these areas. The industry has started to consider key target dates, which will become clearer and firmer as our suppliers' supply chains mature and their thinking with regards to carbon neutral industry practices.

Climate related risks and opportunities, rely on helping our customers to make more sustainable choices, and improving our own operations and value chain through targets. The future of sustainable choices comes through adapting our pub environment so that sustainability is considered in the fabric of our sites and operations, as well as through innovation across menus and reducing food waste at the point of serve. We can also provide community assets such as EV chargers where appropriate in our car parks across the wider estate. There is the ability to drive our carbon footprint down, through the procurement of renewable energy and introducing of energy efficiency measures and solutions.

Strategic report *(continued)*

Environmental, Social and Governance *(continued)*

The Group's business model and strategy will, over time, reflect climate-related risk in many areas. The current financial period has been very focussed on energy consumption reduction given supply challenges. These supply challenges have been based on volume and rate. Energy consumption is going to be an important operational consideration and objective going forward. Consumption management is not just an operational risk, but also brings an opportunity to reduce spend and carbon impact. Energy use is material across all of our business segments. Disruption to supply is the key risk in the short term, although was well managed in the current financial period. The business is pretty resilient to other climate-related issues in the short term. In the near future, targets and KPIs tend to be centred around consumption and energy use, following the projects and initiatives put in place for the current and next financial years.

UK Climate-Related Financial Disclosures (CFD)

Stonegate enlisted the support of external consultants, ERM, to perform scenario analysis to identify potential climate-related risks and opportunities and understand how changes to the climate and the transition to a low-carbon economy may impact the risk or opportunity profile. The assessment ERM conducted is aligned to the recommendations of the Task Force on Climate-Related Financial Disclosures (Task Force) and would help Stonegate to respond to the UK Government's mandatory CFD requirements. ERM collaborated with Stonegate to agree relevant scenarios and time horizons, before selecting scenario indicators to represent the Group's potential exposure to climate change. The resulting assessment provided risk scores to enable efficient prioritisation of risks and opportunities for further consideration. ERM used time horizons of short (2030) medium (2040) and long (2050) as aligned with the UK-CFD recommendations to conduct scenario analysis over short, medium and long-term timescales.

The Task Force has called for organisations to assess, manage and disclose their exposure to climate-related financial risk and opportunity. Stonegate could be exposed to a range of climate-related risks and opportunities. Two categories of climate-related exposure are required according to the UK-CFD. The first category identified was physical, being risks and opportunities associated with changing physical climate, including chronic changes, such as more extreme heat and water stress events, and acute changes, such wildfires. The second category identified was transition, being risks and opportunities associated with the low carbon economy transition, e.g., the shift to low carbon energy and increasing carbon prices. The Task Force calls for organisations to test strategic resilience to climate-related risks under a range of possible scenarios. This assessment was completed in alignment with that guidance and the associated FCA PS21/24 requirements.

The findings of the analysis on balance showed a low risk profile. This is a key consideration as part of the Group's overall risk management planning and where resource and focus is targeted. Management's view is that our business model and strategy is resilient when considering climate-related scenarios.

Stonegate's transition risk and opportunity profile as considered with ERM is low balanced in the short/medium term and developing into a low opportunity overall in the long term. Product demand and markets are likely to change in the net zero 2050 scenario, with reduced demand for products associated with high emissions longer term. Engagement with the Group's wider supply chain will be key to address our scope 3 emissions and source low-carbon products. Working with ZCF, this low risk and low opportunity view is very much in line with others in our industry as well as wider in hospitality. The drink supply chain is driven in the main by large global suppliers and therefore tend to move together as an industry. The food supply chain is different with a mixture of sizes of suppliers, which means there is more flexibility for reviewing supply chains on a more granular level.

Strategic report (continued)

Environmental, Social and Governance (continued)

The Group's physical risk profile, based on current climate conditions, is low. However, this is projected to increase in the future under a high emissions scenario (SSP5-8.5). ERM reviewed the Group's estate against industry datasets including heat, cold, flooding, wind, landslides, drought and wildfires. No material risks were flagged that would be specific to the Group. The only risk that could be expected in the long term could be extreme rainfall and river flooding. However based on actual insurance claims history over the last 20 years, there is currently low risk across the estate and management expectation is that low risk will remain. In the long term as an industry, we need to be aware of risks impacting all of hospitality. These could range from the increasing impacts of extreme heat in relation to energy sourcing as well as weather impacts on crops. As an industry we also need to be aware of climate related influences on legislation and regulations, but we have strong experience dealing with these types of impacts.

Whilst physical risk and opportunity is deemed low in the short term, it will nevertheless be reflected in considerations as part of the wider sustainability governance plans. The risks that we believe we are exposed to per the ERM findings are deemed to have an immaterial impact and climate risk is not considered a principal risk as a result. As such we have omitted against disclosure requirements (CA 2006 s414 CB (2A) (f), (g) and (h)) because this information is not deemed material for an understanding of our business. We also do not see a risk hitting Government deadlines and Stonegate will be considering formal targets in the next 12 months.

Transition planning is more relevant in the short term as part of marketing and supply chain opportunities as we develop what we buy and what we sell.

Reduction Initiatives

Energy management is identified as one of our key strategic drivers both from a cost and environmental perspective. We continue to manage our energy consumption proactively with a blend of behavioural programmes, plant and infrastructure replacements as well as smart technology enhancements. We use smart meters to monitor and manage flow, to be as efficient as possible to help reduce consumption. Working with trusted third parties we undertake reviews of our energy reporting and have active plans for the upcoming ESOS Phase 3 compliance. To support ESOS, we report on emissions from fuel combustion and the operation of our facilities which includes our offices, managed houses, company cars (Scope 1), and from our purchased electricity used during the period (Scope 2). As part of the Zero Carbon Forum, we work together to share best practice, build strategic partnerships, influence / empower, and define sector standards and approach. Being part of the forum, helps define and implement a credible and ambitious industry net zero strategy to drive sector wide change.

This financial year has energy reduction incentive targets built into the remuneration at a site level, which is a huge step forward in actively engaging our teams to take local ownership of their energy use.

At a site level we have seen significant progress in our smart meter upgrade programme for gas and electricity. This provides us with greater data insight on usage and ergo the rapid ability to intervene and understand spikes.

From a technology and innovation perspective we have begun the roll out of intelligent technologies to monitor and adjust temperature at individual site level. Working with a third-party partner, an initial trial of 40 sites has proved to be a significant success in reducing energy and we are rolling out another 250 sites in the next financial year.

We have begun trialling electric vehicle charging at some of our sites with typically longer dwell times, including destination food and drink sites and overnight stays. As well as this we are now exploring voltage optimisation at sites where this could benefit the energy required at each site.

Our colleague incentive programme is well established where we have invested to ensure some high value rewards are on offer for delivering highest consumption reduction, with prizes including a free electric car for our colleague winner.

Looking forward, we will continue to embed environmental and sustainability considerations and controls in how we operate. This will include developing environmental standards, targets and guidance for supply chain that sits within our ways of working.

Strategic report (continued)

Environmental, Social and Governance (continued)

Energy use and the associated greenhouse gas emissions for the Group is set out below:

	2023 52 weeks	2022 52 weeks
Energy use – electricity (kWh)	152,587,097	154,863,435
Energy use – gas (kWh) (2022 revised)	137,187,670	119,962,031
Energy use – vehicles (kWh)	7,406,577	4,494,944
Associated GHG emission (tCO ₂ e) - electricity (2022 revised)	34,330	32,687
Associated GHG emission (tCO ₂ e) - gas (2022 revised)	25,096	21,898
Associated GHG emission (tCO ₂ e) – vehicles	1,796	1,109
Intensity ratio (tCO ₂ e per £m) (2022 revised)	35.6	34.6

Waste and recycling matters

Waste disposal and recycling is an important issue in the pub and food industry. The Group partners with Olleco in the recycling of its used cooking oil in the managed business. Our used oil is refined into a range of products such as industrial oils and renewable fuels. In the 52 week period ended 24 September 2023 we collected 942,000 litres (52 weeks 2022: 835,000 litres) of used cooking oil, or 865 metric tonnes (52 weeks 2022: 767 tonnes). This is the equivalent of saving 2,008 tonnes of carbon (52 weeks 2022: 1,779 tonnes). The Group also continues to work with publicans by recycling oil with third parties where the used cooking oil is converted into biodiesel.

Stonegate works in partnership with Veolia Environmental Services for waste and recycling services across the Managed and Craft Union estates. Veolia provides four waste stream services covering general waste, mixed recycling, glass recycling and food recycling which assists us with reaching our zero waste to landfill target. Currently 100% is diverted from landfill and 66.6% is recycled on site. This is the equivalent saving of 1,257 tonnes of carbon over the last 12 months (2022: 759 tonnes).

	2023 52 weeks		2022 52 weeks	
Veolia - Recycling	Tonnes	%	Tonnes	%
Waste diverted on site	17,487	66.6%	11,576	68.2%
Waste sent to Energy from Waste (ERF)	4,370	16.6%	2,543	15.0%
Waste sent to Mixed Recycling Facilities (MRF)	2,941	11.2%	1,939	11.4%
Other (Anaerobic / composting / sub con)	1,463	5.6%	917	5.4%
Waste sent to Landfill	-	0.0%	2	0.0%
	26,261	100%	16,977	100%

Strategic report (continued)

Environmental, Social and Governance (continued)

Water conservation

Managed and Craft Union sites in England are covered by a water self-supply license where we work with Waterscan and the Wholesalers to ensure consumption remains as low as possible. Sites in Scotland and Wales are supplied by the relevant Wholesalers (self-supply is not available in these areas). Waterscan assist us with taking regular meter reads and site audits to ensure consumption is in line with expectations.

	2023	2022
Water	52 weeks	52 weeks
Water saved (m ³)*	137,571	80,507
Average daily usage saved (m ³)*	376.91	220.57
Pints of water saved per day	663,260	388,141
Reduction in billing (ongoing savings)	£343,629	£540,112
Refunds achieved	£47,178	£82,022

*Water saved by identifying, detecting and fixing leaks and water saving projects

Social

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

- Not offering “all you can drink” promotions;
- Not offering liquor-only multi-buy deals; and
- Not pricing any alcoholic drinks below £1.00 per unit of alcohol.

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 for anyone appearing to be 25 years or under.

Health and Safety

As part of providing a fantastic experience to our customers, Stonegate is committed to a high standard of health and safety. Safety is one of our five pillars of how we operate and is a consideration in everything that the Group does. The Board and other senior management meet as part of the Risk Management Group on a frequent and regular basis discussing a wide range of business risks, of which many have a safety focus. Managed and Operator led sites are assessed and audited on a regular basis reviewing food safety, licensing, fire safety, external play area safety and hotel safety. The Risk Team control and support our managers and operators, supported by quarterly Area Manager checks. Stonegate works with an external partner to provide each site with an annual audit, with additional visits planned for those sites of greatest risk. 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, visits, and reporting. Health and safety within leased and tenanted sites is the primary responsibility of the publican, however they have the support of the Group to help them, and it will be discussed at meetings held between Regional Managers and publicans if required.

Strategic report *(continued)*

Environmental, Social and Governance *(continued)*

Social and community issues

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 pandemic this support has been as strong as ever, with many pubs going above and beyond for their local communities through creating food hubs, providing meals to critical workers, running errands for those who are vulnerable or shielding.

We recognise our duty to operate the business in an ethical and responsible manner and remain committed to delivering socially responsibly. We aim to build sustainable businesses with a strategy that will continually evolve dependant on the needs of our customers and stakeholders. We encourage pubs from across the Group, no matter their location, format, or operating model, to engage and take an active role within their local community. We recognise our responsibility towards the promotion and management of a responsible drinking environment in all our pubs, working with the Government and enforcing bodies.

Charitable activities

During the period to 24 September 2023 our pubs and head office have raised £191,000 (52 weeks 2022: £233,000) for several local and national charities, including the Motor Neurone Disease Association (MND). The Group has partnered with MND since April 2022. At 24 September 2023 £385,000 (2022: £139,000) had been raised for MND through a variety of fund raising activities; most of which have been spontaneously organised by individual teams. As well as raising significant funds for such a worthwhile cause, we also gain the benefit of increased engagement and collaboration through these fund-raising efforts. We have decided to extend our partnership with MND into 2024.

Supporting our students

Nationally, Stonegate gave £92,000 (52 weeks 2022: £31,000) in sponsorships to student unions and student sports clubs. Throughout the period we have also supported local football, netball, tennis and rugby teams across the UK.

Employee Engagement

To deliver the fantastic customer experience the Group strives for, it is important to attract, develop and retain the best employees for our managed pubs and our support centre, the best operators for our Craft Union pubs and the best publicans for our leased and tenanted pubs. As well as comprehensive career and training programmes, we undertake succession planning and remuneration benchmarking to retain our best employees and offer a variety of training courses for our publicans.

Retaining engaged colleagues remains a critical part of our people strategy. Over the last year we have partnered with an external organisation to measure employee engagement on a frequent basis. We have now completed two surveys with them, the results of which tell us that our engagement levels are in line with our sector benchmark. We have significant strengths in the areas of goal setting and our people feeling that their work is meaningful. We have also used the platform to survey our Craft Union Operators and our Publicans. No benchmark data is available for these groups.

Employee Wellbeing

In October 2022 Stonegate Group launched a brand-new wellbeing portal to all its employees, which is called 'Be You, Be Well'. The portal is available via an app and has three individual components covering emotional wellbeing, financial wellbeing and physical wellbeing. The portal is designed both to provide materials for employees to access information and support, and also to provide links to external bodies and organisation where professional support may be required. Stonegate has continued its partnership with the Licensed Trade Charity which provides employee assistance across the hospitality sector.

Strategic report *(continued)*

Environmental, Social and Governance *(continued)*

Employee Learning and Development

Stonegate operates a genuine meritocracy which compliments and amplifies our approach to diversity and inclusion.

Our award-winning career pathway for pub teams is called 'Albert's Theory of Progression' and is based around the character of Albert Einstein. Through a variety of courses, Albert's Theory of Progression can take a colleague from their induction into the business all the way through to an Area Manager role overseeing up to 20 pubs or bars. The Back of House (kitchen) career pathway is aligned to formal learning via Apprenticeships. There is also an equivalent programme for our support teams called AIMS (Albert's Interesting Map to Success).

Our career pathways contribute to our business both culturally and commercially. We currently have 340 General Managers who have been promoted from within the business. We also measure retention rates across key roles and know that people who enrol into our career pathway are twice as likely to stay with the business.

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. In 2023, we reviewed and updated our Equality, Diversity and Inclusion policy and have relaunched this to the business. The principles are also included within our Code of Conduct ('The way we do things at Stonegate').

Supplier Management

Procurement activity is managed by a Commercial Team who operate in accordance with agreed policies. Stonegate sources supplies from approved suppliers and business is conducted honestly, ethically and with respect for the rights and interests of the people with whom we do business. We expect honesty, openness and courtesy from all suppliers and their employees. We conduct business in accordance with responsible principles and we expect our suppliers to equally focus on issues such as pay, working hours, child labour, workers' rights, and representation. While we consider the risk of modern slavery or human trafficking taking place in our supply chain to be low, we do recognise the importance of combating slavery and human trafficking and the duty to tackle these issues.

Allergens

As a company, we are committed to providing information to our customers who 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.

Healthy Eating

We are fully aware of the impact of modern lifestyles on the health and wellbeing of the population and recognise that we have a vital role to play in improving people's health.

Our aim is to create a variety of dishes on all our menus with a wide range of calorie options that support a healthy balanced diet. This then ultimately provides our guests with the ability to make an informed decision. In line with the Calorie Labelling (Out of Home Sector) (England) Regulations 2021, all our menus detail calories for all food items and low and no alcohol drinks.

Our children's menus offer fresh salad and vegetable options, in line with the five-a-day government recommendation. Our children's menus are in a build your own format, allowing our guests to create their own dish, with a range of cooking options, including baked to allow healthier choices.

We are fully committed to continuously reviewing range and cooking platforms to further strengthen our offers, whilst still providing great-tasting quality food.

Strategic report *(continued)*

Environmental, Social and Governance *(continued)*

Our gifts and hospitality policy ensures a consistent approach towards gifts/hospitality offered to and received, or solicited from, third parties. It adopts a fair, ethical, legal and appropriate approach towards the distribution of gifts and hospitality invitations. The policy properly co-ordinates any representations the Stonegate Group wishes to make to suppliers and, in turn, does not unintentionally create inappropriate or misleading relationships. As a principle, any supplier gifts received are raffled on a regular basis and all proceeds are donated to charity.

Governance

A strong approach to governance is in place with robust practice and process around areas including cyber security, commercial integrity, and wider Board governance.

Anti-Bribery & Corruption

The Group operates a full suite of policies and procedures to guard against bribery and corruption. Whilst we operate in an industry that is not believed to be especially prone to bad practices, the risks of bribery, corruption, fraud, or theft exist in every company. We are committed to conducting our business with the highest level of integrity. The Group encourages any reports of malpractice, illegal acts or omissions or matters of a similar nature by employees, former employees, contractors, publicans, suppliers, or advisors using mechanisms for reporting, and support the framework for protecting whistle-blowers who have a genuine concern about malpractice from victimisation, dismissal, or detriment.

The Pubs Code

The Group is committed to fair, transparent and lawful dealings with our publicans. The Pubs Code Regulations 2016 applies to the Group and all our tied publicans as we are the landlord of more than 500 tied pubs. The regulations define our obligations to our tied publicans and provide guidelines for processes governed by the Code. The Pubs Code is overseen by an independent Adjudicator.

Human Rights

Stonegate is committed to conducting business with integrity and fairness.

Our various policies and ways of working ensure that employees are to be treated with respect, and their health, safety and basic human rights protected and promoted. We expect our suppliers and sub-contractors to meet the same standards through their policies and conduct.

Our whistleblowing policy encourages employees to report any wrongdoing, financial or otherwise. Our teams are able to report via a confidential email. No material issues were raised through the year.

Data privacy protection is embedded into our ways of working, policies & procedures and training programmes. There is oversight by a governance group made up of functional experts.

Tax

Stonegate is tax domiciled in the UK. Being UK tax resident, we support the economic and social objectives of the UK Government. We are committed to conducting our tax affairs in a clear, fair, and transparent way, paying all employee; employer; corporation; VAT and other taxes due in the UK and do not have an aggressive tax planning strategy. The Group's tax strategy can be found on our website.

Strategic report *(continued)*

Future Outlook

The Great British Pub continues to survive and thrive due in part to the public's fundamental need for social interaction, with the pub often at the very heart of local communities. In line with that trend, Stonegate's pub business remains very resilient with good like-for-like sales growth across the Group, most notably in Craft Union, our fast-growing, operator-led business. We also have generated excellent profit growth in our Leased and Tenanted division and we are making good progress with our ongoing initiatives to improve overall run rate EBITDA. We've achieved this despite the impact that the difficult economic and trading environment has had across the industry, with higher costs posing a material on-going challenge, while train strikes and the unseasonably wet weather impacted footfall over the summer. As a result we are in a strong position to deliver on our plan to create strong profit growth across the Group in the year ahead. We remain very confident in our different operating models and formats, the quality of our overall estate, our outstanding people and our strategy that is now seeing material improvements in profitability.

Going Concern

The financial statements have been prepared on the going concern basis. The statement headed "Going Concern" on page 28 sets out certain factors to the Directors' consideration in reaching this assessment.

Approval

The Directors' Strategic report was approved by the Board on 18 January 2024 and signed on its behalf by:

A handwritten signature in black ink, appearing to be 'DR', with a long horizontal stroke extending to the right.

David Ross
Director

Directors' report

The Directors present their report together with the non-statutory financial statements for the 52 weeks ended 24 September 2023. 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 ownership and operation of licensed pubs and bars within the UK.

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 approximately €15 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 & Butlers plc and then went on to purchase the Town and City Pub Group Limited and Bay Restaurant Group Limited businesses 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 – resigned 1 December 2023

Brian Magnus

Alhassan Elgazzar

Ian Payne MBE

David Ross

David McDowall – appointed 24 February 2023

Simon Longbottom – resigned 24 February 2023

Manjit Dale (Founding Partner of TDR Capital LLP)

Prior to founding TDR Capital LLP in 2002, Manjit was Managing Partner at DB Capital Partners Europe and has over 25 years experience in private equity, leveraged finance and consulting. Previously Manjit was Managing Director and Head of DB Capital Partners Europe and predecessor firm BT Capital Partners, which he joined in 1994. He started his career in the Management Consultancy division of Arthur Andersen and moved into private equity in 1989 with 3i plc, and later with NM Rothschild. Manjit holds a Masters degree in Economics from Cambridge University. Manjit has resigned shortly after the year end on 1 December 2023.

Brian Magnus (Senior Partner at TDR Capital LLP)

Brian joined TDR Capital in September 2012. Prior to joining TDR, 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 Schroders, a company later acquired by Citigroup. Brian graduated from the University of Manchester with a degree in Management Sciences and qualified as a Chartered Accountant with Price Waterhouse.

Alhassan Elgazzar (Partner at TDR Capital LLP)

Alhassan joined TDR Capital in July 2014. Prior to joining TDR, he worked across a number of teams within the Investment Banking Division at Morgan Stanley, most recently as an Associate in the Global Industries Group. Alhassan graduated from the University of Edinburgh with a degree in Economics.

Directors' report *(continued)*

Board of Directors *(continued)*

Ian Payne MBE (Chairman of Stonegate Pub Company)

Ian, an accomplished expert in the licensed leisure sector, has held Board positions with Bass Taverns, Stakis plc. and Ladbrokes gaming. He was awarded an MBE in 2018 for his services to the hospitality and pub industry. 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 50 years ago.

Ian plans to retire from his role as Chairman at the end of January 2024.

David McDowall (Chief Executive Officer of Stonegate Pub Company)

Having started working in pubs whilst studying at university, David worked his way up through various operational roles in some of the country's biggest hospitality groups, building a wealth of industry knowledge and experience, and a huge passion for the sector.

Before joining Stonegate in January 2023, David was with the innovative brewer and bar operator BrewDog, firstly as CEO of the bars business before holding the wider role of President & COO, overseeing the strategic direction and day to day operations across all aspects of the business in the UK and internationally. Prior to BrewDog, David was Group Operations Director at G1 Group, a leading Scottish hospitality operator.

David Ross (Chief Financial 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 Financial Officer of Stonegate Pub Company Limited in January 2012.

Directors' report *(continued)*

Senior Management Team

The Senior Management team that make up the Group's Operating Board at year end consisted of Ian Payne MBE (Chairman), David McDowall (CEO), David Ross (CFO), Nick Andrews (Managing Director – L&T and Operator-led), Helen Charlesworth (Managing Director - Managed), Melissa Wisdom (Chief Commercial Officer), Tim Painter (HR Director), Daniel Wilkinson (Strategy, Legal and Business Development Director) and Suzanne Baker (Non-Executive Director).

Nick Andrews

Nick joined Stonegate in June 2015 as Managing Director of the Traditional Pubs estate and was appointed to Integration Director and Managing Director for Craft Union in March 2020. Following successful integration, Nick took Managing Director responsibility for SGPP in June 2022. Nick 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 and became Managing Director – Managed in January 2020. 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, Helen moved into the hospitality sector where she held senior Director positions, namely at Pizza Express and latterly Managing Director at Your Move.

Melissa Wisdom

Melissa joined Stonegate Group in August 2021 as Operations Director responsible for the creation of our Premium Food Division and was then appointed Marketing Director in March 2022. Melissa graduated with a Law degree from Cambridge before embarking on a career in FMCG. She joined the Asda graduate scheme and has worked in roles across Purchasing, Commercial, Trade Marketing and Innovation. Melissa joined Stonegate Group from Diageo where she had held the role of Commercial Director since 2018, during this time she was listed in Management Today's 35 under 35 business leaders. She has recently been appointed as Chief Commercial Officer.

Tim Painter

Tim Painter is HR Director of Stonegate Pub Company Limited, responsible for the recruitment, training and development of the Group's 18,000 employees. Tim started his career in food retail with HR roles at Asda and Sainsbury's. 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.

Daniel Wilkinson

Daniel joined Stonegate in April 2015 and has served as Strategy and Corporate Affairs Director since April 2016. He was appointed Strategy, Legal and Business Development Director in March 2020. 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 MSc in physics and nuclear science from the University of Birmingham.

Directors' report *(continued)*

Senior Management Team *(continued)*

Suzanne Baker

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. Suzanne, previously Commercial Director, has recently become a non-executive director.

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

Results and dividends

The loss after tax was £155 million (2022: loss of £127 million).

Modern Slavery Act 2015

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

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.

Additional information regarding the Group's engagement with stakeholders can be found throughout the Strategic Report.

Approval

The Directors report was approved by the Board on 18 January 2024 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 24 September 2023 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 UK-adopted International Financial Reporting Standards (IFRS) 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, UK-adopted international accounting standards;
- 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 52 weeks ended 24 September 2023

	Notes	52 weeks ended 24 September 2023			52 weeks ended 25 September 2022		
		Pre- exceptional items £m	Exceptional items* £m	Total £m	Pre- exceptional items £m	Exceptional items* £m	Total £m
Revenue	2	1,719	-	1,719	1,611	-	1,611
Other income	3	-	-	-	1	-	1
Operating costs before depreciation and amortisation		(1,270)	(7)	(1,277)	(1,139)	(8)	(1,147)
EBITDA[^]		449	(7)	442	473	(8)	465
Depreciation and impairment		(155)	(178)	(333)	(157)	(196)	(353)
Movement in value of the estate [#]		-	(48)	(48)	-	1	1
Brand amortisation		(1)	-	(1)	(1)	-	(1)
Total depreciation, amortisation, impairment and revaluation		(156)	(226)	(382)	(158)	(195)	(353)
Profit on sale of non- current assets		-	8	8	-	6	6
Operating profit / (loss)		293	(225)	68	315	(197)	118
Finance income	6	2	-	2	1	1	2
Finance costs	7	(301)	-	(301)	(283)	-	(283)
Movement in fair value of swaps		(26)	-	(26)	33	-	33
(Loss) / profit before taxation		(32)	(225)	(257)	66	(196)	(130)
Taxation	9	19	83	102	(17)	20	3
(Loss) / profit for the period		(13)	(142)	(155)	49	(176)	(127)
Attributable to:							
Owners of the parent company		(13)	(142)	(155)	49	(176)	(127)
Non-controlling interests		-	-	-	-	-	-

* Exceptional items are explained further in note 8.

[^]EBITDA represents Operating profit / (loss) before depreciation, amortisation, impairment, movement in valuation of the estate and profit on sale of non-current assets.

[#] See note 1.4 for further information on the Group's change of accounting policy.

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

The accompanying notes form part of these financial statements.

Consolidated Statement of Comprehensive Income
For the 52 weeks ended 24 September 2023

	52 weeks ended 24 September 2023	52 weeks ended 25 September 2022
	£m	£m
Profit / (loss) for the period	(155)	(127)
Items that will not be reclassified to the income statement		
Re-measurement of defined benefit pension schemes	(3)	(1)
Tax charge relating to components of other comprehensive income	(142)	-
Revaluation of assets on transfer to Investment Property	1	1
Revaluation of property, plant and equipment	790	-
Other comprehensive profits after tax	646	-
Total comprehensive profit / (loss) for the period	491	(127)

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet
At 24 September 2023

		24 September 2023	25 September 2022
	Notes	£m	£m
Assets			
Non-current assets			
Property, plant and equipment	10	4,441	3,800
Investment property	11	259	212
Brand	13	1	2
Goodwill	13	17	197
Financial assets	19	5	4
Trade and other receivables	20	7	8
Retirement benefit surplus	28	1	1
		4,731	4,224
Current assets			
Inventories	18	23	22
Trade and other receivables	20	96	79
Cash and cash equivalents		92	133
Financial assets	19	1	1
Derivative financial instruments	23	-	2
		212	237
Non-current assets held for sale	12	32	19
Total assets		4,975	4,480
Liabilities			
Current liabilities			
Trade and other payables	21	(342)	(329)
Borrowings	22	(310)	(159)
		(652)	(488)
Non-current liabilities			
Borrowings	22	(3,570)	(3,791)
Derivative financial instruments	23	(24)	-
Deferred tax liabilities	17	(115)	(77)
Retirement benefit obligations	28	(8)	(9)
Provisions	24	(5)	(6)
		(3,722)	(3,883)
Total liabilities		(4,374)	(4,371)
Net assets		601	109
Equity			
Called up share capital	25	5	5
Share premium	25	1,198	1,198
Revaluation reserve	25	793	2
Capital contribution reserve	25	3	2
Retained earnings		(1,396)	(1,095)
Total equity attributable to owners of the parent company		603	112
Non-controlling interests		(2)	(3)
Total equity		601	109

The accompanying notes form part of these financial statements.

These financial statements were approved by the board of directors on 18 January 2024 and were signed on its behalf by:



David Ross
Director

Company registered number: FC029833

Consolidated Statement of Changes in Equity
For the 52 weeks ended 24 September 2023

	Share capital £m	Share premium £m	Revaluation reserve £m	Capital contribution reserve £m	Retained earnings £m	Equity attributable to owners of the Parent Company £m	Non- controlling interests £m	Total equity £m
Total equity at 25 September 2022	5	1,198	2	2	(1,095)	112	(3)	109
Total comprehensive income / (losses):								
Profits for the period	-	-	-	-	(155)	(155)	-	(155)
Other comprehensive income / (losses) for the period	-	-	791	-	(145)	646	-	646
Total comprehensive income / (losses) for the period	-	-	791	-	(300)	491	-	491
Change in ownership interest in subsidiary undertaking	-	-	-	-	(1)	(1)	1	-
Capital contribution	-	-	-	1	-	1	-	1
Total equity at 24 September 2023	5	1,198	793	3	(1,396)	603	(2)	601
Total equity at 26 September 2021	5	1,198	1	1	(964)	241	(4)	237
Total comprehensive income / (losses):								
Losses for the period	-	-	-	-	(127)	(127)	-	(127)
Other comprehensive income / (losses) for the period	-	-	1	-	(1)	-	-	-
Total comprehensive income / (losses) for the period	-	-	1	-	(128)	(127)	-	(127)
Change in ownership interest in subsidiary undertaking	-	-	-	-	(3)	(3)	1	(2)
Capital contribution	-	-	-	1	-	1	-	1
Total equity at 25 September 2022	5	1,198	2	2	(1,095)	112	(3)	109

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statement
For the 52 weeks ended 24 September 2023

	52 weeks ended 24 September 2023 £m	52 weeks ended 25 September 2022 £m
Cash flows from operating activities		
Loss for the period	(155)	(127)
Adjustments for:		
-Depreciation, amortisation, impairment and movement in value of the estate	382	353
-Profit on sale of non-current assets	(8)	(6)
-Finance income	(2)	(2)
-Finance costs	301	283
-Movement in swaps	26	(33)
-UK income tax credit	(102)	(3)
	442	465
Changes in:		
-Inventories	(1)	(1)
-Receivables	(15)	4
-Payables	-	(64)
-Difference between pension contributions paid and amounts recognised in operating profit	(3)	(4)
Cash generated from operating activities	423	400
Interest received	1	2
Income tax paid	(2)	-
Net cash flow from operating activities	422	402
Cash flows from investing activities		
Purchase of property, plant and equipment	(144)	(140)
Net proceeds from sale of property, plant and equipment	49	46
Loan made to group undertaking	-	(4)
Net cash flow from investing activities	(95)	(98)
Cash flows from financing activities		
Interest paid	(314)	(302)
Advance of borrowings	429	190
Repayment of borrowings	(447)	(221)
Transaction costs related to loans and borrowings	(3)	-
Payment of principal portion of lease liabilities	(33)	(60)
Payment for non-controlling interest in subsidiary undertaking	-	(2)
Net cash flow from financing activities	(368)	(395)
Net decrease in cash and cash equivalents	(41)	(91)
Opening cash and cash equivalents	133	224
Closing cash and cash equivalents	92	133

At 24 September 2023 £40 million of the closing cash and cash equivalents (2022: £69 million) is held within the Unique securitisation (note 23).

The accompanying notes form part of these financial statements.

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 UK-adopted international accounting standards (“UK-adopted IFRS”), 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 except that the following assets and liabilities are stated at their fair value: financial liabilities (including derivatives) measured at fair value; property plant and equipment, following the adoption of a valuation policy at 24 September 2023, and investment property. Non-current assets held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

1.2 Going concern

The macroeconomic environment has had a significant impact on the Group in the current year and will continue to do so moving forward. Whilst inflation remains high, the cost of living crisis in the United Kingdom has led to lower profit and operating cashflows than would otherwise have resulted had these conditions not existed.

The financial position of the Group is set out in the Consolidated Balance Sheet on page 25 which shows net assets of £601 million (2022: £109 million). During the 52 weeks ended 24 September 2023 the Group has experienced a net cash outflow of £41 million (52 weeks ended 25 September 2022: net cash outflow of £91 million).

The Group has continued to meet its day-to-day working capital requirements through its standard trading cycle of cash generation when sites are open, charging and collecting rents from publicans and its overdraft facility of £25 million and revolving credit facility of £248 million. The continued availability of the revolving credit facility is subject to compliance with covenants (see note 23). The Directors consider that this is a normal feature of trading in this industry. In the managed business, customers pay by cash or card at the point of sale, resulting in minimal credit risk, whilst in the leased and tenanted business, the Group has a dedicated credit control function, who are able to manage the credit risk exposure. The Group typically operates with net current liabilities (24 September 2023: £282 million (excludes drawn RCF); 25 September 2022: £251 million net current liabilities).

At the balance sheet date, the Group was financed by external debt totalling £3,013 million (25 September 2022: £3,121 million), of which an amount of £426 million related to the Unique securitisation is subject to covenants that are tested quarterly and, if breached, would result in the debt becoming repayable on demand. The Group was compliant with all covenants at the year end test date. Details of the debt facilities are set out in note 22.

Subsequent to the year end on 20 December 2023, the Group has committed to moving just over 1,000 freehold properties out of the restricted group and raising an amount of £638 million senior debt against them (see note 32). This transaction is due to complete in January 2024 at which point there will be certain restrictions around the use of cash generated by these sites which has previously been available to the wider Group in its entirety. Since the Board are committed to the transaction before these financial statements are signed, they have deemed it appropriate to review the going concern of the Group assuming this transaction has completed.

Notes *(continued)*

1 Accounting policies *(continued)*

1.2 Going concern *(continued)*

The Board have reviewed the cash flow forecasts for the Company and the Group for the period through to July 2025 ("the going concern assessment period"). This period incorporates at least 12 months from the date of signing these financial statements, adjust for the expected impact of the committed additional debt raise and incorporates significant debt expiring in July 2025.

The base case forecasts reviewed by the Board reflect levels of trade across the Group in line with the current year, sales price increases below inflation, labour cost rises to ensure the Group remains paying at least National Living Wage and certain out of contract cost price increases. The base case also assumes that the £638 million raised from the committed transaction is available to the wider Stonegate Group and £248 million of RCF due to expire in September 2024 is extended for at least another year on current terms.

As well as the base case forecasts indicating that there is sufficient liquidity in the Group, the forecasts also indicate that there are no breaches to covenants within either the Group's revolving credit facility, the Unique securitisation nor the covenant within the committed facilities.

The Board has also considered a severe but plausible scenario incorporating a 5% reduction in retail sales volumes from the cost-of-living crisis within its Managed and Operator-led segments. It has been assumed that variable costs move in line with the reduction in sales. These forecasts indicate that in this severe but plausible downside, there remains sufficient liquidity within the Group. In addition, the covenants would not be breached.

The Directors have also considered the significant portion of debt that expires in July 2025. There is a risk that should the £2.3 billion debt not be refinanced, the Group would not have the ability to repay it when it falls due. Plans are being formulated to refinance the debt, but these haven't been executed at the date of approval of these financial statements.

Based on the above, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, since the refinancing plans haven't been executed, there is an indication that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern for the going concern assessment period, and therefore that the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. These financial statements do not contain the adjustments that would result if the Group were unable to continue as a going concern.

1.3 Basis of consolidation

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity in those subsidiaries. Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

Notes *(continued)*

1 Accounting policies *(continued)*

1.4 Change in significant accounting policies

IAS 16 Property, plant and equipment

The Group has adopted a policy of revaluation at 24 September 2023 which is a change from the cost model used in prior years. Management have concluded the presentation of property, plant and equipment at valuation instead of cost less accumulated depreciation and accumulated impairment losses results in the financial statements reflecting the importance of the property portfolio to the operations of the business by providing current information about the fair value of the Group's property portfolio to users of the accounts. The adoption of a revaluation policy for the Group has been delayed since the acquisition of Ei Group Limited in March 2020 as a result of the uncertainty regarding the industry's post-Covid-19 recovery and the high inflationary environment.

The Group has applied this prospectively and accordingly has charged depreciation during the year and the comparative information presented for 2022 has not been restated. On adoption at 24 September 2023, upwards revaluations have been taken to the revaluation reserve whilst downward revaluations have been taken to the income statement. Overall, there has been an upwards revaluation of £790 million which has credited the revaluation reserve and a downwards revaluation of £48 million which has been debited to the income statement.

1.5 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 8 provides information on all of the items disclosed as exceptional in the current and previous period.

Going concern

The directors exercise judgement when concluding on going concern as the basis of preparation of the financial statements. For further details see note 1.2.

Presentation of deferred tax

The tax base has changed in the period as a result of property, plant and equipment now being revalued and measured at fair value. This has resulted in a movement in the deferred tax liability and a portion of this movement does not directly relate to the revaluation. IAS 12 does not provide any guidance on how to allocate this overall movement between the income statement and other comprehensive income and management have used judgement to allocate this on a reasonable basis to reflect both the unwinding of existing deferred tax liabilities due to the change in tax base through the income statement and revaluation through the statement of comprehensive income.

Notes (continued)

1 Accounting policies (continued)

1.5 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.

Valuation of property, plant and equipment, and investment property

Licensed land and buildings are revalued annually to fair value in accordance with RICS Valuation – Global Standards and IFRS 13. The valuation methodology uses an estimation of the fair maintainable trade (FMT) of a pub held in PPE and commercial rent for a property held as an investment property and then applies a multiple. The FMT is estimated based on historic trends and projected future income whilst multiples are determined by our valuers with reference to each specific asset and market information. For more details on the FMT and multiple see note 14. The valuers also make reference to market evidence of transaction prices for similar properties. An adjustment to any of these assumptions could lead to a material change in the property valuation. The highest and best use for the licensed land and buildings is assumed to be their current use by the Group, principally due to the legal restrictions imposed by the agreement with the publican, planning regulations and the financial implications of a change of use given those restrictions and the Group's business model. However, consideration is given to an alternative highest and best use if there are factors that indicate that such an alternative use exists which is physically possible, legally permissible and financially feasible.

Further information about the valuation of the estate is provided in note 14 of these financial statements.

1.6 Financial instruments

Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they originate. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument. A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes (continued)

1 Accounting policies (continued)

1.6 Financial instruments (continued)

A debt investment is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis. All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

(b) Subsequent measurement and gains and losses

Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI - these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI - these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities and equity

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 Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group 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 Group'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.

Notes (continued)

1 Accounting policies (continued)

1.6 Financial instruments (continued)

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss.

When borrowings are refinanced the Group reviews whether the arrangement constitutes an extinguishment of the original financial liability and the recognition of a new financial liability or a modification of the terms of the existing financial liability. If the refinanced borrowings are accounted for as an extinguishment of the original financial liability or as a substantial modification, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment and written off through non-underlying finance costs and the new borrowings are recognised at fair value. If the refinanced borrowings are accounted for as a non-substantial modification, a gain or loss is recognised at the time of the non-substantial modification (to the extent that there is a change in the expected amount or timing of payments of interest and principal).

The gain or loss is calculated as the difference between the present value of the cash flows (excluding fees) under the original and modified terms discounted at the original effective interest rate. Any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining life of the modified loan.

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

1.7 Property, plant and equipment

Licensed land and buildings are held at their fair value and landlords' fixtures and fittings and other assets are held at cost less depreciation.

The licensed land and buildings, except for those non-current assets held for sale, are revalued each year by external valuers qualified to carry out such valuations.

Licensed land and buildings are revalued annually to fair value in accordance with RICS Valuation – Global Standards and IFRS 13. The valuation methodology uses an estimation of the fair maintainable trade (FMT) of a pub held in PPE and commercial rent for a property held as an investment property and then applies a multiple. The FMT is estimated based on historic trends and projected future income whilst multiples are determined by our valuers with reference to each specific asset and market information. For more details on the FMT and multiple see note 14.

The valuers also make reference to market evidence of transaction prices for similar properties. An adjustment to any of these assumptions could lead to a material change in the property valuation.

The highest and best use for the licensed land and buildings is assumed to be their current use by the Group, principally due to the legal restrictions imposed by the agreement with the publican, planning regulations and the financial implications of a change of use given those restrictions and the Group's business model. However, consideration is given to an alternative highest and best use if there are factors that indicate that such an alternative use exists which is physically possible, legally permissible and financially feasible.

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 in which case the reversal of the revaluation decrease is recognised 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. Any further decrease in value is recognised in the income statement as an expense.

Property, plant and equipment that are not included in the revaluation are stated at cost less accumulated depreciation and accumulated impairment losses.

Notes (continued)

1 Accounting policies (continued)

1.7 Property, plant and equipment (continued)

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

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

Property, plant and equipment that are not included in the revaluation are reviewed annually for indications of impairment. Where any indications are identified, assets are assessed fully for impairment. Impairment occurs where the recoverable amount of the asset is less than its carrying amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Any impairment loss is treated as an expense in the income statement, and any subsequent impairment reversal as a gain in the income statement.

1.8 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.

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, and vice versa, it is revalued to fair value and the movement recognised in the income statement.

1.9 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 derived from internal valuations when the property is transferred to non-current assets held for sale and then sense checked with third party property agents who have been engaged to sell the properties.

Licensed land and buildings, investment property and right-of-use assets 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 right of use 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 *(continued)*

1 Accounting policies *(continued)*

1.10 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 acquiree, 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.

1.11 Intangible assets and goodwill

Goodwill

Goodwill represents the excess of consideration over the fair value of identifiable assets and liabilities acquired in a business combination. Goodwill is not amortised but is tested for impairment annually, or more frequently where events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is stated at cost less any impairment. At 24 September 2023 the goodwill has been allocated to the operating segments described in note 2. For the purpose of impairment testing, goodwill is allocated to cash generating units that are consistent with the Group's operating segments. As properties move between segments the associated goodwill will also be transferred.

Brand

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.12 Leases

As a lessee

The Group leases properties and vehicles.

At the inception of a contract the Group assesses whether that contract is or contains a lease. This is the case if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group has elected not to apply the lessee requirements of IFRS 16 to short-term leases and leases for which the underlying asset is of low value. The lease payments for such leases are recognised as an expense on a straight-line basis over the lease term.

For all other leases where it is the lessee the Group recognises a lease liability and a right-of-use asset at the commencement date of the lease.

The lease liability is initially measured at the present value of the remaining lease payments at 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 carrying amount of the lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made.

The lease liability is re-measured when there is a change in future lease payments arising from a change in an index rate or, 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.

For rent concessions in leases the Group assesses whether there is a lease modification. The lease liability is then re-measured at the present value of the revised lease payments at the modification date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. The change in the present value of the lease liability is accounted for as an increase to the right-of-use asset where it relates to a future change, with any element relating to a past payment dated before the modification date accounted for in the income statement.

The right-of-use asset is recognised at an amount equal to the total of the lease liability, any lease payments made at or before the commencement date, any initial direct costs and the estimated future dismantling, removal and site restoration costs. 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.

Right-of-use assets included in property, plant and equipment are initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for any re-measurements or modifications of the lease liability. Where the right-of-use asset is in relation to an investment property it is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's accounting policies. Where a property held on lease transfers from PPE to investment property the right of use asset is revalued to fair value before transfer.

Notes *(continued)*

1 Accounting policies *(continued)*

1.12 Leases *(continued)*

As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone price. When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Where a property that is leased is re-leased to a third party and that sub-lease is categorised as a finance lease the right of use asset is derecognised and it is replaced by a financial asset being the net investment in that sublease. The net investment in the sub-lease is calculated as the net present value of the future rent payments receivable at the interest rate implicit in the sub-lease or, if that cannot be readily determined, at the discount rate used for the head lease.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of revenue.

Leases acquired in a business combination

For leases acquired in a business combination, the Group measures the acquired lease liability at the present value of the remaining lease payments, as if the acquired lease were a new lease at the acquisition date. The right-of-use asset is measured at acquisition at the same amount as the lease liability, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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. The Group has adopted the simplified impairment model to measure the expected lifetime credit losses on its trade receivables. Using a provision matrix the Group analyses its historic bad debt experience to create an ageing profile which it then applies to its trade receivables balance as at the reporting date. The Group writes off its trade receivables when it has no reasonable expectation of recovery of the debt.

Trade payables are held at amortised cost.

1.15 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. The Group was not drawn on its bank overdraft facility at 24 September 2023 or 25 September 2022.

Notes (continued)

1 Accounting policies (continued)

1.16 Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

The amount of trade and other receivables included in the balance sheet are net of an expected credit loss (ECL) provision. The Group has adopted the simplified impairment model to measure the expected lifetime credit losses on its trade receivables. Using a provision matrix the Group analyses its historic bad debt experience to create an ageing profile which it then applies to its trade receivables balance as at the reporting date. The Group writes off its trade receivables when it has no reasonable expectation of recovery of the debt. The carrying amount of financial assets represents the maximum credit exposure.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than properties held at valuation, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment or impairment reversals. 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 relevant CGU is reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable or for impairment reversals. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell or value in use. Where fair value is used this is based on known sales proceeds or an external valuation. Any changes in outlet earnings or cash flows, the discount rate applied to those cash flows and fair value could give rise to an additional impairment loss.

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 Group's operating segments. 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. The reversal is recognised in the income statement.

Notes (continued)

1 Accounting policies (continued)

1.17 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.

Share-based payment transactions

Where the Group or Company's parent grants rights to its equity instruments to this Group or Company's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the Group or Company as the case may be account for these share-based payments as equity-settled. As the shares to be given to the employees are not the Group or Company's own equity instruments and have been effectively paid for by the parent entity, the Group or Company recognises a share-based payment expense in its income statement and an associated capital contribution in equity from its parent.

The fair value of share-based payments awards at the date of grant is recognised as an employee expense, with a corresponding increase in equity as stated above, over the period that the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted.

Notes (continued)

1 Accounting policies (continued)

1.18 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 discount rate that reflects risks specific to the liability.

A provision for onerous leases is made for non-trading sites closure costs.

1.19 Revenue

Revenue is the fair value of consideration received or receivable for goods and services provided in the normal course of business, net of discounts and VAT. Revenue from drink and food is recognised at the point at which the goods are provided. Property rental income is recognised on a straight-line basis over the life of the lease. Amusement machine royalties are recognised in the accounting period to which the income relates.

Leased and tenanted

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

Revenue from amusement and other machines – Amusement machine royalty income represents the Group's share of the net income earned from machines in the Group's properties. The revenue is recognised in the period to which the sale relates.

Managed

Drink revenue – Drink revenue is earned from retail sale of drinks to customers and is recognised at the point of delivery.

Food revenue – Food revenue is earned from retail sale of food to customers and is recognised at the point of delivery.

Revenue from amusement and other machines – Amusement machine income represents the income earned from machines in our managed properties. The revenue is recognised in the period to which the sale relates.

Admission, accommodation and other revenue – Other revenue includes admission and accommodation income and is recognised at the point of delivery.

Operator-led

Drink revenue – Drink revenue is earned from retail sale of drinks to customers and is recognised at the point of delivery.

Food revenue – Food revenue is earned from retail sale of food to customers and is recognised at the point of delivery.

Revenue from amusement and other machines – Amusement machine income represents the income earned from machines in our managed properties. The revenue is recognised in the period to which the sale relates.

Admission, accommodation and other revenue – Other revenue includes admission and accommodation income and is recognised in the period to which the sale relates.

Notes *(continued)*

1 Accounting policies *(continued)*

1.20 Government Grants

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

1.21 Supplier incentives

Supplier incentives and rebates are recognised within operating costs as they are earned. The accrued value at the reporting date is included in trade and other receivables.

1.22 Taxation

Tax on the profit or loss for the period 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 period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

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.

1.23 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. This includes the profit / (loss) on sale of property, movements in the valuation of investment properties and property, plant and equipment and the impairment of property, plant and equipment and goodwill which do not directly result from the underlying trading performance of the Group and are not in their direct control, and therefore have been categorised as exceptional items. These costs are discussed further in note 8.

1.24 Adopted IFRS not yet applied

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 17 Insurance Contracts (effective from 1 January 2023).
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (effective date to be confirmed).
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to introduce a new definition for accounting estimates (effective from 1 January 2023).
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statements 2 Making Materiality Judgements (effective from 1 January 2023).
- Amendments to IAS 12 Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (effective from 1 January 2023).

Notes (continued)

2 Segmental reporting

The directors determine the appropriate operating segments based on the discrete management information regularly reviewed by the Chief Operating Decision Maker (CODM).

The Group has five distinguishable revenue generating operating segments being Pub Partners, Commercial Property, Stonegate, Craft Union and Joint Ventures, and the CODM reviews discrete information on these segments. These have been aggregated into three reportable segments as outlined below:

1) Leased and tenanted comprising Pub Partners and Commercial Property – The Group receives rental income from leasing these sites to third parties. Revenue is also received from tied sites within Pub Partners for the supply of drinks and gaming machines. The Group has no direct involvement in the operation of each site.

2) Managed comprising Stonegate and Joint Ventures – The Group generates revenue from the sale of food, drink, admission, accommodation and gaming machine income. Each site is fully managed by the Group, such that the Group is exposed to all operational risks and in return receives the full retail margin.

3) Operator-led comprising Craft Union – The Group receives revenue from the sale of food, drink, admission and gaming machine income. The Group contracts with an operating company to manage the day-to-day operations of the site for which they receive a turnover-based fee. All labour costs are borne by the operating company, with all other costs being borne by the Group. The Group has access to the full retail margin.

Central costs represent certain head office expenses which are not attributable to specific segments. Accordingly, these costs are disclosed as a separate column within the segmental notes.

The CODM reviews the financial results by segment to EBITDA, which represents operating profit / (loss) before depreciation, amortisation, impairment, revaluation, and profit on sale of non-current assets, and this therefore provides the basis for the disclosures below. Inter-segment revenues and costs are eliminated upon consolidation such that all numbers disclosed in the table below are with external customers.

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.

Notes (continued)

2 Segmental reporting

2023	Leased and	Managed	Operator-led	Central	Total
52 weeks	tenanted	£m	£m	£m	£m
Drink revenue	297	767	255	-	1,319
Rent revenue	116	-	-	-	116
Food revenue	-	178	1	-	179
Revenue from amusement and other machines	8	24	24	-	56
Admission, accommodation and other revenue	6	42	1	-	49
Total revenue	427	1,011	281	-	1,719
Other income	-	-	-	-	-
Operating costs before depreciation and amortisation	(171)	(791)	(198)	(117)	(1,277)
EBITDA	256	220	83	(117)	442
Depreciation, amortisation, impairment and movement in value of the estate					(382)
Profit on sale of non-current assets					8
Net finance costs and movement in fair value of swaps					(325)
Loss before tax					(257)
Taxation					102
Loss after tax					(155)

2022	Leased and	Managed	Operator-led	Central	Total
52 weeks	tenanted	£m	£m	£m	£m
Drink revenue	294	762	199	-	1,255
Rent revenue	113	-	-	-	113
Food revenue	-	157	2	-	159
Revenue from amusement and other machines	7	21	16	-	44
Admission, accommodation and other revenue	2	36	2	-	40
Total revenue	416	976	219	-	1,611
Other income	-	1	-	-	1
Operating costs before depreciation and amortisation	(166)	(712)	(162)	(107)	(1,147)
EBITDA	250	265	57	(107)	465
Depreciation and amortisation					(353)
Profit on sale of non-current assets					6
Net finance costs and movement in fair value of swaps					(248)
Loss before tax					(130)
Taxation					3
Loss after tax					(127)

Notes (continued)

3 Other income

	2023	2022
	52 weeks	52 weeks
	£m	£m
Government grants	-	1
Total government grants	-	1

4 Expenses

Included in operating profit / (loss) are the following expenses / (income):

	2023	2022
	52 weeks	52 weeks
	£m	£m
Drink and food costs	463	442
Employment costs	341	311
Other costs	473	394
Depreciation, amortisation, impairment and movement in value of the estate	382	353
Profit on sale of non-current assets	(8)	(6)
Costs / (gains) deducted from revenue to determine operating profit	1,651	1,494

Included within the above costs is a cost of £225 million (2022: £197 million) relating to exceptional items (see note 8).

5 Employees

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

	2023	2022
	52 weeks	52 weeks
Head office administration ¹	1,234	1,112
Retail ¹	17,415	17,205
	18,649	18,317

¹ The employee numbers above relate to actual employees rather than full-time employee equivalents.

At the period end the Group had 18,023 employees (2022: 19,114 employees). The aggregate payroll costs were as follows:

	2023	2022
	52 weeks	52 weeks
	£m	£m
Wages and salaries	309	281
Social security costs	24	23
Pension costs	7	6
Equity settled share based payment expense	1	1
	341	311

Notes (continued)

6 Finance income

	2023 52 weeks £m	2022 52 weeks £m
Other interest receivable	2	2
Total finance income	2	2

7 Finance costs

	2023 52 weeks £m	2022 52 weeks £m
Interest payable on loan notes	235	225
Other interest payable	12	5
Debt issue costs amortisation	2	1
Other finance costs	4	3
Interest expense on lease liabilities	48	49
Total finance costs	301	283

8 Exceptional items

	2023 52 weeks £m	2022 52 weeks £m
Operating exceptional costs / (gains)		
Business interruption insurance	1	4
Surrender premiums	2	3
Business reorganisation	5	-
Other (gains) / costs	(1)	1
Movements in value of the estate and related assets	48	151
Impairment of goodwill	178	44
Profit on sale of non-current assets	(8)	(6)
	225	197
Net finance income	-	(1)
UK income tax credit relating to exceptional items	(83)	(20)
Total exceptional costs	142	176

Business interruption insurance: Following the closure of pubs as a result of Covid-19 the Group incurred £1 million in the period (2022: £4 million) of costs in relation to an insurance claim relating to business interruption during this period of closure.

Surrender premiums: During the period £2 million (2022: £3 million) of assignment premiums were paid to publicans in order to take the assignment of a lease or to break a lease at any point other than at renewal. Following the acquisition of Ei Group Limited, the Group are looking to review the entire portfolio of assets and move pubs across segments into their perceived optimum operating format. This one-off process is likely to take five years, during which time any assignment premiums paid will be shown as exceptional.

Business reorganisation: During the period £5 million (2022: £Nil) has been incurred in relation to a Group restructuring of its support function, including associated legal and professional fees.

Notes *(continued)*

8 **Exceptional items** *(continued)*

Other costs: In the period a health and safety insurance case was concluded and as a result £1 million was released from provisions to the income statement. In the 52 weeks ended 25 September 2022 other costs include £1 million of Covid-19-related landlord renegotiation costs.

Movements in valuation of the estate and related assets: Movements in valuation of the estate and related assets comprise the following:

	2023	2022
	52 weeks	52 weeks
	£m	£m
Impairment of property, plant and equipment (note 10)	27	199
Impairment of non-current assets held for sale (note 12)	-	1
Reversal of impairment of property plant and equipment (note 10)	(28)	(55)
Reversal of impairment of financial assets (note 19)	(1)	-
Net movement from impairment	(2)	145
Movement in investment property from revaluation of the estate (note 11)	(12)	(1)
Impairment of non-current assets held for sale (note 12)	6	-
Revaluation of property, plant and equipment on transfer to investment property (note 10)	-	7
Revaluation loss charged as an impairment (note 10)	56	-
Total movements in valuation of the estate and related assets	48	151

Impairment of goodwill: Impairment of £178 million was recognised in the 52 weeks ended 24 September 2023 (2022: £44 million). Further details of this impairment charge can be found in note 15.

Profit on sale of non-current assets: 85 properties (2022: 69 properties) and various other plots of land with a book value of £48 million (2022: £46 million) and lease liability value of £11 million (2022: £8 million) were disposed of generating net proceeds of £49 million (2022: £46 million) after taking account of disposal costs. In accordance with IAS 36, £2 million (2022: £1 million) of goodwill was allocated to these disposals. Included in the prior period disposals were two sites which were required to be disposed under the CMA guidelines following the acquisition of Ei Group Limited in March 2020 (two completed in the prior period and 40 completed in the 52 weeks ended 26 September 2021). Also included in the profit on disposal was a charge for estimated dilapidation costs for certain properties of £2 million (2022: £1 million). This resulted in an overall profit of £8 million (2022: £6 million).

Net finance income: Included in the 52 weeks ended 25 September 2022 was £1 million of interest received from HMRC in relation to a repayment.

UK income tax credit: UK income tax credit of £83 million (2022: £20 million) relating to exceptional items includes a deferred tax credit of £52 million (2022: £Nil) arising from the change in accounting policy to revalue the property estate, which led to revised expectations for the future tax base of those properties and a deferred tax credit of £25 million (2022: £2 million charge) for indexation claimed on chargeable gains arising as a result of that change in accounting policy. The remainder of the total exceptional tax credit relates to tax credits on exceptional items of £6 million (2022: £22 million).

Notes (continued)

9 Taxation

	2023 52 weeks £m	2022 52 weeks £m
Tax charged in the income statement		
Current tax:		
- UK corporation tax	1	1
- Adjustments in respect of previous periods	1	-
Total current tax charge	2	1
Deferred tax:		
- Origination and reversal of temporary differences	(85)	(8)
- Adjustments in respect of previous periods	(19)	4
Total deferred tax credit	(104)	(4)
Total current and deferred tax (credited) / charged in the income statement	(102)	(3)

	2023 52 weeks £m	2022 52 weeks £m
Tax credited in other comprehensive income		
Deferred tax:		
- Revaluation of property and rolled over gains	142	-
Total tax charged recognised in other comprehensive income	142	-

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

	2023 52 weeks £m	2022 52 weeks £m
Loss before tax	(257)	(130)
Tax at current UK corporation tax rate of 22% (2022: 19%)	(57)	(25)
Expenses not deductible for tax purposes	49	17
Adjustment in respect of previous periods	(18)	4
Movement in deferred tax liability for retained properties due to indexation	(24)	-
Deferred tax credit as a result of change in accounting policy*	(52)	-
Total tax credited in the income statement	(102)	(3)

*The deferred tax credit of £52 million (2022: £Nil) arose as a result of the change in accounting policy to revalue the property estate, which led to revised expectations for the tax base of those properties.

Notes (continued)

10 Property, plant and equipment

	Right-of-use assets £m	Land and buildings £m	Leasehold improvements £m	Landlords' fixtures and fittings £m	Furniture, fixtures and equipment £m	Non-licensed properties and other assets £m	Total £m
Cost or valuation							
At 26 September 2021	997	3,042	179	200	241	67	4,726
Additions	-	61	9	17	45	14	146
Modifications	19	-	-	-	-	-	19
Fair value on transfer to investment properties:							
-Revaluation reserve	-	1	-	-	-	-	1
-Income statement	-	(7)	-	-	-	-	(7)
Disposals	(8)	(3)	(1)	(2)	(14)	-	(28)
Transfer to non-current assets held for sale (note 12)	(1)	(34)	-	(3)	-	-	(38)
Transfer to investment properties (note 11)	(8)	(50)	-	(2)	-	-	(60)
Fully depreciated assets	-	-	-	-	(30)	-	(30)
At 25 September 2022	999	3,010	187	210	242	81	4,729
Additions	-	55	6	21	52	13	147
Modifications	14	-	-	-	-	-	14
Fair value on transfer to investment properties:							
-Revaluation reserve	-	1	-	-	-	-	1
Adoption of revaluation policy:							
-Revaluation reserve (note 14)	-	506	-	-	-	-	506
-Income statement (note 14)	-	(133)	-	-	-	-	(133)
Disposals	(13)	(1)	(3)	(1)	(13)	-	(31)
Transfer to non-current assets held for sale (note 12)	-	(59)	(1)	(5)	(1)	-	(66)
Transfer to investment properties (note 11)	(9)	(48)	-	(25)	-	-	(82)
Fully depreciated assets	-	-	-	-	(44)	-	(44)
At 24 September 2023	991	3,331	189	200	236	94	5,041
Depreciation							
At 26 September 2021	(148)	(275)	(72)	(33)	(133)	(29)	(690)
Charge for the period	(61)	(14)	(12)	(19)	(41)	(10)	(157)
Impairment charge (note 15)	(32)	(162)	(5)	-	-	-	(199)
Impairment reversal (note 15)	7	47	1	-	-	-	55
Disposals	1	1	1	1	8	-	12
Transfer to investment properties (note 11)	-	10	-	-	-	-	10
Transfer to non-current assets held for sale (note 12)	-	10	-	-	-	-	10
Fully depreciated assets	-	-	-	-	30	-	30
At 25 September 2022	(233)	(383)	(87)	(51)	(136)	(39)	(929)
Charge for the period	(57)	(14)	(13)	(21)	(40)	(10)	(155)
Impairment charge (note 15)	(3)	(2)	(22)	-	-	-	(27)
Impairment reversal (note 15)	25	1	2	-	-	-	28
Adoption of revaluation policy:							
-Revaluation reserve (note 14)	-	284	-	-	-	-	284
-Income statement (note 14)	-	77	-	-	-	-	77
Disposals	5	1	2	-	8	-	16
Transfer to investment properties (note 11)	-	17	-	24	-	-	41
Transfer to non-current assets held for sale (note 12)	-	19	-	1	1	-	21
Fully depreciated assets	-	-	-	-	44	-	44
At 24 September 2023	(263)	-	(118)	(47)	(123)	(49)	(600)
Net book value							
At 24 September 2023	728	3,331	71	153	113	45	4,441
At 25 September 2022	766	2,627	100	159	106	42	3,800

Notes (continued)

10 Property, plant and equipment (continued)

If licensed land and buildings had been measured using the cost model, the carrying amounts would be as follows:

	24 September 2023 £m	25 September 2022 £m
Cost	2,958	3,010
Accumulated depreciation	(361)	(383)
	2,597	2,627

The Group's licensed land and buildings held in property, plant and equipment and investment property were valued at 24 September 2023 on the basis of open market value for existing use, following the Group's decision to adopt a revaluation policy. The valuations were undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors in the United Kingdom by Avison Young (UK) Limited, independent Chartered Surveyors.

On adoption at 24 September 2023, upwards revaluations have been taken to the revaluation reserve whilst downward revaluations have been taken to the income statement. Overall, there has been an upwards revaluation of £790 million which has credited the revaluation reserve and a downwards revaluation of £48 million which has been debited to the income statement. See note 14 for further information.

11 Investment property

The Group leases some properties to tenants on commercial leases, the commercial terms of these leases results in the assets meeting the criteria of investment property.

	Right-of-use assets £m	Land and buildings £m	Total £m
Fair value			
At 26 September 2021	23	138	161
Transfer from property, plant and equipment (note 10)	8	42	50
Transfer to non-current assets held for sale (note 12)	-	(1)	(1)
Revaluation	(1)	2	1
Modifications	1	-	1
At 25 September 2022	31	181	212
Transfer from property, plant and equipment (note 10)	9	32	41
Transfer from non-current assets held for sale (note 12)	2	-	2
Transfer to non-current assets held for sale (note 12)	-	(5)	(5)
Revaluation	3	9	12
Disposals	(3)	-	(3)
At 24 September 2023	42	217	259

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, which is the same accounting treatment as in the prior period.

Notes (continued)

12 Non-current assets held for sale

	Lease liabilities £m	Right-of-use assets £m	Land and buildings £m	Landlords' fixtures and fittings £m	Furniture, fixtures and equipment £m	Total £m
At 26 September 2021	(1)	3	15	1	3	21
Transfer from property, plant and equipment (note 10)	-	1	24	3	-	28
Transfer from investment properties (note 11)	-	-	1	-	-	1
Impairment (note 15)	-	-	(1)	-	-	(1)
Disposals	1	(1)	(30)	-	-	(30)
At 25 September 2022	-	3	9	4	3	19
Transfer from property, plant and equipment (note 10)	-	-	40	5	-	45
Transfer from investment properties (note 11)	-	-	5	-	-	5
Transfer to investment properties (note 11)	-	(2)	-	-	-	(2)
Additions	-	-	1	-	-	1
Write down to fair value less costs to dispose (note 14)	-	-	(6)	-	-	(6)
Disposals	-	-	(30)	-	-	(30)
At 24 September 2023	-	1	19	9	3	32

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.

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 estimated fair value less costs to dispose if this is lower than their 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.

Included in non-current assets held for sale are 63 sites, of which two are non-trading sites (25 September 2022: 36 sites).

Notes (continued)

13 Brand and goodwill intangible assets

	Brand £m	Goodwill £m
Cost		
At 26 September 2021	6	246
Disposals	-	(1)
At 25 September 2022	6	245
Disposals	-	(2)
At 24 September 2023	6	243
Amortisation		
At 26 September 2021	(3)	(4)
Charge for the period	(1)	-
Impairment (note 15)	-	(44)
At 25 September 2022	(4)	(48)
Charge for the period	(1)	-
Impairment (note 15)	-	(178)
At 24 September 2023	(5)	(226)
Net book value		
At 24 September 2023	1	17
At 25 September 2022	2	197

Goodwill has been reduced in the period by £2 million (2022: £1 million), representing the apportioned value of goodwill allocated to those sites disposed of during the period. Goodwill impairment of £178 million (2022: £44 million) has been charged and is discussed further in note 15.

14 Property fair value measurements

At 24 September 2023 the Group has adopted a revaluation policy for property, plant and equipment and as such have engaged a third-party valuer, Avison Young (UK) Limited, to conduct a full estate valuation as at the year end date. A sample of 20% of properties were inspected and the remainder were desk reviewed.

In determining the appropriate classes of asset to present for fair value purposes, the Group has considered the nature, characteristics and risks of the assets. This has resulted in determining two separate classes of assets being property assets held in property, plant and equipment and property assets held in investment property.

Revaluation of property assets held in property, plant and equipment and investment property

Valuations will be carried out on an annual basis at each period end date. With the exception of properties identified for disposal and transferred to non-current assets held for sale, the Group's properties were revalued as at 24 September 2023 by Avison Young (UK) Limited or have been valued internally.

All valuations of assets have been assessed as being level 3 valuations, as there are no directly comparable market observable inputs.

Property assets held in property, plant and equipment were valued using fair maintainable trade income (FMT) capitalised at an appropriate rate of return (as defined within RICS Valuation - Global Standards) or an equivalent multiple. This method of valuation involves making an assessment of the fair maintainable trade, rent, wholesale and machine income that can be generated from the property assuming they are run by a reasonably efficient operator, taking into account future trading potential. This assessment of profit is then capitalised at an appropriate multiple to reflect the risks and rewards of the property. The valuation of the managed pub assets is prepared using a consistent approach that effectively capitalises the net income attributable to the Group from operating the pub at an appropriate multiple.

Notes (continued)

14 Property fair value measurements (continued)

In determining the multiple to use, the valuers consider evidence of comparable market transactions. The resulting fair value of the pub represents the land and buildings and any fixed landlords' fixtures and fittings. The valuation of the managed pub assets is prepared using a consistent approach that effectively capitalises the net income attributable to the Group from operating the pub at an appropriate multiple.

Property assets held in investment property include free-of-tie pubs let to tenants at open market rents and non-pub assets. These assets have been valued adopting the investment method of valuation. By reference to the rents, fixed lease terms and market conditions, an appropriate multiple based on comparable market transactions is applied, discounting future rental receipts back to present value.

As valuers make reference to market evidence of transaction prices for similar properties an adjustment to any of these assumptions could lead to a material change in the property valuation.

All classes of asset are, under IFRS 13, required to be valued at highest and best use. IFRS 13 prescribes that the Group's current use is presumed to be its highest and best value, unless market or other factors suggest that a different use by market participants would maximise the value of the asset. In doing their valuations, the valuers consider whether the asset may have a higher or better feasible use which would be reflected in the fair value where applicable. This is on an asset by asset basis if there are circumstances to indicate that there may be a higher and better use. In the current period the highest and best use of all the property assets in property, plant and equipment and investment property has been assessed as their existing use.

The impact of the revaluation is as follows:

	2023	2022
	52 weeks	52 weeks
	£m	£m
Income Statement		
Revaluation loss charged as an impairment (note 10)	56	-
Gains on revaluation of investment property (note 11)	(12)	(1)
Losses on revaluation of non-current assets held for sale (note 12)	6	-
Property, plant and equipment impairment charge (note 10)	27	-
Property, plant and equipment impairment reversal (note 10)	(28)	-
Reversal of impairment of financial assets (note 19)	(1)	-
	48	(1)
Revaluation reserve		
Unrealised surplus	(790)	-
	(790)	-

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, which is the same accounting treatment as prior period.

Notes (continued)

14 Property fair value measurements (continued)

The table below presents, by class of property, the income and multiple bandings within which the properties have been valued, and the number of properties that have been valued in each of the bandings. In determining the bandings to use, the Group has considered a variety of options including size and location of property, but has concluded that the value of the property is principally driven by FMT and multiple, so this form the most appropriate disclosure.

Number of pub assets – within property, plant and equipment

		Multiple applied to income				
Income bandings	Total number	12 - 16 times	10 - 12 times	8 - 10 times	6 - 8 times	under 6 times
At 24 September 2023						
more than £90,000 per annum	1,681	38	329	845	466	3
£60,000 to £90,000 per annum	1,270	22	445	651	152	-
less than £60,000 per annum	404	3	149	230	22	-
	3,355	63	923	1,726	640	3

Included in the total number of pubs within property, plant and equipment are three non-trading sites.

Number of pub assets – within investment property

Income bandings	Total number	Multiple applied to income				under 10 times
		over 16 times	14 - 16 times	12 - 14 times	10 - 12 times	
At 24 September 2023						
more than £90,000 per annum	36	-	3	21	12	-
£60,000 to £90,000 per annum	113	1	14	62	33	3
less than £60,000 per annum	94	3	20	42	28	1
	243	4	37	125	73	4
At 25 September 2022						
more than £90,000 per annum	26	-	3	12	7	4
£60,000 to £90,000 per annum	88	3	13	36	25	11
less than £60,000 per annum	99	8	23	27	20	21
	213	11	39	75	52	36

Included in the total number of pubs within investment property at 24 September 2023 are two non-trading sites.

Notes *(continued)*

14 Property fair value measurements *(continued)*

Sensitivity analysis table

The significant unobservable inputs used in the fair value measurement categorised within level 3 of the fair value hierarchy of the Group's estate are FMT and a multiple. There is a limited amount of interrelation between the variation in these inputs.

A change in either of these assumptions could have a significant effect on the overall valuation of the estate. Sensitivities around these assumptions that are deemed to be reasonably likely based on the experience of the valuers are illustrated below:

Property, plant and equipment

	2023 52 weeks £m	2022 52 weeks £m
FMT sensitivity		
+2.5%	88	69
-2.5%	(88)	(69)
Multiple sensitivity		
+0.25	96	78
-0.25	(96)	(78)

Investment property

	2023 52 weeks £m	2022 52 weeks £m
FMT sensitivity		
+2.5%	5	4
-2.5%	(5)	(4)
Multiple sensitivity		
+0.25	4	3
-0.25	(4)	(3)

Notes (continued)

15 Impairment testing

Property, plant and equipment

For leasehold properties not included in the valuation the Group considers each of these individual pubs as a cash-generating unit (CGU). At 24 September 2023 785 pubs were included in leasehold properties, of which seven are non-trading sites. 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 value in use and fair value less costs to sell. 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.

Value in use calculations use forecast trading performance cash flows, which are discounted by applying a pre-tax discount rate of 14.0% (2022: 14.9%). The discount rate used is based on the Group weighted average cost of capital (WACC) which has been risk adjusted to reflect current market factors which have not already been captured within the cash flows. In making this adjustment to the Group WACC management have risk adjusted the cost of debt and the cost of equity by using an average of market risk premiums and Company betas at the period end date and a CGU specific risk premium has been applied.

Where fair value has been used this is deemed to be a higher value than a value in use calculation amount. External valuations have been used for this purpose, carried out by Avison Young (UK) Limited, independent Chartered Surveyors. The fair value of property assets held in property, plant and equipment was derived using fair maintainable trade income (FMT) multiplied by an appropriate rate of return (as defined within RICS Valuation – Global Standard) or an equivalent multiple. This method of valuation involves making an assessment of the fair maintainable rent, wholesale and machine income that can be generated from the property assuming they are run by a reasonably efficient operator, taking into account future trading potential. An appropriate multiple is then applied to reflect the risks and rewards of the property. In determining the multiple to use, the valuers consider evidence of comparable market transactions. The resulting fair value of the pub represents the land and buildings and any fixed landlord's fixtures and fittings. The fair value of managed pub assets is prepared using a consistent approach involving the net income attributable to the Group from operating the pub at an appropriate multiple.

All classes of asset, where fair value has been used, are, under IFRS 13, required to be valued at highest and best use. IFRS 13 prescribes that the Group's current use is presumed to be its highest and best value, unless market or other factors suggest that a different use by market participants would maximise the value of the asset. In doing their valuations, the valuers consider whether the asset may have a higher or better feasible use which would be reflected in the fair value where applicable. This is on an asset by asset basis if there are circumstances to indicate that there may be a higher and better use. In the current period the highest and best use of all the property assets in property, plant and equipment and investment property has been assessed as their existing use.

Impairments totalling £27 million (2022: £199 million) and impairment reversals of £28 million (2022: £55 million) were identified within property, plant and equipment.

Sensitivity analysis – property, plant and equipment

Value in use calculations are most sensitive to forecast cash flow changes, such that if the forecast cash flows were to decrease by 5% the impairment charge would increase by £1 million.

Notes (continued)

15 Impairment testing (continued)

Goodwill

Goodwill acquired via business combinations is tested annually for impairment. The Group considers each of its operating segments as a cash-generating unit (CGU) for the purposes of goodwill impairment testing. The carrying amount of goodwill allocated to each operating segment as described in note 2 at the period end and the movements during the period is as follows:

	Pub Partners	Craft Union	Stonegate	Total net book value
	£m	£m	£m	£m
26 September 2021	46	17	179	242
Transfers between segments	(1)	-	1	-
Disposals	(1)	-	-	(1)
Impairment	(44)	-	-	(44)
25 September 2022	-	17	180	197
Disposals	-	-	(2)	(2)
Impairment	-	-	(178)	(178)
24 September 2023	-	17	-	17

Within these segments the goodwill is tested for impairment by comparing the recoverable amount of each segment to the carrying amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. The assumptions and inputs for each segment's goodwill test is set out in the following table. Key assumptions have been assigned values by management using estimates based on past experience and expectations of future changes in the market. These assumptions have been reviewed by the Board and are believed to be reasonable. The key driver to maintaining the growth rate is management's focus on selecting and supporting the best publicans, formats and pub operators, whilst meeting the challenges of changing consumer demand. The discount rate used is based on the Group weighted average cost of capital (WACC) which has been risk adjusted to reflect current market factors which have not already been captured within the cash flows. In making this adjustment to the Group WACC management have risk adjusted the cost of debt and the cost of equity by using an average of market risk premiums and Company betas at the period end date.

£178 million of Stonegate impairment was identified in the current period driven by lower expected future cashflows and growth rates. In the prior period impairments totalling £44 million were recognised in the Pub Partners segment which was driven by a higher than expected discount rate of 13.6% at 25 September 2022 as a result of uncertain market conditions.

	Craft Union	Stonegate
Basis used for recoverable amount	Value in use	Value in use
Forecast period	Three years	Three years
Key assumptions	- Forecast cash flows	- Forecast cash flows
Growth rates	- 3% for two years (2022: 5%) - 2% in perpetuity (2022: 2.5%)	- 3% for two years (2022: 5%) - 2% in perpetuity (2022: 2.5%)
Pre-tax discount rate	13.0% (2022: 13.6%)	13.0% (2022: 13.6%)
Impairment	£Nil (2022: £Nil)	£178 million (2022: £Nil)
Headroom	£218 million (2022: £173 million)	£Nil (2022: £249 million)

Sensitivity analysis - goodwill

No reasonable change to the above assumptions would result in a decrease to impairment of Stonegate goodwill.

No reasonable changes to the above assumptions would lead to an impairment in the Craft Union cash generating unit.

Notes (continued)

16 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
Held directly by Stonegate Pub Company Limited:				
Stonegate Pub Company Financing Limited	England and Wales	Ordinary	100%	Dormant
Stonegate Property Topco Limited	England and Wales	Ordinary	100%	Dormant
Plato Company 3 Limited	Cayman Islands	Ordinary	100%	Holding company
Hull Propco Limited	England and Wales	Ordinary	100%	Property company
Large Bars Limited	England and Wales	Ordinary	100%	Operation of licensed bars
Falcon Propco 1 Limited	England and Wales	Ordinary	100%	Property company
Intertain Limited	England and Wales	Ordinary	100%	Holding company
Bar Holdings Limited	England and Wales	Ordinary	100%	Operation of licensed bars
Be At One Holdings Limited	England and Wales	Ordinary	100%	Holding company
Leased and Tenanted Pubs 1 Limited	England and Wales	Ordinary	100%	Financing company
Leased and Tenanted Pubs 2 Limited	England and Wales	Ordinary	100%	Ownership of licensed properties
Stonegate Pub Company Financing 2019 plc	England and Wales	Ordinary	100%	Financing company
Social Cellar Limited	England and Wales	Ordinary	100%	Ownership of licensed properties
Social Cellar (Gamma) Limited	England and Wales	Ordinary	100%	Ownership of licensed properties
Bar Fever Limited	England and Wales	Ordinary	100%	Holding company
Held indirectly by Stonegate Pub Company Limited:				
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
Yates Group Pension Trustees Limited	England and Wales	Ordinary	100%	Dormant
Laurel Pension Trustee Company Limited	England and Wales	Ordinary	100%	Dormant
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%	Dormant
Intertain (Bars) IV Limited	England and Wales	Ordinary	100%	Dormant
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 Victoria Limited	England and Wales	Ordinary	100%	Operation of licensed bars
Sports Bar And Grill Waterloo Limited	England and Wales	Ordinary	100%	Dormant
Be At One Limited	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Aylesbury) Ltd	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Barnstaple) Ltd	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Basingstoke) Ltd	England and Wales	Ordinary	100%	Dormant
Bar Fever (Cannock) Ltd	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Cheltenham) Limited	England and Wales	Ordinary	100%	Dormant
Bar Fever (Exeter) Ltd	England and Wales	Ordinary	100%	Dormant
Bar Fever (Fleet) Ltd	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Gloucester) Ltd	England and Wales	Ordinary	100%	Dormant
Bar Fever (Isle of Wight) Ltd	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Lincoln) Ltd	England and Wales	Ordinary	100%	Operation of licensed bars
Barclub (Lincoln) Limited	England and Wales	Ordinary	100%	Dormant

Notes (continued)

16 Investments in subsidiaries (continued)

Name of company	Country of incorporation	Class of shares held	Proportion held	Nature of business
Bar Fever (Nuneaton) Ltd	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Southend) Ltd	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Taunton) Ltd	England and Wales	Ordinary	100%	Operation of licensed bars
Bar Fever (Weston-Super-Mare) Ltd	England and Wales	Ordinary	100%	Dormant
Kukui Bars (Newbury) Ltd	England and Wales	Ordinary	100%	Dormant
Retro Leisure (Rugby) Ltd	England and Wales	Ordinary	100%	Dormant
Zinc Taunton Ltd	England and Wales	Ordinary	100%	Dormant
Ei Group Limited	England and Wales	Ordinary	100%	Ownership of licensed properties
Enterprise Inns Limited	England and Wales	Ordinary	100%	Dormant
Gibbs Mew Limited	England and Wales	Ordinary	100%	Dormant
Enterprise Inns Holding Company Limited	England and Wales	Ordinary	100%	Dormant
Bede Holding Company Limited	England and Wales	Ordinary	100%	Dormant
Century Inns Limited	England and Wales	Ordinary	100%	Dormant
Ei Publican Services Limited	England and Wales	Ordinary	100%	Intermediate supply company
Unique Pubs Limited	England and Wales	Ordinary	100%	Holding company
Unique Pub Properties Alpha Limited	England and Wales	Ordinary	100%	Dormant
Unique Pub Properties Beta Limited	England and Wales	Ordinary	100%	Dormant
Unique Pub Properties Gamma Limited	England and Wales	Ordinary	100%	Dormant
Unique Pub Properties Theta Limited	England and Wales	Ordinary	100%	Dormant
Voyager Pub Group Holdings Limited	England and Wales	Ordinary	100%	Holding company
West Midlands Taverns (Holdings) Limited	England and Wales	Ordinary	100%	Dormant
Voyager Pub Group Limited	England and Wales	Ordinary	100%	Holding company
Unique Pub Investments Limited	England and Wales	Ordinary	100%	Holding company
Unique Pub Properties Limited	England and Wales	Ordinary	100%	Ownership of licensed properties
The Unique Pub Finance Company plc	England and Wales	Ordinary Cumulative preference shares	100%	Financing company
Enterprise Managed Investments Limited	England and Wales	Ordinary	100%	Holding company
Hush Heath Inns Limited	England and Wales	Ordinary	51%	Operation of licensed bars
Old Spot Pub Company Limited	England and Wales	Ordinary	75%	Operation of licensed bars
Dirty Liquor Limited	England and Wales	Ordinary	100%	Operation of licensed bars
Urban Pubs & Bars 2 Limited	England and Wales	Ordinary	51%	Operation of licensed bars
Bestplace (Beta) Limited	England and Wales	Ordinary	75%	Operation of licensed bars
Bestplace Limited	England and Wales	Ordinary	51%	Operation of licensed bars
Imagegold Limited	England and Wales	Ordinary	100%	Dormant
Bermondsey Pub Company Limited	England and Wales	Ordinary	100%	Non-trading
The Craft Union Pub Company Limited	England and Wales	Ordinary	100%	Operation of licensed bars
Vixen Pub Company Limited	England and Wales	Ordinary	100%	Operation of licensed bars
Hippo Inns Limited	England and Wales	Ordinary	100%	Non-trading
Six Cheers Limited	England and Wales	Ordinary	51%	Operation of licensed bars
Mash Inns Limited	England and Wales	Ordinary	51%	Operation of licensed bars
Frontier Pubs Limited	England and Wales	Ordinary	75%	Operation of licensed bars
Stonegate Property Midco Limited	England and Wales	Ordinary	100%	Holding company
Stonegate Property (Craft) Limited	England and Wales	Ordinary	100%	Dormant
Stonegate Property (L&T) Limited	England and Wales	Ordinary	100%	Dormant

Notes (continued)

17 Deferred tax assets and liabilities

Movement in deferred tax during the period is as follows:

	24 September 2023 £m	25 September 2022 £m
At beginning of period	(77)	(81)
Credited to income statement	104	4
Charged to other comprehensive income	(142)	-
At end of period	(115)	(77)
Consisting of:		
Deferred tax assets	190	167
Deferred tax liabilities	(305)	(244)
	(115)	(77)

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

Deferred tax assets	Fair value debt adjustments £m	Deferred interest deductions £m	Tax losses £m	Retirement benefit liabilities £m	Property, plant and equipment £m	Total £m
At 26 September 2021	17	122	38	2	13	192
(Charged) / credited to income statement	(4)	2	(22)	-	(1)	(25)
At 25 September 2022	13	124	16	2	12	167
(Charged) / credited to income statement	(3)	12	5	-	9	23
At 24 September 2023	10	136	21	2	21	190

The Directors consider it reasonable to recognise deferred tax assets as the group has recognised deferred tax liabilities in excess of those assets which are expected to unwind in future years.

Deferred tax liabilities	Intangibles £m	Property, plant and equipment £m	Total £m
At 26 September 2021	7	266	273
Charged / (credited) to income statement	1	(30)	(29)
At 25 September 2022	8	236	244
Credited to income statement	-	(81)	(81)
Charged to other comprehensive income	-	142	142
At 24 September 2023	8	297	305

At the period end the Group had a net deferred tax liability of £115 million (2022: liability of £77 million).

Notes (continued)

18 Inventories

	24 September 2023 £m	25 September 2022 £m
Goods held for resale	23	22
	23	22

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

The Group recognised £463 million of inventories as an expense included in operating costs before depreciation and amortisation during the period (2022: £442 million).

19 Financial assets

	24 September 2023 £m	25 September 2022 £m
Non-current:		
Net investment in sublease	5	4
	5	4
Current:		
Net investment in sublease	1	1
	1	1

Net investment in subleases relate to the finance leases in place when leasing sites to tenants.

During the period £1 million of impairment was reversed.

20 Trade and other receivables

	24 September 2023 £m	25 September 2022 £m
Trade receivables	52	48
Amounts due from parent undertakings	8	8
Other receivables	19	10
Prepayments and accrued income	14	10
Current tax receivable	3	3
	96	79
Due in more than one year:		
Trade receivables	2	4
Amounts due from group undertakings	5	4
	7	8

Included in amounts due from parent undertakings is a balance of £1 million (2022: £1 million) owing from Stonegate Pub Company Pikco Limited, a company incorporated in England and Wales. This relates to certain fees paid by the Company on Stonegate Pub Company Pikco Limited's behalf.

Also included within amounts due from parent undertakings is £7 million (2022: £7 million). This relates to a loan provided on 4 April 2019 to Stonegate Pub Company Holdings Limited, a company incorporated in the Cayman Islands. The loan is repayable on demand and charging annual interest of SONIA +2.50%.

Notes (continued)

20 Trade and other receivables (continued)

Included within trade receivables is £2 million (2022: £4 million) 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.

Included in amounts due from group undertakings is £5 million (2022: £4 million) due in more than one year. On 13 June 2022, Stonegate Pub Company provided a £4 million loan to Stonegate Pub Company Kitchens Limited, a company under common control of the ultimate parent company, Stonegate Pub Company Topco Sarl, a company incorporated in Luxembourg. The loan charges interest at a rate of 8.5% per annum and expires in 2029.

21 Trade and other payables

	24 September 2023 £m	25 September 2022 £m
Trade payables	91	84
Amounts due to parent undertakings	2	2
Other taxation and social security	44	44
Other payables	45	47
Accruals	160	152
	342	329

There is an amount of £2 million (2022: £2 million) owing to Stonegate Pub Company Midco Limited, the immediate parent company, at 24 September 2023 and 25 September 2022 (see note 29).

22 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. For more information about the Group's exposure to interest rate and foreign currency risk, see note 23.

	24 September 2023 £m	25 September 2022 £m
Current liabilities		
Revolving credit facility	158	-
Securitised bonds	102	117
Lease liabilities	50	42
	310	159
Non-current liabilities		
Revolving credit facility	-	69
Securitised bonds	358	464
Senior secured notes issued by Stonegate Pub Company Financing 2019 plc	1,242	1,245
Privately placed notes issued by Stonegate Pub Company Financing 2019 plc	502	504
Euro floating rate notes issued by Stonegate Pub Company Financing 2019 plc	436	438
Second lien facility	390	391
Lease liabilities	642	680
	3,570	3,791

Current liabilities include £160 million (2022: £70 million included in non-current liabilities) drawn down from the Group's revolving credit facility which are shown net of debt issue costs of £2 million (2022: £1 million). Annual interest of 1 month SONIA +3% is charged and the facility expires on 4 September 2024.

Notes (continued)

22 Borrowings (continued)

During the period, on 7 March 2023 the Group agreed an additional £50 million RCF A facility, the terms being consistent with the existing facility expiring in September 2024. The Group also agreed, on 16 March 2023, an extension of the £23 million RCF B facility to September 2024 in line with the A facility.

Terms and debt repayment schedule excluding the revolving credit facility:

	Year of maturity	Principal outstanding	
		24 September 2023	25 September 2022
		£m	£m
Securitised bonds - A4 - 5.659%	2027	175	207
Securitised bonds - M - 7.395%	2024	61	137
Securitised bonds - N - 6.464%	2032	190	190
Senior secured notes - 8.25%	2025	1,235	1,235
Privately placed notes - 8.00%	2025	500	500
Euro floating rate notes - Euribor + 5.75%	2025	452	452
Second lien facility - SONIA + 8.50%	2028	400	400
		3,013	3,121

Changes in liabilities from financing activities:

	Loans and borrowings £m	Lease liabilities £m	Total £m
Balance at 25 September 2022	3,228	722	3,950
Changes from financing cash flows			
Proceeds from loans and borrowings	429	-	429
Repayment of borrowings	(447)	-	(447)
Payment of lease principal	-	(33)	(33)
Transaction costs related to loans and borrowings	(3)	-	(3)
Interest paid included in cash flows	(266)	(48)	(314)
Total changes from financing cash flows	(287)	(81)	(368)
Non-cash changes			
Lease modifications and re-measurements	-	3	3
Amortisation of fair value on securitised bonds	(13)	-	(13)
Interest expense included in finance costs	266	48	314
Movement in interest accruals	-	-	-
Debt modifications and amortisation	(6)	-	(6)
Total non-cash changes	247	51	298
Balance at 24 September 2023	3,188	692	3,880

Notes (continued)

22 Borrowings (continued)

	Loans and borrowings £m	Lease liabilities £m	Total £m
Balance at 26 September 2021	3,278	770	4,048
Changes from financing cash flows			
Proceeds from loans and borrowings	190	-	190
Repayment of borrowings	(221)	-	(221)
Payment of lease principal	-	(60)	(60)
Interest paid included in cash flows	(253)	(49)	(302)
Total changes from financing cash flows	(284)	(109)	(393)
Non-cash changes			
Lease modifications and re-measurements	-	12	12
Amortisation of fair value on securitised bonds	(16)	-	(16)
Interest expense included in finance costs	250	49	299
Movement in interest accruals	3	-	3
Debt modifications and amortisation	(3)	-	(3)
Total non-cash changes	234	61	295
Balance at 25 September 2022	3,228	722	3,950

Notes (continued)

23 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 24 September 2023 and 25 September 2022.

	Fair value		Carrying value	
	2023	2022	2023	2022
	£m	£m	£m	£m
Financial assets - loans and receivables				
Trade receivables	54	52	54	52
Other receivables	19	10	19	10
Amounts due from group undertakings	8	8	8	8
Cash and cash equivalents	92	133	92	133
Interest rate swaps	-	2	-	2
	173	205	173	205
Financial liabilities				
Trade payables	91	84	91	84
Other payables	45	47	45	47
Amounts due to group undertakings	2	2	2	2
Interest rate swaps	24	-	24	-
Securitised bonds - A4	172	207	183	221
Securitised bonds - M	60	138	62	141
Securitised bonds - N	183	215	215	219
Senior secured notes	1,144	1,118	1,242	1,245
Privately placed notes	458	452	502	504
Euro floating rate notes	426	402	436	438
Second lien facility	390	391	390	391
Bank loans and overdrafts	158	69	158	69
Lease liabilities	692	722	692	722
	3,845	3,847	4,042	4,083

The following assumptions were used to estimate the fair values:

Trade, other receivables and amounts due from group undertakings – 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, other payables and amounts due to group undertakings - these are carried at amortised cost using the effective interest method and fair value is deemed to be the same as this.

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; approximates to the carrying amount in the case of the senior term loan and second lien facility.

Lease liabilities – the fair value of obligations under lease liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

Derivatives – these are carried at fair value.

The Group's financial instruments consist of securitised loan notes, bank and other 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.

Notes *(continued)*

23 Financial instruments *(continued)*

Fair value hierarchy

IFRS 13 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 of the senior secured notes; privately places notes and euro floating rate notes are measured at market price and are therefore evaluated to be level 1 in the fair value hierarchy. The fair value of the Group's securitised bonds; second lien facility and bank loans and overdrafts are deemed to be level 2 in the fair value hierarchy. All other financial instruments carried at fair value have been measured by a level 2 valuation method.

Derivative financial instruments

The carrying values of derivative financial instruments in the balance sheet are as follows:

	24 September 2023 £m	25 September 2022 £m
Cross currency interest rate swaps		
Current assets	-	(2)
Non-current liabilities	24	-
	24	(2)

The interest rate swaps replace the Euribor currency and floating rate on the Group's €496 million floating rate loan notes with a fixed rate. The Group has chosen not to apply hedge accounting for its interest rate swap given the additional costs of meeting the extensive documentation requirements of IFRS 9. Consequently, movements in fair value are recognised in the income statement.

During the period the Group has agreed new cross currency interest rate swaps to replace all of the €496 million hedged due to expire at the end of July 2023 and September 2023. Of the €496 million agreed €222 million is fixed at an average interest rate of 12% and the remainder is at a floating rate of SONIA + an average spread of 6.203%. These expire September 2024.

Notes (continued)

23 Financial instruments (continued)

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 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 interest rate risk, currency risk, liquidity risk and credit risk. 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 by regular cash flow forecasting and reporting; monitoring of the maturity of financial liabilities to avoid the risk of a shortage of funds and maintenance of undrawn bank facilities. The table below summarises the maturity profile of the Group's debt based on contractual, undiscounted cash flows including interest.

	Within 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	Total £m
At 24 September 2023					
Interest-bearing loans and borrowings					
- capital	94	2,235	533	151	3,013
- interest	276	266	201	20	763
- cross currency interest rate swaps	-	24	-	-	24
Revolving credit facility	158	-	-	-	158
Trade payables	91	-	-	-	91
Other payables	45	-	-	-	45
	664	2,525	734	171	4,094
At 25 September 2022	£m	£m	£m	£m	£m
Interest-bearing loans and borrowings					
- capital	104	94	2,333	590	3,121
- interest	246	240	329	57	872
- cross currency interest rate swaps	(2)	-	-	-	(2)
Revolving credit facility	-	-	69	-	69
Trade payables	84	-	-	-	84
Other payables	47	-	-	-	47
	479	334	2,731	647	4,191

Notes *(continued)*

23 Financial instruments *(continued)*

Interest rate risk

The Group finances its operations through a mixture of trading cash, bank overdraft facilities and fixed and floating secured loan notes and bonds. The Group's objective is to manage exposure to changes in interest rates. This exposure is managed by borrowing at fixed rates for a large proportion of its debt, being the securitised bonds; the senior secured notes and the privately placed notes.

At the balance sheet date the Group's variable rate instruments comprised euro floating rate notes for which the Group manages the impact of interest rate fluctuations by using cross currency interest rate swaps to manage exposure and replace the floating rate with a fixed rate of interest, and the second lien facility which charges interest at SONIA + 8.50%. The Group also faces interest rate risk from its revolving credit facility but due to the nature of short-term drawings any interest rate risk is considered to be minimal.

The Group therefore predominately faces interest rate risk from the second lien facility. A 1% interest rate increase would result in an increase to interest charged to the income statement of £4 million (2022: £4 million) and a corresponding decrease in equity. This is assuming the liability outstanding at the balance sheet date was outstanding for the whole period.

Security

The revolving credit facility; senior secured notes; privately placed notes; euro floating notes and second lien facility borrowings are governed by debentures pursuant to English law incorporating customary fixed and floating charge security over the assets of the charging companies being Stonegate Pub Company Limited and certain of its subsidiaries, deemed the Restricted Group, and Cayman Islands law governed equitable share mortgages over the shares of Stonegate Pub Company Limited and certain other members of the Restricted Group incorporated under the laws of the Cayman Islands.

Unique Pub Properties Limited is not deemed a Restricted Subsidiary as its assets are secured by way of a fixed charge for the benefit of its bond holders within its securitisation structure. The security pledged for the securitised bonds is collectively over the whole securitisation incorporating a first fixed charge in favour of the Trustee over the Issuer's right (The Unique Pub Finance Company plc), title, interest and benefit, present and future to all properties, cash, eligible investments and income generated by Unique Pub Properties Limited.

The total value of assets within the Group secured by way of a fixed or floating charge as at 24 September 2023 is property, plant and equipment £3,555 million (2022: £2,886 million), investment property £217 million (2022: £181 million) and non-current assets held for sale £31 million (2022: £16 million).

Notes (continued)

23 Financial instruments (continued)

Covenants

The Group is subject to a number of financial covenants in relation to its borrowing facilities. There are three covenants that relate to the debt as follows:

Two of the covenants relate to the securitised bonds and are tested and reported at each quarter end. The Debt Service Cover Ratio (DSCR) measures the ability of the securitised group to meet its debt service whilst the Net Worth covenant in the securitised group must be at least £300 million. The Group has met both covenants during the financial year.

The one other covenant relates to the RCF. This comprises a Consolidated Net Leverage Ratio that is tested quarterly whilst the RCF is more than 40% drawn. The Group met this covenant during the year. At the period end £160 million of the RCF was drawn and due to be repaid or rolled within one month. The Consolidated Net Leverage Ratio was tested and comfortably met. At 25 September 2022 £70 million of the RCF was drawn and due to be repaid or rolled within one month. Throughout the prior period at the quarterly testing dates the amount drawn was below the 40% testing threshold therefore no covenant test was required and the amount was included in non-current liabilities.

Currency risk

All of the revenues and the majority of the costs of the Group are in sterling. The Group uses cross currency interest rate swaps to manage exposure to the impact of currency risk from its debt denominated in euros.

Credit risk

The amount of trade and other receivables included in the balance sheet are net of an expected credit loss (ECL) provision. The Group has adopted the simplified impairment model to measure the expected lifetime credit losses on its trade receivables. Using a provision matrix the Group analyses its historic bad debt experience to create an ageing profile which it then applies to its trade receivables balance as at the reporting date. The Group writes off its trade receivables when it has no reasonable expectation of recovery of the debt. The carrying amount of financial assets represents the maximum credit exposure.

The ageing of trade and other receivables at the balance sheet date, net of the doubtful debt provision, is as follows:

	24 September 2023	25 September 2022
	£m	£m
Not past due	58	42
0-30 days past due	3	7
31-60 days past due	1	2
61-90 days past due	1	-
Greater than 90 days past due	8	7
	71	58

An analysis of the provision held against trade receivables is set out below. This provision related to trade receivables which are primarily owed by publicans.

	24 September 2023	25 September 2022
	£m	£m
Provision as at 25 September 2022	5	4
Increase in provision during the year	5	3
Provision released during the year	(2)	(2)
Provision as at 24 September 2023	8	5

Notes (continued)

24 Provisions

	Onerous site costs £m	Health and safety claims £m	Total £m
At 26 September 2021 and 25 September 2022	1	5	6
Released	-	(1)	(1)
At 24 September 2023	1	4	5

The onerous site costs 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 few years. The level of provision has been based on management's estimated future pay outs.

During the period an insurance case was concluded and a resulting was £1 million was released from provisions.

25 Share capital and Other Reserves

	24 September 2023 £m	25 September 2022 £m
Called up, allotted and fully paid:		
526,910,482 ordinary shares of £0.01 each	5	5

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.

Revaluation reserve

The upwards measurement of property, plant and equipment to fair value is recognised in revaluation reserve.

Capital contribution reserve

The receiving of services from certain employees in exchange for share issued by an indirect parent company is recognised in capital contribution reserve.

26 Commitments

Capital commitments

Capital commitments for property, plant and equipment:

	24 September 2023 £m	25 September 2022 £m
Contracted but not provided	12	12

Notes (continued)

27 Leases

Leases as a lessee

Impacts for the period

The Group follows the same basis of categorisation to both free hold property and leasehold property to determine where to present assets on the balance sheet and therefore right of use assets are recognised in investment property, non-current assets held for sale and property, plant and equipment depending on the type of sub lease (where it is sub let) or the commitment to dispose of the property/lease. The following table sets out the movement in the Group's right-of-use assets during the period and the carrying value at 24 September 2023:

	Non-current		Property, plant and equipment		Total
	Investment property	assets held for sale	Property	Vehicles	
Right-of-use-assets	£m	£m	£m	£m	£m
At 26 September 2021	23	3	845	4	875
Modifications	1	-	19	-	20
Depreciation charge for the period	-	-	(60)	(1)	(61)
Impairment	(1)	-	(32)	-	(33)
Impairment reversal	-	-	7	-	7
Derecognition	-	(1)	(7)	-	(8)
Transfers	8	1	(9)	-	-
At 25 September 2022	31	3	763	3	800
Modifications	(3)	-	14	-	11
Depreciation charge for the period	-	-	(56)	(1)	(57)
Impairment	-	-	(3)	-	(3)
Impairment reversal	3	-	25	-	28
Derecognition	-	-	(8)	-	(8)
Transfers	11	(2)	(9)	-	-
At 24 September 2023	42	1	726	2	771

The following amounts have been recognised in profit or loss for which the Group is a lessee:

	2023 52 weeks £m	2022 52 weeks £m
Leases under IFRS 16		
Interest expense on lease liabilities	48	49
Depreciation of right of use assets	57	61
Impairment of right of use assets	3	33
Impairment reversal of right of use assets	(28)	(7)
Expenses relating to leases of low-value assets	1	1
Variable lease payments	1	1
Covid-19 rent concessions	-	(4)

The amount recognised in profit or loss to reflect changes in lease payments that arise from rent concessions to which the Group has applied the practical expedient for COVID-19 related rent concessions is £Nil (2022: £4 million). The practical expedient has been applied to all lease contracts where the rent concessions have met the conditions per IFRS 16.46.

Notes (continued)

27 Leases (continued)

The following amounts have been recognised in the statement of cash flows for which the Group is a lessee:

	2023	2022
	52 weeks	52 weeks
	£m	£m
Interest payments	48	49
Principal payments	33	60
Total cash outflow for leases	81	109

In relation to those leases under IFRS 16, for the 52 weeks ending 24 September 2023, the Group's operating profit metric improved by £21 million (2022: £16 million) as the new depreciation expense is lower than the IAS 17 operating lease charge; however net finance costs are higher than this, at £48 million (2022: £49 million), such that net profit after tax is lower (2022: lower) compared to the previous IAS 17 reporting basis. Operating profit before depreciation, amortisation, impairment and loss on sale of non-current assets is higher (2022: higher) compared to the previous IAS 17 reporting basis.

Leases as a lessor

The Group leases a proportion of its properties to tenants. The majority of lease agreements have terms of between one and 30 years, most of the leases with terms of over three years include RPI or CPI base rent adjustments and provisions for rent reviews on either a three year or five year basis. Where the Group is the intermediate lessor the sublease is classified as a finance lease by reference to the right of use asset, all other leases are classified as operating leases.

The maturity analysis of the undiscounted lease payments to be received for finance leases is as follows:

	24 September	25 September
	2023	2022
	£m	£m
Less than one year	1	1
In more than one year and less than two years	1	1
Between two and five years	2	3
More than five years	5	4
	9	9
Future finance cost	(3)	(4)
	6	5
Recognised as:		
Non current financial asset	5	4
Current financial asset	1	1
Total undiscounted lease receivable	6	5

The maturity analysis of the undiscounted lease payments to be received for operating leases is as follows:

	24 September	25 September
	2023	2022
	£m	£m
Less than one year	89	92
In more than one year and less than two years	72	76
Between two and five years	158	161
More than five years	220	238
Total undiscounted lease receivable	539	567

Notes (continued)

28 Retirement 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 £7 million (2022: £6 million). At the period end the Group had outstanding contributions payable to the schemes of £1 million (2022: £1 million).

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 29 February 2020. For the purposes of IAS19 the actuarial valuation as at 29 February 2020, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 24 September 2023.

A full actuarial valuation for the Yates Group Pension scheme was carried out as at 29 February 2020. For the purposes of IAS19 the actuarial valuation as at 29 February 2020, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 24 September 2023.

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 (SOC) and the consolidated balance sheet.

The amounts recognised in the balance sheet are as follows:

	24 September 2023	25 September 2022
	£m	£m
Laurel Pub Pension scheme		
Fair value of plan assets	61	65
Present value of defined benefit obligation	(51)	(57)
Liability in the scheme	10	8
Effect of asset ceiling	(18)	(17)
Net retirement benefit liability recognised in the balance sheet	(8)	(9)
Yates Group Pension scheme	£m	£m
Fair value of plan assets	11	11
Present value of defined benefit obligation	(10)	(10)
Surplus in the scheme	1	1
Effect of asset ceiling	-	-
Net retirement benefit surplus recognised in the balance sheet	1	1
Total net retirement benefit recognised in the balance sheet	(7)	(8)

As the Group has concluded there is no unconditional right to a surplus on wind up, the net deficit on the Laurel Pub Pension scheme has been recognised at the present value of minimum funding requirements.

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)

28 Retirement benefits (continued)

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

	24 September 2023	25 September 2022
	£m	£m
Laurel Pub Pension scheme		
Present value of scheme liabilities at beginning of period	57	92
Expenses	-	-
Interest cost	3	2
Actuarial losses	(3)	(35)
Benefits paid	(4)	(2)
Past service costs	(2)	-
Present value of scheme liabilities at end of period	51	57
Yates Group Pension scheme	£m	£m
Present value of scheme liabilities at beginning of period	10	14
Expenses	-	-
Interest cost	1	-
Actuarial losses	-	(3)
Benefits paid	(1)	(1)
Past service costs	-	-
Present value of scheme liabilities at end of period	10	10
Total present value of scheme liabilities at end of period	61	67

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

	24 September 2023	25 September 2022
	£m	£m
Laurel Pub Pension scheme		
Fair value of scheme assets at beginning of period	65	98
Interest income	3	2
Return on plan assets excluding interest income	(6)	(36)
Contributions paid by employer	3	3
Benefits paid	(4)	(2)
Fair value of scheme assets at end of period	61	65
Yates Group Pension scheme	£m	£m
Fair value of scheme assets at beginning of period	11	15
Interest income	1	-
Return on plan assets excluding interest income	-	(4)
Contributions paid by employer	-	1
Benefits paid	(1)	(1)
Fair value of scheme assets at end of period	11	11
Total fair value of scheme assets at end of period	72	76

Notes (continued)

28 Retirement 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 for the period was:

	2023 52 weeks £m	2022 52 weeks £m
Laurel Pub Pension scheme		
Past service costs	(2)	-
Interest cost	-	-
Expenses	-	-
Net cost	(2)	-
Yates Group Pension scheme	£m	£m
Past service costs	-	-
Interest income	-	-
Expenses	-	-
Net income	-	-
Total net cost	(2)	-

Analysis of amounts recognised in the SOCI in the period:

	2023 52 weeks £m	2022 52 weeks £m
Laurel Pub Pension scheme		
Return on plan assets excluding interest income	(6)	(36)
Experience gains	1	(3)
Effects of changes in demographic assumptions	-	-
Effects of changes in financial assumptions	1	39
Effect of asset ceiling	1	-
Re-measurement losses recognised in the SOCI	(3)	-
Yates Group Pension scheme	£m	£m
Return on plan assets excluding interest income	-	(4)
Experience gains	-	4
Effects of changes in demographic assumptions	-	(1)
Effects of changes in financial assumptions	-	-
Re-measurement gains recognised in the SOCI	-	(1)
Total re-measurement losses recognised in the SOCI	(3)	(1)

Cumulative amounts recognised in the SOCI:

	24 September 2023 £m	25 September 2022 £m
At beginning of period	(25)	(24)
Re-measurement losses in the period	(3)	(1)
At end of period	(28)	(25)

Notes (continued)

28 Retirement benefits (continued)

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

	2023	2022	2021	2020	2019
	£m	£m	£m	£m	£m
Laurel Pub Pension scheme					
Present value of retirement benefit liabilities	(51)	(57)	(92)	(93)	(93)
Fair value of plan assets	61	65	98	86	88
Net asset / (liability) in the scheme	10	8	6	(7)	(5)
Experience adjustment on scheme liabilities	(3)	(35)	4	-	-
Percentage of scheme liabilities	5.9%	61.4%	(4.3)%	0.5%	0.0%
Experience adjustments on scheme assets	(6)	(36)	12	(3)	12
Percentage of scheme assets	(9.8)%	(55.4)%	12.2%	(3.5)%	13.6%
Yates Group Pension scheme					
	£m	£m	£m	£m	£m
Present value of retirement benefit liabilities	(10)	(10)	(14)	(13)	(13)
Fair value of plan assets	11	11	15	14	14
Net asset in the scheme	1	1	1	1	1
Experience adjustment on scheme liabilities	-	(3)	2	-	-
Percentage of scheme liabilities	0.0%	30.0%	(14.3)%	0.4%	0.0%
Experience adjustments on scheme assets	-	(4)	1	-	1
Percentage of scheme assets	0.0%	(36.4)%	6.7%	(1.7)%	7.1%

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 million each year until 2027. The Group will meet the other annual fees and expenses (excluding the annual PPF levy) incurred by the scheme subject to a cap of £270,000 per scheme year.

The full actuarial valuation of the Yates Group Pension scheme showed a deficit of £3 million. The Group has agreed with the trustees of the Yates Group Pension scheme that it will aim to eliminate the deficit by the payment of annual contributions of £500,000 per annum.

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:

	24 September 2023	25 September 2022
Laurel Pub Pension Scheme		
Male retiring in 2023 (2022: 2022)	20.5 years	21.4 years
Female retiring in 2023 (2022: 2022)	22.4 years	23.2 years
Male retiring in 2048 (2022: 2047)	22.2 years	23.1 years
Female retiring in 2048 (2022: 2047)	24.3 years	25.0 years
Yates Group Pension Scheme		
Male retiring in 2023 (2022: 2022)	21.4 years	22.6 years
Female retiring in 2023 (2022: 2022)	24.1 years	24.4 years
Male retiring in 2048 (2022: 2047)	23.1 years	24.3 years
Female retiring in 2048 (2022: 2047)	26.0 years	26.2 years

Notes (continued)

28 Retirement benefits (continued)

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

	24 September 2023	25 September 2022
Laurel Pub Pension Scheme		
Discount rate	5.4%	5.2%
Rate of increase in pension payment	2.7%	3.1%
Inflation (RPI)	3.2%	3.3%
Inflation (CPI)	2.8%	2.8%
Yates Group Pension Scheme		
Discount rate	5.4%	5.2%
Rate of increase in pension payment	2.8%	2.7%
Inflation (RPI)	3.3%	3.3%
Inflation (CPI)	2.9%	2.8%

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

	2023 £m	2022 £m
Laurel Pub Pension Scheme		
Equities	5	10
Bonds	38	52
Cash	14	1
Real estate	4	2
Fair value of plan assets	61	65
Actual return on plan assets	(3)	(34)
Yates Group Pension Scheme		
Equities	1	1
Bonds	9	8
Cash	1	2
Other	-	-
Fair value of plan assets	11	11
Actual return on plan assets	1	(4)

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	
		24 September 2023	25 September 2022
		£m	£m
Laurel Pub Pension Scheme			
Discount rate	Increase of 5.0% p.a. (2022: increase of 2.5% p.a.)	(47)	(54)
Rate of inflation	Increase of 2.5% p.a.	52	58
Rate of mortality	Increase in life expectancy of 1 year	52	57
Yates Group Pension Scheme			
Discount rate	Increase of 5.0% p.a. (2022: increase of 2.5% p.a.)	(10)	(10)
Rate of inflation	Increase of 2.5% p.a.	10	11
Rate of mortality	Increase in life expectancy of 1 year	10	11

Notes (continued)

28 Retirement 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 25 September 2022 is 14 years for the Laurel Pub Pension scheme (2022: 14 years) and 10 years for the Yates Group Pension scheme (2022: 11 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. Additionally, caps on inflationary increases are in place to protect the Yates Group Pension scheme against extreme inflation.

29 Related party transactions

Transactions between group companies, which are related parties, have been eliminated on consolidation and are not contained in this note.

Transactions with senior management personnel

Senior management comprises the executive directors and management board. The senior management personnel compensation is as follows:

	2023 52 weeks £m	2022 52 weeks £m
Salaries and short-term employee benefits	5	5
Post-employment pension benefits	-	-
Equity settled share based payment expense	1	1
	6	6

There was no other remuneration paid in either the current or prior period.

Other related party transactions

Included in amounts due from parent undertakings is a balance of £1 million owing from Stonegate Pub Company Pikco Limited, a parent undertaking (2022: £1 million).

There is an amount of £2 million (2021: £2 million) owing to Stonegate Pub Company Midco Limited, the immediate parent company, at 25 September 2022, which is included in trade and other payables.

During the period the Group was invoiced management charges of £2 million (2022: £5 million which includes invoices for 2021 when none were invoiced) by TDR Capital LLP. The amount outstanding at 24 September 2023 was £Nil (2022: £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. The balance owing as a result of transactions on its behalf at 24 September 2023 was £47,000 (2022: £163,000).

In a prior period Stonegate Pub Company Limited provided a loan to Stonegate Pub Company Holdings Limited, a parent undertaking. The loan is repayable on demand and charges annual interest of SONIA + 2.50%. The amount owed of £7 million is included in trade and other receivables (2022: £7 million).

Included in amounts due from group undertakings is £5 million (2022: £4 million) due in more than one year. On 13 June 2022, Stonegate Pub Company provided a £4 million loan to Stonegate Pub Company Kitchens Limited, a company under common control of the ultimate parent company, Stonegate Pub Company Topco Sarl, a company incorporated in Luxembourg. The loan charges interest at a rate of 8.5% and expires in 2029.

Notes (continued)

30 Management Incentive Plan

During the period ended 29 September 2019; the Group established a management incentive plan to reward certain employees, including directors and managers, for their future service. Under the plan those employees will realise a gain only if there is a growth in the equity value of the business (subject to certain 'ratchets') and only if an exit event occurs. The award has been classified as equity-settled. An exit event would occur either upon an initial public offering of the Stonegate group ('IPO') or some other form of sale (e.g. to a trade buyer). The fair value of the scheme at grant date was not considered to be material.

On 8 January 2021 the scheme was replaced with a new management incentive plan so that it also included certain legacy EIG employees and new Stonegate employees, alongside a change to the quantum of returns at an exit event following the acquisition of EI Group. The scheme is operated by the Group's ultimate owners and was established through subscription to shares in the Group's parent company, Stonegate Pub Company Holdings Limited.

In the prior period in order to determine the fair value at the date of modification, Management engaged a third party to value the MIP immediately before and after the modification. The value, determined using a Monte Carlo simulation, at the date of modification was an uplift of £2.1 million for new members and £2.8 million for the change in return parameters. No dividends will accrue under this award.

There is inherent uncertainty in determining a suitable vesting period given that an exit event, whilst within the control of the Group's ultimate owners, may not happen for many years if at all. However, for the purposes of considering the impact of IFRS 2, the directors have used a vesting period of 5 years. As a result, a charge of £1 million (2022: £1 million) has been recognised as an equity settled share based payment expense in the income statement.

There are no other share based payment schemes.

31 Ultimate parent undertaking

The ultimate parent company is Stonegate Pub Company Topco Sarl, a company incorporated in Luxembourg. The ultimate controlling party is TDR Capital Stonegate L.P., an investment fund managed by TDR Capital LLP, a private equity management firm.

32 Post balance sheet events

Subsequent to the year end on 20 December 2023 the Group committed to a limited recourse financing structure over a portfolio of 1,034 of its freehold pubs in order to raise a principal amount of £638 million. The portfolio comprises 944 leased and tenanted and 90 free-of-tie freehold pubs. The portfolio will be acquired by newly incorporated, wholly-owned unrestricted subsidiaries of Stonegate Pub Company Limited ("New PubCos"). As part of the transaction, Stonegate will enter into agreements with New PubCos on an arm's length basis to provide the Portfolio with certain management and procurement services. Completion is expected in January 2024 at which point the Group will receive £609 million cash proceeds from third party financing providers, which is net of a funded interest reserve, arrangement fees and other expenses. The loan matures five years post-closing and accrues interest at three month SONIA (floored at 2.5%) plus 6.35%, which is cash settled quarterly. The newly financed portfolio will continue to be consolidated within the Group financial statements.

Furthermore, subsequent to the period end the Group has agreed a settlement with insurance providers over Covid-19 business interruption losses.